

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended June 30, 2018

or

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

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 No.)

6250 LBJ Freeway  
Dallas, Texas 75240  
(972) 387-3562

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of shares of the registrant's common stock held by non-affiliates of the registrant at December 31, 2017 was approximately \$101,965,702 based upon the closing sale price on the Nasdaq Global Select Market reported for such date.

As of the close of business on August 17, 2018, there were 45,917,531 outstanding shares of the registrant's common stock.

**Documents Incorporated By Reference:**

Portions of the Registrant's Definitive Proxy Statement to be filed in connection with the 2018 Annual Meeting of Stockholders are incorporated herein by reference (to the extent indicated) into Part III of this Form 10-K.

## Table of Contents

<a href="#">Cautionary Statement Regarding Forward-Looking Statements</a>	3
<a href="#">PART I</a>	
<a href="#">Item 1. Business</a>	5
<a href="#">Item 1A. Risk Factors</a>	8
<a href="#">Item 1B. Unresolved Staff Comments</a>	17
<a href="#">Item 2. Properties</a>	17
<a href="#">Item 3. Legal Proceedings</a>	17
<a href="#">Item 4. Mine Safety Disclosures</a>	17
<a href="#">PART II</a>	
<a href="#">Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	18
<a href="#">Item 6. Selected Financial Data</a>	20
<a href="#">Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	21
<a href="#">Item 7A. Quantitative and Qualitative Disclosures About Market Risk</a>	30
<a href="#">Item 8. Financial Statements and Supplementary Data</a>	31
<a href="#">Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</a>	31
<a href="#">Item 9A. Controls and Procedures</a>	31
<a href="#">Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</a>	32
<a href="#">Item 9B. Other Information</a>	33
<a href="#">PART III</a>	
<a href="#">Item 10. Directors, Executive Officers and Corporate Governance</a>	33
<a href="#">Item 11. Executive Compensation</a>	33
<a href="#">Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	33
<a href="#">Item 13. Certain Relationships and Related Transactions, Director Independence</a>	34
<a href="#">Item 14. Principal Accountant Fees and Services</a>	34
<a href="#">PART IV</a>	
<a href="#">Item 15. Exhibits, Financial Statement Schedules</a>	34
<a href="#">Item 16. Form 10-K Summary</a>	35
<a href="#">EXHIBIT INDEX</a>	36
<a href="#">SIGNATURES</a>	39
<a href="#">INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</a>	F-1
<a href="#">Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements</a>	F-2
<a href="#">Tuesday Morning Corporation Consolidated Balance Sheets (In thousands, except for share data)</a>	F-3
<a href="#">Tuesday Morning Corporation Consolidated Statements of Operations (In thousands, except per share data)</a>	F-4
<a href="#">Tuesday Morning Corporation Consolidated Statements of Stockholders’ Equity (In thousands)</a>	F-5
<a href="#">Tuesday Morning Corporation Consolidated Statements of Cash Flows (In thousands)</a>	F-6
<a href="#">Tuesday Morning Corporation Notes to Consolidated Financial Statements</a>	F-7

## Cautionary Statement Regarding Forward-Looking Statements

This Form 10-K 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 Form 10-K, particularly under the headings "Business" and "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 or words that state other "forward-looking" information carefully because they describe our current expectations, plans, strategies and goals and our beliefs concerning future business conditions, future results of operations, future financial positions, and our current business outlook. Forward-looking statements also include statements regarding our sales and growth expectations, our liquidity, capital expenditure plans, our inventory management plans, our real estate strategy and merchandising and marketing strategies.

The terms "Tuesday Morning," "the Company," "we," "us," and "our" as used in this Form 10-K refer to Tuesday Morning Corporation and its subsidiaries.

The factors listed below in Item 1A. under the heading "Risk Factors" and in other sections of this Form 10-K provide 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 ability to identify and respond to changes in consumer trends and preferences;
- our ability to mitigate reductions of customer traffic in shopping centers where our stores are located;
- our ability to continuously attract buying opportunities for off-price merchandise and anticipate consumer demand;
- our ability to successfully manage our inventory balances profitably;
- our ability to effectively manage our supply chain operations;
- loss of, disruption in operations, or increased costs in the operation of our distribution center facilities;
- unplanned loss or departure of one or more members of our senior management or other key management;
- increased or new competition;
- our ability to successfully execute our strategy of opening new stores and relocating and 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;
- changes in federal tax policy including tariffs;
- the success of our marketing, advertising and promotional efforts;
- our ability to attract, train and retain quality employees in appropriate numbers, including key employees and management;
- increased variability due to seasonal and quarterly fluctuations;
- our ability to maintain and protect our information technology systems and technologies and related improvements to support our growth;

- *our ability to protect the security of information about our business and our customers, suppliers, business partners and employees;*
- *our ability to comply with existing, changing and new 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;*
- *our ability to manage the negative effects of inventory shrinkage;*
- *our ability to manage exposure to unexpected costs related to our insurance programs; and*
- *increased costs or exposure to fraud or theft resulting from payment card industry related risk and regulations.*

*The forward-looking statements made in this Form 10-K relate only to events as of the date on which the statements are made. Except as may be required by law, we disclaim obligations to update any 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 1. Business

### Business Overview

One of the original off-price retailers, Tuesday Morning is a leading destination for unique home and lifestyle goods. We were established in 1974 and specialize in name-brand, better/best products for the home. We are known for irresistible finds at an incredible value and search the world for amazing deals to bring to our customers.

We are a closeout retailer, selling high-quality products at prices generally below those found in boutique, specialty and department stores, catalogs and on-line retailers. Our customers come to us for an ever-changing, exceptional assortment of brand names at great prices. Our primary merchandise categories are upscale home textiles, home furnishings, housewares, gourmet food, toys and seasonal décor. Key vendors are Peacock Alley, Sferra, Lenox, Cuisinart, Home Environment, and Charisma. We buy our inventory opportunistically from a variety of sources including direct from manufacturer, through closeout sellers and occasionally other retailers. We have strong supplier relationships and we strive to make it easy for our vendors to do business with us, so that they will come to us first. Our goods are deeply-discounted, but never seconds or irregulars.

Our customer is a savvy shopper with a discerning taste for quality at a value. Our strong value proposition has established a loyal customer base, who we engage regularly with social media, email, direct mail, digital media and newspaper circulars.

With over 715 stores across the country, we are in the neighborhood in convenient, accessible locations. Our store layout is clean and simple, and the low-frills environment means we can pass even deeper savings on to our dedicated customer base. Our stores operate in both primary and secondary locations of major suburban markets, near our middle and upper-income customers. We are generally able to obtain favorable lease terms due to our flexibility regarding site selection and our straightforward format, allowing us to use a wide variety of space configurations.

We operate our business as a single operating segment.

### Business Strategy

Several years ago, we began a transformation of our Company in order to regain our position as a leader in off-price retail. We executed on a number of critical steps under our business turnaround strategy. These steps included exiting certain categories, refreshing and reorganizing stores, reducing the level of clearance merchandise, modifying company policies, and eliminating assets that were no longer needed. During this phase, we took specific steps to improve our inventory management process, sourcing of inventory, merchandise offerings and sales productivity.

Since fiscal year 2014, when we moved into our rebuilding phase, we have been focusing on supply chain efficiency, working capital management and inventory turns, repositioning our real estate portfolio, implementing a new marketing strategy, and continuing to improve our merchandise assortment, cost controls and infrastructure.

As a key component of this rebuilding phase, we are focused on improving store locations and the in-store experience for our customers. In this regard, we are closing less productive stores with limited foot traffic and relocating some of these stores to, or opening new stores in, better locations with footprints that are on average three to five thousand square feet larger. In some cases, we are also expanding existing stores to this larger footprint. In addition, we are improving the finishes in these relocated, new and expanded stores, such as polished concrete floors, simple but attractive fixture packages and new lighting and color palettes, in an effort to match the in-store experience for our customers with the quality of our products.

### Competition & Seasonality

We believe the principal factors by which we compete are brand names, price, breadth and quality of our product offerings. Our prices are generally below those of department and specialty stores, catalog and on-line retailers and we offer a broad assortment of high-end, first quality, brand-name merchandise. We currently compete against a diverse group of retailers, including department, discount and specialty stores, e-commerce and catalog retailers and mass merchants, which sell, among other products, home furnishings, housewares and related products. We also compete in particular markets with a substantial number of retailers that specialize in one or more types of home furnishing and houseware products that we sell. Some of these competitors have substantially greater financial resources that may, among other things, increase their ability to purchase inventory at lower costs or to initiate and sustain aggressive price competition.

Our business is subject to seasonality, with a higher level of our net sales and operating income generated during the quarter ending December 31, which includes the holiday shopping season. Net sales in the quarters ended December 31, 2017, 2016, and 2015 accounted for approximately 33%, 34% and 33% of our annual net sales for fiscal years 2018, 2017 and 2016, respectively.

## **Working Capital Items**

Because of the seasonal nature of our business, our working capital needs are greater in the months leading up to our peak sales period from Thanksgiving to the end of December. The increase in working capital needs during this time is typically financed with cash flow provided by operations and our revolving credit facility. Additional details are provided in the Liquidity and Capital Resources section in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Inventory is the largest asset on our balance sheet. Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels to meet our customers' demands while keeping the inventory fresh and turning the inventory appropriately to optimize profitability.

## **Purchasing**

We provide an outlet for manufacturers and other sources looking for effective ways to reduce excess inventory resulting from order cancellations by retailers, manufacturing overruns, bankruptcies and excess capacity. Since our inception, we have not experienced significant difficulty in obtaining first quality, brand-name off-price merchandise in adequate volumes and at competitive prices. We utilize a mix of both domestic and international suppliers. We pay our suppliers timely and generally do not request special consideration for markdowns, advertising or returns. During fiscal 2018, our top ten vendors accounted for approximately 12% of total purchases, with no single vendor accounting for more than 3% of total purchases.

## **Low Cost Operations**

It is our goal to operate with a low cost structure in comparison to many other retailers. We place great emphasis on expense management throughout the Company. Our stores have a "no frills" format and we are flexible in our site selection in order to maintain favorable lease terms.

## **Customer Shopping Experience**

While we offer a "no frills" format in our stores, we have made progress in reorganizing and refreshing our stores to enhance our customers' shopping experience. We offer a flexible return policy and we accept all major payment methods including cash, checks, all major credit cards, and digital wallets. We continue to work on initiatives we believe will enhance our customers' shopping experience.

## **Distribution**

We utilize 1.2 million square feet of distribution center facilities in Dallas, Texas and a 0.6 million square foot distribution center in Phoenix, Arizona which service all of our stores throughout the United States. The Phoenix distribution center commenced operations during the fourth quarter of fiscal 2016. We shipped approximately 120 million units to our stores during fiscal 2018.

## **Pricing**

Our pricing policy is to sell merchandise generally below retail prices charged by department and specialty stores, catalog and on-line retailers. Prices are determined centrally and are initially uniform at all of our stores. Once a price is determined for a particular item, labels displaying two-tiered pricing are affixed to the product. A typical price tag displays a "Compare At" or "Compare Estimated Value" price, and "Our Price". Our buyers determine and verify retail "Compare At" or "Compare Estimated Value" prices by reviewing prices published in advertisements, catalogs, on-line and manufacturers' suggested retail price lists and by visiting department or specialty stores selling similar merchandise. Our information systems provide daily sales and inventory information, which enables us to evaluate our prices and inventory levels and to adjust prices on unsold merchandise in a timely manner and on a periodic basis as dictated by sales volumes and incoming purchases, thereby effectively managing our inventory levels and offering competitive pricing.

## **Employees**

As of June 30, 2018, we employed 1,770 persons on a full-time basis and 7,292 persons on a part-time basis. Our employees are not represented by any labor unions. We have not experienced any work stoppage due to labor disagreements, and we believe that our employee relations are strong.

## Intellectual Property

The trade name “Tuesday Morning” is material to our business. We have registered the name “Tuesday Morning” as a service mark with the United States Patent and Trademark office. We have also registered other trademarks including but not limited to “Tuesday Morning Perks®”. Solely for convenience, trademarks and trade names referred to in this Form 10-K may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or the rights of the applicable licensor, to these trademarks and trade names.

## Corporate Information

Tuesday Morning Corporation is a Delaware corporation incorporated in 1991. Our principal executive offices are located at 6250 LBJ Freeway, Dallas, Texas 75240, and our telephone number is (972) 387-3562.

We maintain a website at [www.tuesdaysmorning.com](http://www.tuesdaysmorning.com). Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports filed with, or furnished to, the Securities and Exchange Commission (the “SEC”) are available free of charge on our website under the Investor Relations section as soon as reasonably practicable after we electronically file such reports and amendments with, or furnish them to, the SEC.

The reports we file or furnish to the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website, [www.sec.gov](http://www.sec.gov), which contains the reports, proxy and information statements and other information which we file with, or furnish to, the SEC.

## Stores and Store Operations

**Store Locations.** As of June 30, 2018, we operated 726 stores in the following 40 states:

<u>State</u>	<u># of Stores</u>	<u>State</u>	<u># of Stores</u>
Alabama	23	Missouri	18
Arizona	21	Nebraska	4
Arkansas	12	Nevada	6
California	62	New Jersey	11
Colorado	21	New Mexico	7
Delaware	3	New York	10
Florida	63	North Carolina	28
Georgia	35	North Dakota	1
Idaho	5	Ohio	21
Illinois	13	Oklahoma	12
Indiana	13	Oregon	12
Iowa	5	Pennsylvania	21
Kansas	8	South Carolina	19
Kentucky	13	South Dakota	1
Louisiana	17	Tennessee	22
Maryland	15	Texas	108
Massachusetts	2	Utah	6
Michigan	9	Virginia	34
Minnesota	9	Washington	14
Mississippi	14	Wisconsin	8

**Site Selection.** We continually evaluate our current store base for potential enhancement or relocation of our store locations. As a result of this ongoing evaluation, we intend to pursue attractive relocation opportunities in our existing store base, close certain stores by allowing leases to expire for underperforming stores or where alternative locations in similar trade areas are not available at acceptable lease rates, and, when appropriate, open new stores. For both new stores and relocations, we negotiate for upgraded sites. We believe that this strategy will better position us for long-term profitable growth. We expect to upgrade both the appearance and operation of our new and relocated stores compared to our existing stores and do not anticipate difficulty in locating additional store locations in areas with our target customer demographics.

**Store Leases.** Except for one store adjacent to our existing distribution center in Dallas, Texas, we lease our store locations under operating leases that typically include renewal options. Some of our leases also provide for contingent rent based upon store sales exceeding stipulated amounts.

Our store leases typically include “kick clauses,” which allow us, at our option, to exit the lease with no penalty 24 to 60 months after entering into the lease if store sales do not reach a stipulated amount stated in the lease. These kick clauses provide us with flexibility in opening new stores and relocating existing stores by allowing us to quickly and cost-effectively vacate a site that does not meet our sales expectations. As a result, we generally do not operate locations with continued store-level operating losses.

**Store Layout.** Our site selection process and “no frills” approach to presenting merchandise allow us to use a wide variety of space configurations. The size of our stores ranges from approximately 5,600 to 30,000 square feet, averaging on a per store basis approximately 12,100 square feet as of June 30, 2018. Historically, we have designed our stores to be functional, with less emphasis placed upon fixtures and leasehold aesthetics. With our current real estate strategy, we continue to be focused on designing a very functional, easy to shop environment that also highlights the quality of the merchandise. We display all merchandise on counters, shelves, or racks while maintaining minimum inventory in our stockrooms.

**Store Operations.** Our stores are generally open seven days a week, excluding certain holidays. We continue to maintain the frequency of shipments of merchandise which results in improved efficiency of receiving and restocking activities at our stores. We attempt to align our part-time employees’ labor hours with anticipated workload and with current customer sales. We conduct annual physical counts of our store merchandise staggered throughout the second half of our fiscal year, primarily when stores are closed.

**Store Management.** Each store has a manager who is responsible for recruiting, training and supervising store personnel and assuring that the store is managed in accordance with our established guidelines and procedures. Store managers are full-time employees. Our store managers are supported by district and regional level support. Store managers are responsible for centrally-directed store disciplines and routines. The store manager is assisted primarily by part-time employees who generally serve as assistant managers and cashiers, and help with merchandise stocking efforts. Members of our management visit selected stores routinely to review inventory levels and merchandise presentation, personnel performance, expense controls, security and adherence to our policies and procedures. In addition, district and regional field managers periodically meet with senior management to review store policies and discuss purchasing, merchandising, advertising and other operational issues.

#### **Item 1A. Risk Factors**

Our business is subject to significant risks, including the risks and uncertainties described below. These risks and uncertainties and the other information in this Form 10-K, including our consolidated financial statements and the notes to those statements, should be carefully considered. If any of the events described below actually occur, our business, financial condition or results of operations could be adversely affected in a material way.

#### **Risks Related to Our Business**

***We may not be successful in the implementation of our long-term business strategy, which could adversely affect our business and our results of operations.***

Our success depends, to a significant degree, on our ability to successfully implement our long-term business strategy. Our ability to successfully implement our business strategies depends upon a significant number of factors, including but not limited to:

- our ability to access an adequate supply of high-quality merchandise from suppliers at a competitive price;
- our ability to deliver profitable sales;
- our ability to make adjustments as market conditions change;
- customer acceptance of our marketing and merchandise strategies;
- our ability to respond to competitive pressures in our industry;
- the ability of our management team to properly respond to the dynamics and demands of our market;
- our ability to achieve positive cash flow, particularly during our peak inventory build-ups in advance of the holiday selling season; and
- our employees’ ability to adapt to our new strategic initiatives.

***Changes in economic and political conditions may adversely affect consumer spending, which could significantly harm our business, results of operations, cash flows and financial condition.***

The success of our business depends, to a significant extent, upon the level of consumer spending. A number of factors beyond our control affect the level of consumer spending on merchandise that we offer, including, among other things:

- general economic and industry conditions;
- unemployment;
- the housing market;
- deterioration in consumer confidence;
- crude oil prices that affect gasoline and diesel fuel, as well as, increases in other fuels used to support utilities;
- efforts by our customers to reduce personal debt levels;
- availability of consumer credit;
- interest rates;
- fluctuations in the financial markets;
- tax rates and policies;
- war, terrorism and other hostilities; and
- consumer confidence in future economic conditions.

The merchandise we sell generally consists of discretionary items. Reduced consumer confidence and spending cut backs may result in reduced demand for our merchandise, including discretionary items, and may force us to take significant inventory markdowns. Reduced demand also may require increased selling and promotional expenses. Adverse economic conditions and any related decrease in consumer demand for our merchandise could have a material adverse effect on our business, results of operations, cash flows and financial condition.

***Any failure to identify and respond to changes in consumer trends and preferences could significantly harm our business.***

The retail home furnishings and housewares industry is subject to sudden shifts in consumer trends and consumer spending. Our sales and results of operations depend in part on our ability to predict or respond to changes in trends and consumer preferences in a timely manner. Although our business model allows us greater flexibility than many traditional retailers to meet consumer preferences and trends, we may not successfully do so. Any sustained failure to anticipate, identify and respond to emerging trends in consumer preferences could negatively affect our business and results of operations.

***We must continuously attract buying opportunities for off-price merchandise and anticipate consumer demand as off-price merchandise becomes available, and our failure to do so could adversely affect our performance.***

By their nature, specific off-price merchandise items are available from manufacturers or vendors generally on a non-recurring basis. As a result, we do not have long-term contracts with our vendors for supply, pricing or access to products, but make individual purchase decisions, which may be for large quantities. Due to economic uncertainties, some of our manufacturers and suppliers may cease operations or may otherwise become unable to continue supplying off-price merchandise on terms acceptable to us. We cannot assure that manufacturers or vendors will continue to make off-price merchandise available to us in quantities acceptable to us or that our buyers will continue to identify and take advantage of appropriate buying opportunities. In addition, if we misjudge consumer demand for products, we may significantly overstock unpopular products and be forced to take significant markdowns and miss opportunities to sell more popular products. An inability to acquire suitable off-price merchandise in the future or to accurately anticipate consumer demand for such merchandise would have an adverse effect on our business, results of operations, cash flows and financial condition.

***Our results of operations will be negatively affected if we are not successful in managing our inventory profitably.***

Inventory is the largest asset on our balance sheet and represented approximately 62% of our total assets at both June 30, 2018 and June 30, 2017. Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels to meet our customers' demands without allowing those levels to increase to such an extent that the costs to store and hold the goods unduly impact our financial results. If our buying decisions do not accurately predict

customer trends or purchasing actions, we may have to take unanticipated markdowns to dispose of the excess inventory, which also can adversely impact our financial results. We continue to focus on ways to reduce these risks, but we cannot assure that we will be successful in our inventory management. If we are not successful in managing our inventory balances, our results of operations may be negatively affected. We have recorded significant inventory write-downs from time to time in the past and there can be no assurances that we will not record additional inventory charges in the future.

***Our results of operations will be negatively affected if we are unsuccessful in effectively managing our supply chain operations.***

With few exceptions, all inventory is shipped directly from suppliers either to our distribution center in the Dallas, Texas metropolitan area, or our Phoenix distribution center, where the inventory is then processed, sorted and shipped to our stores. We depend in large part on the orderly operation of this receiving and distribution process, which depends, in turn, on adherence to shipping schedules and effective management of our distribution centers. We may not anticipate all of the changing demands which our expanding operations will impose on our receiving and distribution system.

***The loss of, disruption in operations, or increased costs in the operation of our distribution center facilities would have a material adverse effect on our business and operations.***

Events beyond our control, such as disruptions in operations due to fire or other catastrophic events, labor disagreements or shipping problems, may result in delays in the delivery of merchandise to our stores. We also cannot assure that our insurance will be sufficient, or that insurance proceeds will be paid to us in a timely manner, in the event a distribution center is shut down for any reason.

***The unplanned loss or departure of one or more members of our senior management or other key management could have a material adverse effect on our business.***

Our future performance will depend in large part upon the efforts and abilities of our senior management and other key employees. The loss of service of these persons could have a material adverse effect on our business and future prospects. We do not maintain key person life insurance for our senior management. We cannot provide any assurance that we will not experience future turnover related to our senior management team.

***Our business is intensely competitive, and a number of different competitive factors could have a material adverse effect on our business, results of operations, cash flows and financial condition.***

The retail home furnishings and housewares industry is intensely competitive. As an off-price retailer of home furnishings and housewares, we currently compete against a diverse group of retailers, including department stores and discount stores, specialty, on-line, and catalog retailers and mass merchants, which sell, among other products, home furnishing, houseware and related products similar and often identical to those we sell. We also compete in particular markets with a substantial number of retailers that specialize in one or more types of home furnishing and houseware products that we sell. Many of these competitors have substantially greater financial resources that may, among other things, increase their ability to purchase inventory at lower costs or to initiate and sustain aggressive price competition.

A number of different competitive factors could have a material adverse effect on our business, results of operations, cash flows and financial condition, including:

- increased operational efficiencies of competitors;
- competitive pricing strategies, including deep discount pricing by a broad range of retailers during periods of poor consumer confidence or economic uncertainty;
- continued and prolonged promotional activity by competitors;
- liquidation sales by a number of our competitors who have filed or may file in the future for bankruptcy;
- expansion by existing competitors;
- entry of new competitors into markets in which we currently operate; and
- adoption by existing competitors of innovative store formats or retail sales methods.

We cannot assure that we will be able to continue to compete successfully with our existing or new competitors, or that prolonged periods of deep discount pricing by our competitors will not materially harm our business. We compete for customers, employees, locations, merchandise, services and other important aspects of our business with many other local, regional, national and

international retailers. We also face competition from alternative retail distribution channels such as catalogs and, increasingly, e-commerce websites and mobile device applications. Changes in the merchandising, pricing and promotional activities of those competitors, and in the retail industry, in general, may adversely affect our performance.

***If we are unable to successfully execute our strategy of relocating and expanding existing stores and when appropriate, opening new stores, our operating performance could be adversely impacted.***

As part of our business strategy, we intend to pursue relocation opportunities to improve our existing store base as well as open new stores that will offset the closing of lower performing stores as they come up for renewal. However, we cannot assure that we will be able to achieve our relocation goals or that we will be able to operate any new or relocated stores profitably. Further, we cannot assure that any new or relocated store will achieve similar operating results to those of our existing stores or that new, relocated or expanded stores opened in markets in which we operate will not have a material adverse effect on the net sales and profitability of our existing store base.

The success of our store development strategy will be dependent upon numerous factors, many of which are beyond our control, including the following:

- the ability of our personnel to adequately analyze and identify suitable markets and individual store sites within those markets;
- the competition for suitable store sites;
- our ability to negotiate favorable lease terms with landlords;
- our ability to obtain governmental and other third-party consents, permits and licenses needed to operate our stores;
- the availability of employees to staff new stores and our ability to hire, train, motivate and retain store personnel;
- the availability of adequate management and financial resources to properly manage a large volume of stores;
- our ability to adapt our distribution and other operational and management systems to a changing network of stores;
- our ability to maintain appropriate inventory levels in our stores;
- our ability to attract customers and generate sales sufficient to operate new, relocated or expanded stores profitably;
- our ability to renew existing leases; and
- our ability to successfully negotiate the termination of leases without significant negative financial impact.

While we opened stores in existing markets during fiscal 2018, 2017, and 2016, we also opened stores in new markets during that time period. These markets may have different competitive conditions, consumer trends and discretionary spending patterns than our existing markets, which may cause our new stores in these markets to be less successful than stores in our existing markets.

***Increases in fuel prices and changes in transportation industry regulations or conditions may increase our freight costs and thus our cost of sales, which could have a material adverse effect on our business and operations.***

Our freight costs are impacted by changes in fuel prices through surcharges. Fuel prices and surcharges affect freight costs both on inbound freight from vendors to our distribution centers and outbound freight from our distribution centers to our stores. In addition, the U.S. government requires drivers of over-the-road trucks to take certain rest periods which reduces the available amount of time they can drive during a 24-hour period. Changes in trucking industry conditions, such as truck driver shortages and highway congestion, could increase freight costs. High fuel prices or surcharges, as well as stringent driver regulations and changes in transportation industry conditions, may increase freight costs and thereby increase our cost of sales.

***If we are not able to generate strong cash flows from our operations or to continue to access credit markets, we will not be able to support capital expansion, operations or debt repayment.***

Our business is dependent upon our operations generating strong cash flows to support capital expansion requirements and general operating activities. In addition, we have a credit agreement providing for a revolving credit facility in the amount of up to \$180.0 million. The revolving credit facility contains certain restrictive covenants, and if borrowing availability falls below certain thresholds, a financial covenant. If we are unable to comply with the revolving credit facility, we may not be able to obtain an alternate source of funding on satisfactory terms, if at all. Our inability to continue to generate sufficient cash flows to support these

activities or the lack of availability of financing in adequate amounts and on appropriate terms could adversely affect our financial performance.

***An increase in the cost or a disruption in the flow of our imported products may significantly decrease our sales and profits.***

Merchandise manufactured and imported from overseas represents the majority of our total product purchases acquired both domestically and internationally. A disruption in the shipping of imported merchandise or an increase in the cost of those products may significantly decrease our sales and profits. In addition, if imported merchandise becomes more expensive or unavailable, the transition to alternative sources may not occur in time to meet our demands. Products from alternative sources may also be of lesser quality and more expensive than those we currently import.

Risks associated with our reliance on imported products include disruptions in the shipping and importation or increases in the costs of imported products because of factors such as:

- raw material shortages;
- work stoppages;
- strikes and political unrest;
- problems with oceanic shipping, including shipping container shortages;
- increased customs inspections of import shipments or other factors causing delays in shipments;
- merchandise quality or safety issues;
- economic crises;
- international disputes, wars, and terrorism;
- loss of “most favored nation” trading status by the United States in relation to a particular foreign country;
- natural disasters;
- import duties and tariffs;
- foreign government regulations;
- import quotas and other trade sanctions; and
- increases in shipping rates.

The products we buy abroad are sometimes priced in foreign currencies and, therefore, we are affected by fluctuating exchange rates. We might not be able to successfully protect ourselves in the future against currency rate fluctuations, and our financial performance could suffer as a result.

***Changes to federal tax policy may adversely impact our operations and financial performance.***

The U.S. federal government continues to analyze comprehensive tax reform options that could negatively impact companies that directly or indirectly import goods and on July 10, 2018, the Office of the U.S. Trade Representative proposed a 10% tariff on additional classes of products imported to the U.S. from China. The Company sources a portion of its products from multiple countries, including China. The Company is evaluating strategies to mitigate the impact of the proposed tariff, including reviewing sourcing options as well as collaborative efforts with its vendor partners. Major developments in tax policy or trade relations, such as the disallowance of tax deductions for imported merchandise or the imposition of unilateral tariffs on imported products, could have a material adverse effect on our business, results of operations, financial condition, and liquidity.

***Our success depends upon our marketing, advertising and promotional efforts. If we are unable to implement them successfully, or if our competitors are more effective than we are, our results of operations may be adversely affected.***

We use marketing and promotional programs to attract customers to our stores and to encourage purchases by our customers. We use various media for our promotional efforts, including newspaper, database marketing, email, direct marketing, and other digital communications such as online social networks. If we fail to choose the appropriate medium for our efforts, or fail to implement and execute new marketing opportunities, our competitors may be able to attract some of our customers and cause them to decrease purchases from us and increase purchases elsewhere, which would negatively impact our net sales. Changes in the amount and degree

of promotional intensity or merchandising strategy by our competitors could cause us to have some difficulties in retaining existing customers and attracting new customers.

***If we do not attract, train and retain quality employees in appropriate numbers, including key employees and management, our performance could be adversely affected.***

Our performance is dependent on recruiting, developing, training and retaining quality sales, distribution center and other employees in large numbers, as well as, experienced buying and management personnel. Many of our employees are in entry level or part-time positions with historically high rates of turnover. Our ability to meet our labor needs while controlling costs is subject to external factors, such as unemployment levels, prevailing wage rates, minimum wage legislation, and changes in rules governing eligibility for overtime and changing demographics. In the event of increasing wage rates, if we do not increase our wages competitively, our staffing levels and customer service could suffer because of a declining quality of our workforce, or our earnings would decrease if we increase our wage rates, whether in response to market demands or new minimum wage legislation. Changes that adversely impact our ability to attract and retain quality employees and management personnel could adversely affect our performance.

***Our results of operations are subject to seasonal and quarterly fluctuations, which could have a material adverse effect on our operating results or the market price of our common stock.***

Our business is subject to seasonality with a higher level of net sales and operating income generated during the quarter ended December 31, which includes the holiday shopping season. Net sales in the quarters ended December 31, 2017, 2016, and 2015 accounted for approximately 33%, 34% and 33% of our annual net sales for fiscal years 2018, 2017 and 2016, respectively. For more information about our seasonality, please read Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quarterly Results and Seasonality.”

Because a significant percentage of our net sales and operating income are generated in the quarter ending December 31, we have limited ability to compensate for shortfalls in December quarter sales or earnings by changes in our operations or strategies in other quarters. A significant shortfall in results for the quarter ending December 31 of any year could have a material adverse effect on our annual results of operations and on the market price of our common stock. In addition, in anticipation of higher sales during this period, we purchase substantial amounts of seasonal inventory and hire many temporary employees. An excess of seasonal merchandise inventory could result if our net sales during this principal selling season were to fall below either seasonal norms or expectations. If our December quarter sales results are substantially below expectations, our financial performance and operating results could be adversely affected by unanticipated markdowns, particularly in seasonal merchandise. Lower than anticipated sales in the principal selling season would also negatively affect our ability to absorb the increased seasonal labor costs.

Our quarterly results of operations may also fluctuate significantly based on additional factors, such as:

- the timing of new store openings;
- the amount of net sales contributed by new and existing stores;
- the success of our store expansion and relocation program;
- the timing of certain holidays and advertised events;
- changes in our merchandise mix and inventory levels;
- general economic, industry and weather conditions that affect consumer spending; and
- actions of competitors, including promotional activity.

These factors could also have a material adverse effect on our annual results of operations and on the market price of our common stock.

***If we are unable to maintain and protect our information technology systems and technologies, we could suffer disruptions in our business, damage to our reputation, increased costs and liability, and obstacles to our growth.***

The operation of our business is heavily dependent upon the implementation, integrity, security, and successful functioning of our computer networks and information systems, including the point-of-sale systems in our stores, data centers that process transactions, and various software applications used in our operations. Our systems are subject to damage or interruption from weather events, power outages, telecommunications or computer failures, computer viruses, security breaches, employee errors and similar occurrences. A failure of our systems to operate effectively as a result of damage to, interruption, or failure of any of these

systems could result in data loss, a failure to meet our reporting obligations, or material misstatements in our consolidated financial statements, or cause losses due to disruption of our business operations and loss of customer confidence. These adverse situations could also lead to loss of sales or profits or cause us to incur additional repair, replacement and development costs. Our inability to improve our information technology systems and technologies may fail to support our growth and may limit opportunities.

***If we fail to protect the security of information about our business and our customers, suppliers, business partners and employees, we could damage our reputation and our business, incur substantial additional costs and become subject to litigation and government investigations and enforcement actions.***

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees, on our computer networks and information systems. The secure processing, maintenance and transmission of this information is critical to our operations. Despite our security measures, our information technology and infrastructure and that of our service providers may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Cyber threats are rapidly evolving and are becoming increasingly sophisticated. Any such attack or breach could compromise our security and remain undetected for a period of time, and confidential information could be misappropriated, resulting in a loss of customers', suppliers', business partners' or employees' personal information, negative publicity, harm to our business and reputation, and potentially causing us to incur costs to reimburse third parties for damages and potentially subjecting us to government investigations and enforcement actions. In addition, the regulatory environment surrounding data and information security and privacy is increasingly demanding, as new and revised requirements are frequently imposed across our business. Compliance with more demanding privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes, and implementing new initiatives could result in system disruptions. We maintain cyber risk insurance, but this insurance may not be sufficient to cover all of our losses from any future breaches of our systems.

***We are subject to various government regulations, changes in the existing laws and regulations and new laws and regulations which may adversely affect our operations and financial performance.***

The development and operation of our stores are subject to various federal, state and local laws and regulations in many areas of our business, including, but not limited to, those that impose restrictions, levy a fee or tax, or require a permit or license, or other regulatory approval, and building and zoning requirements. Difficulties or failures in obtaining required permits, licenses or other regulatory approvals could delay or prevent the opening of a new store, and the suspension of, or inability to renew, a license or permit could interrupt operations at an existing store. We are also subject to laws governing our relationship with employees, including minimum wage requirements, overtime, health insurance mandates, working and safety conditions, and immigration status requirements. Additionally, changes in federal labor laws could result in portions of our workforce being subjected to greater organized labor influence. This could result in an increase to our labor costs. A significant portion of our store personnel are paid at rates related to the minimum wage established by federal, state and municipal law. Additionally, we are subject to certain laws and regulations that govern our handling of customers' personal information. A failure to protect the integrity and security of our customers' personal information could expose us to private litigation and government investigations and enforcement actions, as well as materially damage our reputation with our customers. While we endeavor to comply with all applicable laws and regulations, governmental and regulatory bodies may change such laws and regulations in the future which may require us to incur substantial cost increases. If we fail to comply with applicable laws and regulations, we may be subject to various sanctions, penalties or fines and may be required to cease operations until we achieve compliance which could have a material adverse effect on our consolidated financial results and operations.

***We face litigation risks from customers, employees, and other third parties in the ordinary course of business.***

Our business is subject to the risk of litigation by customers, current and former employees, suppliers, stockholders and others through private actions, class actions, administrative proceedings, regulatory actions, or other litigation. The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. The cost to defend future litigation may be significant. There may also be adverse publicity associated with litigation that could decrease customer acceptance of merchandise offerings, regardless of whether the allegations are valid or whether we are ultimately found liable.

***We face risks with respect to product liability claims and product recalls, which could adversely affect our reputation, our business, and our consolidated results of operations.***

We purchase merchandise from third parties and offer this merchandise to customers for sale. In addition, we currently expect to develop and manufacture certain merchandise for sale, initially on a very limited basis. Merchandise could be subject to recalls and other actions by regulatory authorities. Changes in laws and regulations could also impact the type of merchandise we offer to customers. We have experienced, and may in the future experience, issues that result in recalls of merchandise. In addition, in the past, individuals have asserted claims, and may in the future assert claims, that they have sustained injuries from third-party merchandise offered by us, and we may be subject to future lawsuits relating to these claims. There is a risk that these claims or liabilities may exceed, or fall outside the scope of, our insurance coverage. Any of the issues mentioned above could result in damage to our reputation, diversion of development and management resources, or reduced sales and increased costs, any of which could harm our business.

***Our stores may be adversely affected by local conditions, natural disasters, and other events.***

Certain regions in which our stores are located may be subject to adverse local conditions, natural disasters, and other events. If severe weather, such as heavy snowfall or extreme temperatures, discourages or restricts customers in a particular region from traveling to our stores, our sales could be adversely affected. If severe weather conditions occur during the second quarter of our fiscal year, the adverse impact to our sales and profitability could be even greater than at other times during the year because we generate a significant portion of our sales and profits during this period. Natural disasters including tornados, hurricanes, floods, and earthquakes may damage our stores, corporate office, and distribution facilities or other operations, which may adversely affect our financial results. Additionally, demographic shifts in the areas where our stores are located could adversely impact our financial results and operations.

***Our results of operations may be negatively affected by inventory shrinkage.***

We are subject to the risk of inventory loss and theft. Although our inventory shrinkage rates have not fluctuated significantly in recent years, we cannot assure that actual rates of inventory loss and theft in the future will be within our estimates or that the measures we are taking will effectively reduce the problem of inventory shrinkage. Although some level of inventory shrinkage is an unavoidable cost of doing business, if we were to experience higher rates of inventory shrinkage or incur increased security costs to combat inventory theft, our results of operations could be affected adversely.

***Our results of operations may be negatively impacted by exposure to unexpected costs related to our insurance programs.***

Our insurance coverage is subject to deductibles, self-insured retentions, limits of liability and similar provisions that we believe are prudent based on our overall operations. We may incur certain types of losses that we cannot insure or which we believe are not economically reasonable to insure, such as losses due to acts of war and terrorism, employee and certain other crime, and some natural disasters. If we incur these losses and they are material, our business could suffer. Certain material events may result in sizable losses for the insurance industry and adversely impact the availability of adequate insurance coverage or result in excessive premium increases. To offset negative cost trends in the insurance market, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to these market changes. In addition, we self-insure a significant portion of expected losses under our workers' compensation, general liability, including automobile, and group health insurance programs. Unanticipated changes in any applicable actuarial assumptions and management estimates underlying our recorded liabilities for these self-insured losses, including potential increases in medical and indemnity costs, could result in significantly different expenses than expected under these programs, which could have a material adverse effect on our financial condition and results of operations. Although we continue to maintain property insurance for catastrophic events, we are self-insured for losses up to the amount of our deductibles. If we experience a greater number of self-insured losses than we anticipate, our financial performance could be adversely affected.

***Our sales depend on a volume of traffic to our stores, and a reduction in traffic to, or the closing of, anchor tenants and other destination retailers in the shopping centers in which our stores are located could significantly reduce our sales and leave us with excess inventory.***

Most of our stores are located in shopping centers that benefit from varied and complementary tenants, whether specialty or mass retailers, and other destination retailers and attractions to generate sufficient levels of consumer traffic near our stores. Any decline in the volume of consumer traffic at shopping centers, whether because of consumer preferences to shop on the internet or at large warehouse stores, an economic slowdown, a decline in the popularity of shopping centers, the closing of anchor stores or other destination retailers or otherwise, could result in reduced sales at our stores and leave us with excess inventory, which could have a material adverse effect on our financial results or business.

***We are subject to customer payment-related risks that could increase operating costs or exposure to fraud or theft, subject us to potential liability and potentially disrupt our business.***

We accept payments using a variety of methods, including cash, credit and debit cards, gift cards, gift certificates and store credits. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. In October 2015, the payment card industry shifted liability for certain debit and credit card transactions to retailers who are not able to accept EMV chip technology transactions. Any inability to accept EMV chip technology transactions may subject us to increased risk of liability for fraudulent transactions and may adversely affect our business and operating results.

For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

### **Risks Related to Our Common Stock**

***Our certificate of incorporation, and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors.***

Provisions in our certificate of incorporation and bylaws will have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- the ability of our Board of Directors to issue shares of our common stock and preferred stock without stockholder approval (subject to applicable NASDAQ requirements);
- a requirement that stockholder meetings may only be called by our President, Chief Executive Officer, the Chairman of the Board or at the written request of a majority of the directors then in office and not our stockholders;
- a prohibition of cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the ability of our Board of Directors to make, alter or repeal our bylaws without further stockholder approval; and
- the requirement for advance notice for nominations for directors to our Board of Directors and for proposing matters that can be acted upon by stockholders at stockholder meetings.

***Because we do not presently have any plans to pay dividends on our common stock, stockholders must look solely to appreciation of our common stock to realize a gain on their investment.***

We have not paid a regular cash dividend since 2008 and do not presently have any plans to pay dividends for the foreseeable future. Accordingly, stockholders must look solely to appreciation of our common stock to realize a gain on their investment. This appreciation may not occur.

***The price of our common stock has fluctuated substantially over the past several years and may continue to fluctuate substantially in the future.***

From July 1, 2017 to June 30, 2018, the trading prices of our common stock ranged from a low of \$1.65 per share to a high of \$4.10 per share. We expect our stock to continue to be subject to fluctuations as a result of a variety of factors, including factors beyond our control, which have been included throughout this Annual Report on Form 10-K. We may fail to meet the expectations of our stockholders or securities analysts at some time in the future, and our stock price could decline as well.

## **Item 1B. Unresolved Staff Comments**

None.

## **Item 2. Properties**

### ***Stores.***

We lease all of our stores from unaffiliated third parties, except one Company-owned store located adjacent to our existing distribution facility in Dallas, Texas. A description of the location of our stores is provided in Item 1, “Business—Stores and Store Operations.” At June 30, 2018, the remaining terms of the majority of our store leases range from one month to five years. The average initial term of store leases executed under our new real estate strategy is approximately ten years, typically with options available for renewal. We intend to continue to lease all of our new stores from unaffiliated third parties. Our store leases typically include “kick clauses,” which allow us, at our option, to exit the lease with no penalty 24 to 60 months after entering into the lease if store sales do not reach a stipulated amount stated in the lease.

### ***Distribution Facilities and Corporate Headquarters.***

We own a 104,675 square foot building which houses our corporate office in Dallas, Texas. Our Dallas distribution center utilizes approximately 1.2 million square feet, all of which is owned. During fiscal 2015, we executed a lease for approximately 0.6 million square feet related to our additional distribution center in Phoenix, Arizona which started operations in the fourth quarter of fiscal 2016.

We lease from unaffiliated third parties two parcels of land of approximately 301,550 square feet, for trailer storage and parking.

We are continuing to evaluate our distribution network needs to accommodate our distribution requirements for our existing store base as well as for future growth.

## **Item 3. Legal Proceedings**

We are involved in legal and governmental proceedings as part of the normal course of our business. Reserves have been established when a loss is considered probable and are based on management’s best estimates of our potential liability in these matters. These estimates have been developed in consultation with internal and external counsel and are based on a combination of litigation and settlement strategies. Management believes that such litigation and claims will be resolved without material effect on our financial position or results of operations.

The Company was a defendant in a purported class action lawsuit, *Jerry Castillo v. Tuesday Morning Inc.*, which was filed on December 28, 2017 in the United States District Court, Middle District of Florida. The case was brought under the Fair Labor Standards Act and included allegations that the Company violated various wage and hour labor laws. Relief was sought on behalf of current and former Company employees. The lawsuit sought to recover damages, penalties and attorneys’ fees as a result of the alleged violations. The matter settled for an amount not material to the Company on July 6, 2018 and the Court approved the settlement on July 9, 2018.

The Company was also a defendant in a purported class action lawsuit, *Hector Velarde*, on behalf of himself and all other similar situated, *Pltf. vs. Tuesday Morning, Inc.*, which was filed on February 26, 2018 in state court and was pending in the United States District Court, Central District of California. The case was brought under the Unruh Civil Rights Act, California Code § 51 ci seq. (“Unruh Act”), the California Disabled persons Act, California Civil Code § 54 et seq. (“CDPA”), and Cal. Civ. Code § 55 et seq. and included allegations that the Company violated various public access laws. The lawsuit sought to recover damages, penalties and attorneys’ fees as a result of the alleged violations. The matter settled for an amount not material to the Company on July 2, 2018 and the Court approved the settlement on July 11, 2018.

## **Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the NASDAQ Global Select Market under the symbol “TUES.” The following table sets forth for the periods indicated the high and low sales prices per share as reported on the NASDAQ Select Global Market:

	High	Low
<b>Fiscal Year Ended June 30, 2018</b>		
First quarter	\$ 3.30	\$ 1.65
Second quarter	\$ 3.40	\$ 2.38
Third quarter	\$ 4.05	\$ 2.45
Fourth quarter	\$ 4.10	\$ 2.50
<b>Fiscal Year Ended June 30, 2017</b>		
First quarter	\$ 8.11	\$ 5.62
Second quarter	\$ 6.25	\$ 4.40
Third quarter	\$ 5.80	\$ 3.15
Fourth quarter	\$ 3.85	\$ 1.60

As of August 17, 2018, there were approximately 209 holders of record of our common stock.

#### Dividend Policy

During the fiscal years ended June 30, 2018, 2017 and 2016, we did not declare or pay any cash dividends on our common stock. We do not presently have plans to pay dividends on our common stock. Our revolving credit facility may, in some instances, limit our ability to pay cash dividends and repurchase our common stock. Additional details are provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Revolving Credit Facility.”

#### Repurchases of Common Equity

On August 22, 2011, our Board of Directors adopted a share repurchase program pursuant to which we are 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, our 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 we will repurchase. During the twelve month period ended June 30, 2018, no shares were repurchased under the Repurchase Program.

Repurchases of equity securities during the three months ended June 30, 2018 are listed in the following table:

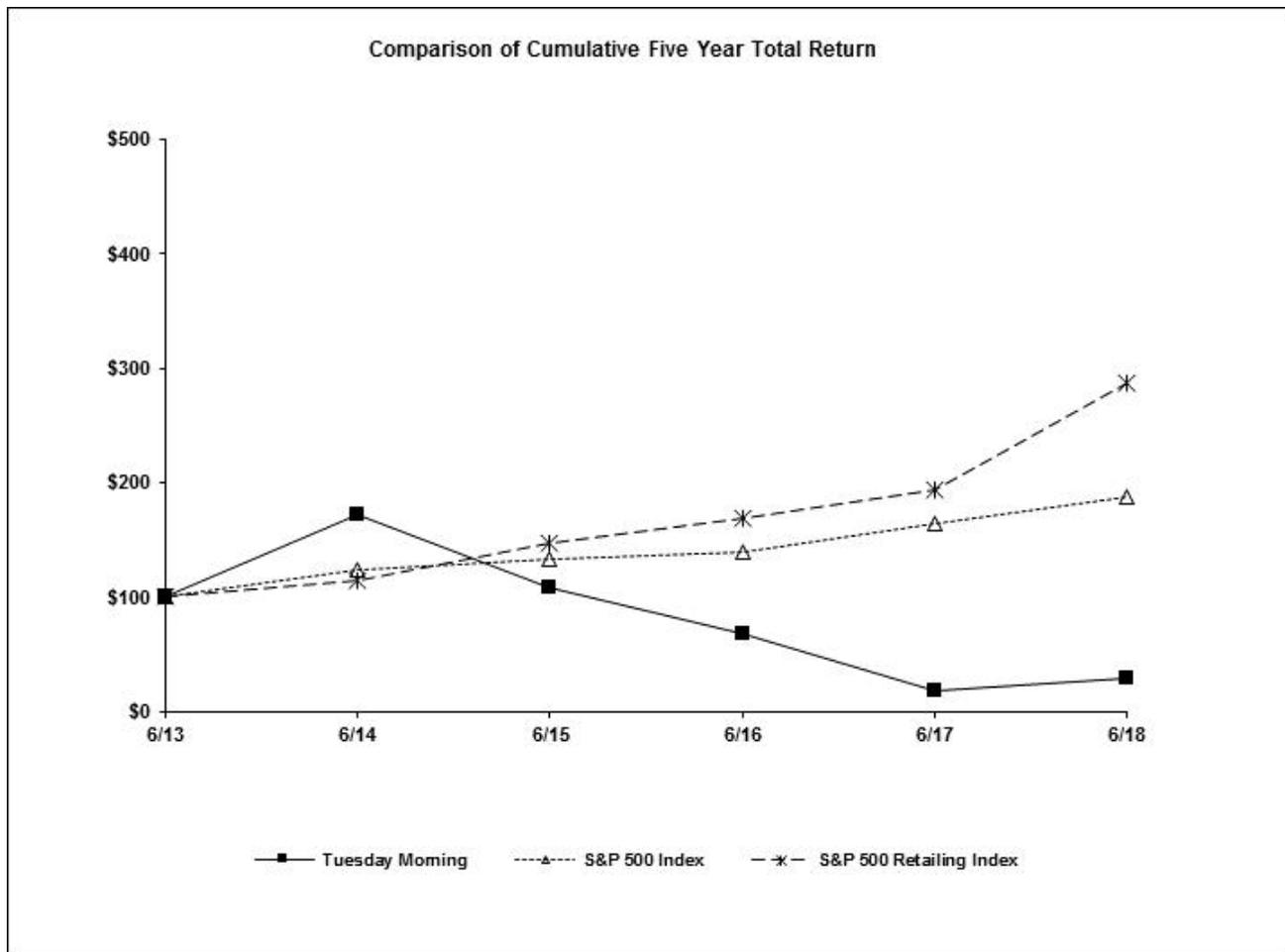
<u>Period</u>	<u>Total Number of Shares Repurchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs(1)</u>
April 1 through April 30, 2018	—	\$ —	—	\$ 3,187,746
May 1 through May 31, 2018	—	\$ —	—	\$ 3,187,746
June 1 through June 30, 2018	—	\$ —	—	\$ 3,187,746
Total	—	\$ —	—	\$ 3,187,746

- (1) As of June 30, 2018, 1.8 million shares have been repurchased under the Repurchase Program for a total cost (excluding commissions) of approximately \$6.8 million.

**Stock Price Performance**

The following graph illustrates a comparison of the cumulative total stockholder return (change in stock price plus reinvested dividends) for the fiscal years ended June 30, 2018, 2017, 2016, 2015 and 2014, of (1) our common stock, (2) the S&P 500 Index, and (3) the S&P 500 retailing index, a pre-established industry index. The chart assumes that \$100 was invested on June 30, 2013, in our common stock and each of the comparison indices, and assumes that all dividends were reinvested.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
 Among Tuesday Morning, the S&P 500 Index  
 and the S&P 500 Retailing Index



\* \$100 invested on 6/30/13 in stock or index, including reinvestment of dividends. Fiscal year ending June 30.

Copyright© 2014 S&P, a division of The McGraw-Hill Companies Inc. All rights reserved.

These indices are included for comparative purposes only and are not intended to forecast or be indicative of possible future performance of our common stock.

The performance graph and related text are being furnished to and not filed with the SEC, and will not be deemed to be “soliciting material” under Regulation 14A or 14C under the Securities Exchange Act of 1934 or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filings under the Securities

Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate such information by reference into such a filing.

## Item 6. Selected Financial Data

The following table sets forth the selected consolidated financial and operating data for the fiscal years ended June 30, 2018, 2017, 2016, 2015, and 2014.

The selected consolidated financial and operating data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes thereto included elsewhere in this Form 10-K.

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
	(in thousands, except per share, per square foot, square foot per store amounts and number of stores)				
<b>Statement of Operations Data:</b>					
Net sales	\$ 1,006,332	\$ 966,665	\$ 956,396	\$ 906,365	\$ 864,844
Cost of sales	665,358	645,920	614,594	579,746	562,692
Gross profit	340,974	320,745	341,802	326,619	302,152
Selling, general and administrative expenses	361,924	353,025	339,398	314,263	310,205
Operating income/(loss)	(20,950)	(32,280)	2,404	12,356	(8,053)
Interest expense	(2,061)	(1,485)	(1,068)	(1,445)	(1,500)
Other income/(expense), net	934	1,420	2,640	(495)	(582)
Income/(loss) before income taxes	(22,077)	(32,345)	3,976	10,416	(10,135)
Income tax provision/(benefit)	(139)	197	263	31	41
Net income/(loss)	<u>\$ (21,938)</u>	<u>\$ (32,542)</u>	<u>\$ 3,713</u>	<u>\$ 10,385</u>	<u>\$ (10,176)</u>
Earnings/(loss) per share:					
Basic	\$ (0.50)	\$ (0.74)	\$ 0.08	\$ 0.24	\$ (0.24)
Diluted	\$ (0.50)	\$ (0.74)	\$ 0.08	\$ 0.24	\$ (0.24)
Weighted average shares outstanding:					
Basic	44,282	43,943	43,705	43,480	42,943
Diluted	44,282	43,943	43,736	43,770	42,943
Dividends per common share	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Operating Data:</b>					
Number of stores:					
Beginning of period	731	751	769	810	828
Opened during period	15	21	16	5	9
Closed during period	(20)	(41)	(34)	(46)	(27)
Open at end of period	<u>726</u>	<u>731</u>	<u>751</u>	<u>769</u>	<u>810</u>
Comparable store sales increase (1)	3.9%	2.2%	7.8%	7.2%	6.1%
Average sales per store (2)	\$ 1,386	\$ 1,311	\$ 1,263	\$ 1,148	\$ 1,058
Inventory turnover (3)	2.8	2.5	2.5	2.6	2.6
Total square footage	8,779	8,507	8,326	8,341	8,593
Net sales per square foot	\$ 116	\$ 115	\$ 115	\$ 107	\$ 100
Average square feet per store	12,100	11,500	11,100	11,000	10,700

	As of June 30,				
	2018	2017	2016	2015	2014
	(In thousands)				
<b>Balance Sheet Data:</b>					
Working capital	\$ 120,639	\$ 124,921	\$ 138,947	\$ 152,580	\$ 139,604
Inventories	234,365	221,906	242,315	209,984	207,663
Total assets	376,256	358,153	361,970	334,875	332,344
Total debt, including current portion	38,480	30,500	—	—	—
Total stockholders’ equity	180,254	198,839	227,282	220,289	203,310

- (1) New stores are included in the same store sales calculation starting with the sixteenth month following the date of the store opening. A store that relocates within the same geographic market or modifies its available retail space is generally considered the same store for purposes of this computation. The number of days our stores are open may fluctuate from period to period.
- (2) Average sales per store is the sum of the average sales per store for each quarter.
- (3) Inventory turnover is the ratio of cost of sales to average inventory. Average inventory is calculated by taking the average of the previous year-end and quarter-end inventory levels throughout the year. Inventory turnover for fiscal 2014 is unadjusted for the inventory charges recorded during that fiscal year as part of our business turnaround strategy.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis should be read in conjunction with "Selected Financial Data" and our consolidated financial statements and related notes thereto included elsewhere in this Form 10-K.*

### **Overview**

- We are one of the original off-price retailers and a leading destination for unique home and lifestyle goods. We are a closeout retailer, selling high-quality products at prices generally below those found in boutique, specialty and department stores, catalogs and on-line retailers. Our customers come to us for an ever-changing, exceptional assortment of brand names at great prices. Our strong value proposition has established a loyal customer base, who we engage regularly with social media, email, direct mail, digital media and newspaper circulars.
- During fiscal 2018, we continued to implement our strategy of improving store locations and the in-store experience for our customers, which included (i) closing less productive stores with limited foot traffic and relocating some of these stores to, or opening new stores in, better locations with footprints that are on average three to five thousand square feet larger, (ii) expanding some existing stores to a larger footprint, and (iii) improving the finishes in these relocated, new and expanded stores.
- We operated 726 stores in 40 states as of June 30, 2018. As part of the implementation of our real estate strategy, our store base decreased by 5 stores in fiscal 2018, decreased by 20 stores in fiscal 2017, and decreased by 18 stores in fiscal 2016. We relocated 45 stores in fiscal 2018, 52 stores in fiscal 2017, and 46 stores in fiscal 2016.
- For fiscal 2018, net sales were \$1.0 billion, an increase of 4.1% compared to fiscal 2017 net sales of \$966.7 million, primarily due to an increase in sales from comparable stores (stores open at least five quarters, including stores relocated in the same market and renovated stores) of 3.9%. The increase in comparable store sales was comprised of an increase in customer transactions of 2.9% along with a 1.0% increase in average ticket. Sales at the 45 stores relocated during the past 12 months increased approximately 58% on average for fiscal 2018 as compared to last year and contributed approximately 370 basis points of comparable store sales growth. Net sales during fiscal 2017 were negatively impacted by lower than plan store level inventories for a portion of the year due to the supply chain challenges we experienced during the year along with 20 fewer stores.
- Cost of sales, as a percentage of net sales, for fiscal 2018 was 66.1%, compared to 66.8% for fiscal 2017.
- Selling, general and administrative expenses (SG&A) increased \$8.9 million to \$361.9 million, from \$353.0 million for fiscal 2017.
- Our operating loss for fiscal 2018 was \$21.0 million compared to an operating loss of \$32.3 million for fiscal 2017. Our net loss for fiscal 2018 was \$21.9 million, or diluted net loss per share of \$0.50, compared to a net loss for fiscal 2017 of \$32.5 million, or diluted net loss per share of \$0.74.
- Our fiscal 2017 results were adversely impacted by increased supply chain and freight costs, driven significantly by elevated costs resulting from our supply chain issues experienced earlier in the year.

- As shown under the heading “Non-GAAP Financial Measures” below, EBITDA was \$5.6 million for fiscal 2018, compared to negative \$9.6 million for fiscal 2017. Adjusted EBITDA, was \$9.6 million for fiscal 2018 compared to negative \$2.8 million for fiscal 2017.
- Inventory levels at June 30, 2018 increased \$12.5 million to \$234.4 million from \$221.9 million at June 30, 2017. Inventory turnover for the trailing five quarters as of June 30, 2018 was 2.8 turns, an increase from the trailing five quarter turnover as of June 30, 2017 of 2.5 turns.
- Cash and cash equivalents at June 30, 2018 increased \$3.2 million to \$9.5 million from \$6.3 million at June 30, 2017. We had borrowings of \$38.5 million under our revolving credit facility as of June 30, 2018, and borrowings of \$30.5 million at June 30, 2017.

## Results of Operations

The following table sets forth, for the periods indicated, selected statement of operations data, expressed as a percentage of net sales, as well as the number of stores open at the end of each period. There can be no assurance that the trends in sales or operating results will continue in the future.

	Fiscal Year Ended June 30,		
	2018	2017	2016
Net sales	100.0%	100.0%	100.0%
Cost of sales	66.1	66.8	64.3
Gross margin	33.9%	33.2%	35.7%
Selling, general and administrative expenses	36.0	36.5	35.5
Operating income/(loss)	(2.1)%	(3.3)%	0.2%
Interest expense	(0.2)	(0.2)	(0.1)
Other income/(expense)	0.1	0.1	0.3
Income tax provision/(benefit)	(0.0)	0.0	0.0
Net income/(loss)	(2.2)%	(3.4)%	0.4%
Number of stores open at end of period	726	731	751

Selling, general and administrative expenses are comprised of wages and benefits, rent and occupancy costs, depreciation, advertising, store operating expenses and corporate office costs. While selling, general and administrative expense increases and decreases are generally attributable to changes in variable expenses, higher rents, depreciation, and real estate project costs have increased as we continue to implement our store real estate strategy. Variable expenses include payroll and related benefits, advertising expense and other expenses such as credit card fees.

## Non-GAAP Financial Measures

We define EBITDA as net income or net loss before interest, income taxes, depreciation, and amortization. Adjusted EBITDA reflects further adjustments to EBITDA to eliminate the impact of certain items, including certain non-cash items and other items that we believe are not representative of our core operating performance. These measures are not presentations made in accordance with GAAP. EBITDA and Adjusted EBITDA should not be considered as alternatives to net income or loss as a measure of operating performance. In addition, EBITDA and Adjusted EBITDA are not presented as, and should not be considered as alternatives to cash flows as a measure of liquidity. EBITDA and Adjusted EBITDA should not be considered in isolation, or as substitutes for analysis of our results as reported under GAAP and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by such adjustments. We believe it is useful for investors to see these EBITDA and Adjusted EBITDA measures that management uses to evaluate our operating performance. These non-GAAP financial measures are included to supplement our financial information presented in accordance with GAAP and because we use these measures to monitor and evaluate the performance of our business as a supplement to GAAP measures and we believe the presentation of these non-GAAP measures enhances investors’ ability to analyze trends in our business and evaluate our performance. EBITDA and Adjusted EBITDA are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry. The non-GAAP measures presented may not be comparable to similarly titled measures used by other companies.

EBITDA and Adjusted EBITDA. The following table reconciles net loss, the most directly comparable GAAP financial measure, to EBITDA and Adjusted EBITDA, each of which is a non-GAAP financial measure (in thousands):

	Twelve Months Ended June 30,	
	2018	2017
Net loss (GAAP)	\$ (21,938)	\$ (32,542)
Depreciation and amortization	25,672	21,349
Interest expense, net	2,030	1,443
Income tax provision/(benefit)	(139)	197
EBITDA (non-GAAP)	5,625	(9,553)
Share-based compensation expense (1)	3,433	4,184
Cease-use rent expense (2)	487	1,135
Phoenix distribution center related expenses (3)	—	2,196
Stockholder nominations related expenses (4)	408	—
Gain on sale of assets (5)	(371)	(741)
Adjusted EBITDA (non-GAAP)	<u>\$ 9,582</u>	<u>\$ (2,779)</u>

(1) Adjustment includes charges related to share-based compensation programs, which vary from period to period depending on volume, timing and vesting of awards. We adjust for these charges to facilitate comparisons from period to period.

(2) Adjustment includes accelerated rent expense recognized in relation to closing stores prior to lease termination. Favorable lease buyout agreements were negotiated and executed in fiscal 2018, resulting in the reversal of \$0.7 million previously recorded accelerated cease-use rent expense. While accelerated rent expense may occur in future periods, the amount and timing of such expenses will vary from period to period.

(3) Adjustment includes only certain expenses related to the Phoenix distribution center preparation, ramp up and post go-live activities, including incremental detention costs and certain consulting costs.

(4) Adjustment includes only certain incremental expenses which relate to the stockholder nominations as described in our Preliminary and Definitive Proxy Statements filed with the SEC on September 25, 2017 and October 5, 2017, respectively.

(5) Adjustment includes the gain recognized from the sale-leaseback transaction which occurred in the fourth quarter of fiscal 2016.

#### Fiscal Year Ended June 30, 2018 Compared to Fiscal Year Ended June 30, 2017

Net sales increased \$39.6 million, or 4.1%, to \$1.0 billion in fiscal 2018 from \$966.7 million in fiscal 2017, primarily due to a \$35.8 million increase in sales from comparable stores of 3.9%. New stores are included in the same store sales calculation starting with the sixteenth month following the date of the store opening. A store that relocates within the same geographic market or modifies its available retail space is generally considered the same store for purposes of this computation. The increase in comparable store sales was comprised of an increase in customer transactions of 2.9% along with an increase in average ticket of 1.0%. Sales at the 45 stores relocated during the past 12 months increased approximately 58% on average for fiscal 2018 as compared to last year and contributed approximately 370 basis points of comparable store sales growth. Non-comparable store sales include the net effect of sales from new stores and sales from stores that have closed. The non-comparable store sales increase of \$3.8 million was driven by 15 store openings, partially offset by 20 store closings, which have occurred since the end of fiscal 2017. Net sales during fiscal 2017 were negatively impacted by lower than plan store level inventories for a portion of the year due to the supply chain challenges we experienced during the year.

Gross profit for fiscal 2018 was \$341.0 million, an increase of 6.3% compared to \$320.7 million for fiscal 2017. As a percentage of net sales, gross margin increased to 33.9% in fiscal 2018 compared with 33.2% in fiscal 2017. The increase in gross margin was primarily due to improvements in initial merchandise mark-up and reduced markdowns, along with reduced distribution and freight costs recognized in the current year from the elevated costs incurred in the prior year as a result of the supply chain issues we experienced in fiscal 2017. In fiscal 2018, we realized cost efficiencies in our distribution operations, partially offset by increased freight costs incurred during the year.

SG&A increased 2.5% to \$361.9 million in fiscal 2018, compared to \$353.0 million in the same period last year. As a percentage of net sales, SG&A decreased to 36.0% for fiscal 2018 compared to 36.5% for the prior year. This decrease in SG&A as a percentage of net sales was driven primarily by reductions in certain corporate expenses, including labor, severance, and share-based compensation costs, and legal and professional fees, which decreased both in dollars and as a percentage of net sales in the current

year from the prior year, along with reduced promotional spending. Partially offsetting these decreased costs were higher store rent and depreciation, due in part to our strategy to improve store real estate.

Our operating loss was \$21.0 million during fiscal 2018 as compared to an operating loss of \$32.3 million for fiscal 2017, an improvement of 35%. The improvement was primarily due to higher gross profit and SG&A leverage, as discussed above.

Net interest expense increased \$0.6 million to \$2.1 million in fiscal 2018 compared to \$1.5 million in the prior year, as a result of increased borrowings on our revolving credit facility during fiscal 2018 along with higher interest rates. Other income decreased \$0.5 million to \$0.9 million in fiscal 2018 compared to \$1.4 million in fiscal 2017. This change was primarily attributable to a \$0.4 million lower gain recognized in fiscal 2018 as compared to fiscal 2017 in connection with a sale-leaseback transaction that occurred in fiscal 2016.

Income tax benefit for fiscal 2018 was \$139,000 compared to income tax expense of \$197,000 in fiscal 2017. The effective tax rates for fiscal 2018 and 2017 were 0.6% and (0.6%), respectively. The fiscal 2018 tax benefit includes a favorable tax impact of approximately \$0.6 million resulting from the release of a valuation allowance on deferred taxes due to recent tax law changes as discussed in Note 1 to the Consolidated Financial Statements. We currently expect the effect of the recent tax law change to have a nominal impact on our annual effective tax rate, given our cumulative loss position and the related valuation allowance on our deferred tax assets. We currently believe the expected effects on future year effective tax rates to continue to be nominal until the cumulative losses and valuation allowance are fully utilized. A full valuation allowance is currently recorded against substantially all of our net deferred tax assets at June 30, 2018. The total valuation allowance at the end of fiscal years 2018, 2017 and 2016 was \$23.7 million, \$27.2 million and \$16.0 million, respectively. A deviation from the customary relationship between income tax benefit and pretax income results from utilization of the valuation allowance.

### **Fiscal Year Ended June 30, 2017 Compared to Fiscal Year Ended June 30, 2016**

Net sales increased \$10.3 million, or 1.1%, to \$966.7 million in fiscal 2017 from \$956.4 million in fiscal 2016, primarily due to a \$19.7 million increase in sales from comparable stores of 2.2%. New stores are included in the same store sales calculation starting with the sixteenth month following the date of the store opening. A store that relocates within the same geographic market or modifies its available retail space is generally considered the same store for purposes of this computation. Net sales during fiscal 2017 were negatively impacted by lower than plan store level inventories for a portion of the year due to the supply chain challenges we experienced during the year, as well as 20 fewer stores. The increase in comparable store sales was comprised of an increase in customer transactions of 3.4%, offset by a decrease in average ticket of 1.2%. Our comparable store sales increase was partially offset by a decrease in our non-comparable store sales, which decreased a total of \$9.5 million, resulting in a 100 basis point negative impact on our increase in net sales. Sales at the 52 stores relocated during the past 12 months increased approximately 52% on average for fiscal 2017 as compared to last year and contributed approximately 290 basis points of comparable store sales growth. Non-comparable store sales include the net effect of sales from new stores and sales from stores that have closed. The non-comparable store sales decrease was driven by 41 store closures, partially offset by 21 store openings, which have occurred since the end of fiscal 2016.

Gross profit for fiscal 2017 was \$320.7 million, a decrease of 6.2% compared to \$341.8 million for fiscal 2016. As a percentage of net sales, gross margin decreased to 33.2% in fiscal 2017 compared with 35.7% in fiscal 2016. The decrease in gross margin was primarily due to elevated costs associated with our supply chain operations, including distribution center and freight costs recognized in the current period. The impact of elevated supply chain and freight costs was a 250 basis point decrease to our gross margin rate in fiscal 2017, as compared to the prior year, driven significantly by our supply chain issues experienced earlier in the year. Additionally, markdowns increased in the current year. Partially offsetting these increases in costs was an improvement in initial merchandise mark-up.

SG&A increased 4.0% to \$353.0 million in fiscal 2017, compared to \$339.4 million in the same period last year. As a percentage of net sales, SG&A was 36.5% for fiscal 2017 compared to 35.5% for the prior year. This increase in SG&A as a percentage of net sales was driven primarily by higher store rent, depreciation, and real estate project expenses, due in part to our strategy to improve store real estate and increased corporate labor and share-based compensation expense in the current period as compared to the prior year period due to executive vacancies in the prior year period. Additionally, we continued to invest in technology and infrastructure which drove incremental costs related to systems in comparison to the prior year period. Partially offsetting these increased costs were reductions in certain other corporate expenses, including legal and professional fees, which decreased as a percentage of net sales from the prior year. In the prior year, we recorded approximately \$8.7 million of incremental expenses to support our strategic initiatives. These costs included \$3.2 million of accelerated rent expense related to closing stores prior to lease termination, as well as up-front costs for our Phoenix distribution center and duplication of certain costs at our Dallas distribution center and other investments in the business such as an inventory management project, expenses related to advertising research, and investments in store prototype development.

Our operating loss was \$32.3 million during fiscal 2017 as compared to operating income of \$2.4 million for fiscal 2016. The decrease was primarily due to higher SG&A and lower gross profit, as discussed above.

Our fiscal 2017 results were adversely impacted by increased supply chain and freight costs, driven significantly by elevated costs resulting from our supply chain issues experienced earlier in the year.

Net interest expense increased \$0.4 million to \$1.5 million in fiscal 2017 compared to \$1.1 million in the prior year, as a result of increased borrowings on our revolving credit facility during fiscal 2017. Other income decreased \$1.2 million to \$1.4 million in fiscal 2017 compared to \$2.6 million in fiscal 2016. This change was primarily attributable to a \$1.8 million lower gain recognized in fiscal 2017 as compared to fiscal 2016 in connection with a sale-leaseback transaction that occurred in fiscal 2016.

Income tax expense for fiscal 2017 was \$197,000 compared to \$263,000 in fiscal 2016. The effective tax rates for fiscal 2017 and 2016 were (0.6%) and 6.6%, respectively. The change in the effective tax rate was driven in part by our pretax loss in fiscal 2017 compared to pretax income in fiscal 2016. A full valuation allowance was recorded against our deferred tax assets as of June 30, 2017. The total valuation allowance at the end of fiscal years 2017, 2016 and 2015 was \$27.2 million, \$16.0 million and \$16.7 million, respectively. A deviation from the customary relationship between income tax expense/(benefit) and pretax income/(loss) results from utilization of the valuation allowance.

## **Liquidity and Capital Resources**

### *Cash Flows from Operating Activities*

In fiscal 2018, cash provided by operating activities was \$27.2 million, compared to \$0.4 million in the prior fiscal year. The \$27.2 million of cash provided by operating activities for fiscal 2018 was due to our net loss of \$21.9 million adjusted for non-cash items, including depreciation and amortization of \$26.0 million and share based compensation expense of \$3.4 million, which were partially offset by a non-cash gain on sale-leaseback of \$0.4 million recorded in other income and deferred income taxes of \$0.6 million. In fiscal 2018, we received \$8.6 million in construction allowances from landlords related to our real estate improvement strategy. Also impacting the cash provided by operating activities were increases in accounts payable of \$22.6 million, deferred rent of \$1.3 million, other non-current liabilities of \$0.4 million, and decreases in prepaid expenses and other current assets of \$0.6 million, partially offset by an increase in inventory of \$12.5 million and a decrease in accrued liabilities of \$0.4 million. The increase in inventory was driven primarily by higher distribution center and in-transit inventory levels, in support of increased sales trends and in preparation for the fall selling season. There were no significant changes to our vendor payment policy during fiscal 2018, 2017, or 2016.

In fiscal 2017, cash provided by operating activities was \$0.4 million, compared to \$8.4 million in the prior fiscal year. The \$0.4 million of cash provided by operating activities for fiscal 2017 was due to net loss of \$32.5 million adjusted for non-cash items, including depreciation and amortization of \$21.7 million and share based compensation expense of \$4.2 million, which were partially offset by a non-cash gain on sale-leaseback of \$0.7 million recorded in other income. In fiscal 2017, we received \$2.6 million in construction allowances from landlords related to our real estate improvement strategy. Also impacting the cash provided by operating activities were a decrease in inventory of \$20.3 million as well as an increase in deferred rent of \$5.0 million, partially offset by decreases in accounts payable of \$16.3 million and accrued liabilities of \$2.0 million, increases in prepaid expenses and other current assets of \$1.1 million, and a decrease in other non-current liabilities of \$0.6 million. The decrease in inventory was driven primarily by lower inventory levels in our distribution centers, and was offset slightly by increased buying, distribution, and freight costs which are capitalized into inventory.

### *Cash Flows from Investing Activities*

Net cash used in investing activities was due to capital expenditures of \$30.8 million for the fiscal year ended June 30, 2018. Capital expenditures were primarily associated with store relocations, new store openings, expansions, capital improvements to existing stores and our distribution operations, along with improvements related to our corporate office and equipment. Net cash used in investing activities for the fiscal year ended June 30, 2017 was due to capital expenditures of \$41.7 million. The \$10.9 million decrease in investment spend in fiscal 2018 as compared to fiscal 2017 was primarily driven by \$6.5 million reduced spending on new, relocated and expanded stores, along with decreased spending on our distribution centers and related information technology. Investment spending in fiscal year 2016 was \$38.0 million and was related to capital expenditures of \$45.5 million and \$1.3 million invested in intellectual property, partially offset by \$8.8 million of proceeds received from the sale of two buildings and land that comprised a portion of the Dallas distribution center facilities in a sale-leaseback transaction that occurred in fiscal year 2016. The \$3.8 million decrease in investment spend in fiscal 2017 as compared to fiscal 2016 was primarily driven by \$20.1 million of decreased spending on the Phoenix distribution center and related information technology, partially offset by \$14.3 million of increased spending on new, relocated and expanded stores.

We currently expect to incur capital expenditures in the range of \$15 million to \$20 million in fiscal year 2019. The reduced level of capital spend from prior years reflects fewer relocations and new stores, partially offset by higher investments in information technology.

#### *Cash Flows from Financing Activities*

Net cash provided by financing activities of \$6.8 million in fiscal 2018 relates to \$8.0 million of borrowings on our revolving credit facility, net of payments, partially offset by a \$1.0 million reduction in our cash overdraft provision and \$0.2 million of capital lease principal payments. Net cash provided by financing activities of \$33.3 million in fiscal 2017 relates to \$30.5 million of borrowings on our revolving credit facility, net of payments, along with a \$2.8 million cash overdraft position. Net cash used in financing activities of \$1.0 million in fiscal 2016 primarily consisted of \$0.9 million of debt issuance costs related to our revolving credit facility, discussed below.

#### *Revolving Credit Facility*

On August 18, 2015, we entered into a new 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 August 18, 2020 (the "Revolving Credit Facility"), which replaced our prior revolving credit facility. The availability of funds under the Revolving Credit Facility is limited to the lesser of a calculated borrowing base and the lenders' aggregate commitments under 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. The Revolving Credit Facility requires that we satisfy a fixed charge coverage ratio at any time that our availability is less than the greater of 10% of our calculated borrowing base or \$12.5 million. Our Revolving Credit Facility may, in some instances, limit our ability to pay cash dividends and repurchase our common stock. In order for the borrower under the Revolving Credit Facility, our subsidiary, to make a restricted payment to us for the payment of a dividend or a repurchase of shares, we must, among other things, maintain availability of 20% of the lesser of our calculated borrowing base or our lenders' aggregate commitments under the Revolving Credit Facility on a pro forma basis for a specified period prior to and immediately following the restricted payment. As of June 30, 2018, we were in compliance with all of the Revolving Credit Facility covenants.

At June 30, 2018, we had \$38.5 million of borrowings outstanding under the Revolving Credit Facility, \$9.5 million of outstanding letters of credit and availability of \$60.5 million. Letters of credit under the Revolving Credit Facility are primarily for self-insurance purposes. We incur commitment fees of up to 0.25% on the unused portion of the Revolving Credit Facility, payable quarterly. 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), subject to a floor of the one month LIBOR plus an applicable margin in the case of loans based on the prime rate. Interest expense of \$2.1 million for fiscal 2018 was comprised of interest of \$1.3 million, commitment fees of \$0.4 million, and amortization of financing fees of \$0.4 million.

At June 30, 2017, we had \$30.5 million of borrowings outstanding under the Revolving Credit Facility, \$6.0 million of outstanding letters of credit and availability of \$64.2 million.

#### *Liquidity*

We have financed our operations with funds generated from operating activities, available cash and cash equivalents, proceeds from the sale of owned properties and borrowings under our revolving credit facility. Cash and cash equivalents as of June 30, 2018, 2017, and 2016, were \$9.5 million, \$6.3 million, and \$14.1 million, respectively. 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 the Board of Directors. Our borrowings have historically peaked during our second fiscal quarter 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 strategic investment needs and the opportunity to acquire 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.

## Critical Accounting Policies and Estimates

Management's Discussion and Analysis is based upon our 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.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

**Inventory**—Our inventories consist of finished goods and are stated at the lower of cost or market using the retail inventory method for store inventory and the specific identification method for warehouse inventory. We have a perpetual inventory system that tracks on hand inventory and inventory sold at a SKU level. Inventory is relieved and cost of goods sold is recorded based on the current cost of the item sold. Buying, distribution, freight and certain other costs are capitalized as part of inventory and are charged to cost of sales as the related inventory is sold. The retail inventory method, which is used by a number of our competitors, involves management estimates with regard to items such as markdowns. Such estimates may significantly impact the ending inventory valuation at cost as well as the amount of gross margin recognized.

Our stores conduct annual physical inventories, staggered during the second half of the fiscal year. During periods in which physical inventory observations do not occur, we utilize an estimate for recording inventory shrink based on the historical results of our previous physical inventories. This estimate may require a favorable or unfavorable adjustment to actual results to the extent that our subsequent actual physical inventory results yield a different result. We have loss prevention and inventory controls programs that we believe minimize shrink. Although inventory shrink rates have not fluctuated significantly in recent years, if the actual rate were to differ from our estimates, then an adjustment to inventory shrink would be required.

Inventory is the largest asset on our balance sheet and represented approximately 62%, 62%, and 67% of total assets at June 30, 2018, 2017, and 2016, respectively. Total inventory increased 5.6%, or \$12.5 million, from June 30, 2017 to June 30, 2018. Total inventory decreased 8.4%, or \$20.4 million, from June 30, 2016 to June 30, 2017. On a per store basis, store inventory increased 1.0% from June 30, 2017 to June 30, 2018 and decreased 0.3% from June 30, 2016 to June 30, 2017.

**Markdowns**—We utilize markdowns to promote the effective and timely sale of merchandise which allows us to consistently provide new merchandise to our customers. We also utilize markdowns coupled with promotional events to drive traffic and stimulate sales. Markdowns may be temporary or permanent. Temporary markdowns are for a designated period of time with markdowns recorded to cost of sales based on quantities sold during the period. Permanent markdowns are charged to cost of sales immediately based on the total quantities on hand at the time of the markdown. Markdowns were 4.8% in fiscal 2018 and were 5.1% in fiscal 2017. Markdowns may vary throughout the quarter or year in timing.

The effect of a 1.0% markdown in the value of our inventory at June 30, 2018 would result in a decline in gross profit and a reduction in our earnings per share for the fiscal year ended June 30, 2018 of \$2.3 million and \$0.05, respectively.

**Insurance and Self-Insurance Reserves**—We use a combination of insurance and self-insurance plans to provide for the potential liabilities associated with workers' compensation, general liability, property insurance, director and officers' liability insurance, vehicle liability and employee health care benefits. Our stop loss limits per claim are \$500,000 for workers' compensation, \$250,000 for general liability, and \$150,000 for medical. Liabilities associated with the risks that are retained by us are estimated, in part, by historical claims experience, severity factors and the use of loss development factors.

The insurance liabilities we record are primarily influenced by the frequency and severity of claims and include a reserve for claims incurred but not yet reported. Our estimated reserves may be materially different from our future actual claim costs, and, when required adjustments to our estimated reserves are identified, the liability will be adjusted accordingly in that period. Our self-insurance reserves for workers' compensation, general liability and medical were \$10.1 million, \$1.8 million, and \$0.9 million, respectively, at June 30, 2018 and \$8.6 million, \$2.5 million, and \$1.1 million, respectively, at June 30, 2017.

We recognize insurance expenses based on the date of an occurrence of a loss including the actual and estimated ultimate costs of our claims. Claims paid reduce our reserves and our current period insurance expense is adjusted for the difference in prior period recorded reserves and actual payments. Current period insurance expenses also include the amortization of our premiums paid to our insurance carriers. Expenses for workers' compensation, general liability and medical insurance were \$5.3 million, \$2.9 million and

\$6.4 million, respectively, for the fiscal year ended June 30, 2018; \$4.8 million, \$3.4 million and \$7.7 million, respectively, for the fiscal year ended June 30, 2017; and \$3.4 million, \$4.0 million and \$7.2 million, respectively, for the fiscal year ended June 30, 2016.

**Share-based compensation**—The Compensation Committee of our Board of Directors and, through express consent of the Compensation Committee, our CEO, are authorized to grant stock options and restricted stock awards from time to time to eligible employees and directors. Those awards may be service or performance based. We grant options with exercise prices equal to the market price of our common stock on the date of the option grant as determined in accordance with the terms of our equity incentive plans. The majority of the options granted prior to June 30, 2008 have a vesting period of one to five years and expire ten years from the date of grant. Options granted after June 30, 2008 typically vest over periods of one to four years with equal portions of the grant vesting on an annual basis and expire ten years from the date of grant. In accordance with U.S. generally accepted accounting principles, we recognize compensation expense at an amount equal to the fair value of share-based payments granted under compensation arrangements. We calculate the fair value of stock options using the Black-Scholes option pricing model. Determining the fair value of share-based awards at the grant date requires judgment in developing assumptions, which involve a number of variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, the expected dividend yield, the risk free rate, the expected term and expected stock option exercise behavior. In addition, we also use judgment in estimating the number of share-based awards that are expected to be forfeited. Share-based compensation expense was \$3.3 million for the fiscal year ended June 30, 2018, \$4.2 million for the fiscal year ended June 30, 2017 and \$3.1 million for the fiscal year ended June 30, 2016.

**Income taxes**—We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities are recorded in our consolidated balance sheets. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. In assessing the need for a valuation allowance, all available evidence is considered including past operating results, future reversals of taxable temporary differences, estimates of future income and tax planning strategies. We have elected to utilize the “with and without” method for purposes of determining when excess tax benefits will be realized. We are subject to income tax in many jurisdictions, including the United States, various states and localities. At any point in time, we may not be subject to audit by any of the various jurisdictions; however, we record estimated reserves for uncertain tax benefits for potential domestic tax audits. The timing of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. If different assumptions had been used, our tax expense or benefit, assets and liabilities could have varied from recorded amounts. If actual results differ from estimated results or if we adjust these assumptions in the future, we may need to adjust our reserves for uncertain tax benefits or our deferred tax assets or liabilities, which could impact our effective tax rate.

#### Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of June 30, 2018.

#### Contractual Obligations

The following table summarizes our contractual obligations at June 30, 2018 and the effects that such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>1 Year or Less</b>	<b>2 - 3 Years</b>	<b>4 - 5 Years</b>	<b>More than 5 Years</b>
Operating leases	\$ 503,099	\$ 92,104	\$ 143,117	\$ 107,061	\$ 160,817
Maintenance, insurance and taxes on operating leases	99,195	18,160	28,218	21,109	31,708
Capital lease	616	172	344	100	—
Borrowings under revolving credit facility	38,480	—	38,480	—	—
Interest and commitment fees on revolving credit facility	3,984	1,864	2,120	—	—
<b>Total</b>	<b>\$ 645,374</b>	<b>\$ 112,300</b>	<b>\$ 212,279</b>	<b>\$ 128,270</b>	<b>\$ 192,525</b>

Contractually required payments for maintenance, insurance and taxes on our leased properties are estimated as a percentage of rent based on historical trends. These amounts can vary based on multiple factors including inflation, macroeconomic conditions, various local tax rates and appraised values of our rental properties. The operating lease obligations include the lease obligations of

our new, additional distribution center in Phoenix, Arizona opened in the fourth quarter of fiscal 2016. We do not consider most merchandise purchase orders to be contractual obligations due to designated cancellation dates on the face of the purchase order.

Commitment fees and interest on the Revolving Credit Facility are calculated based on contractual commitment fees, standby letter of credit fees, and interest based on the outstanding balance on the Revolving Credit Facility of \$38.5 million and letters of credit totaling \$9.5 million. See "—Liquidity and Capital Resources—Revolving Credit Facility" above. The interest and commitment fees on our Revolving Credit Facility reflect the future cash requirements for interest payments, assuming the \$38.5 million outstanding balance is not repaid until maturity and incorporates the interest rates in effect as of June 30, 2018. The interest on the letter of credit utilization and unused commitments are fixed at 1.375% and 0.25%, respectively. The interest rate on swingline revolver borrowings is variable and is based on the prime rate plus margin, and was 5.0% at June 30, 2018. The interest rate on traditional revolver borrowings is variable and is based on either LIBOR or the prime rate plus margin, at our option, which was LIBOR for which interest rates ranged between 3.18% and 3.30% for multiple tranches.

We have not included other long-term liabilities related to self-insurance reserves in the contractual obligations table, as they do not represent cash requirements arising from contractual payment obligations. While self-insurance reserves represent an estimate of our future obligation and not a contractual payment obligation, we have disclosed our self-insurance reserves under "Critical Accounting Policies and Estimates - Insurance and Self-Insurance Reserves."

## Quarterly Results and Seasonality

The following tables set forth certain quarterly financial data for the eight quarters ended June 30, 2018. The quarterly information is unaudited, but has been prepared on the same basis as the audited financial statements included elsewhere in this Form 10-K. We believe that all necessary adjustments (consisting only of normal recurring adjustments) have been included to present fairly the unaudited quarterly results when read in conjunction with our consolidated financial statements and related notes included elsewhere in this Form 10-K. The results of operations for any quarter are not necessarily indicative of the results for any future period. (In thousands, except for per share data and comparable store sales.)

	Quarters Ended			
	Sept. 30, 2017	Dec. 31, 2017	Mar. 31, 2018	June 30, 2018
Net sales	\$ 218,756	\$ 333,807	\$ 223,296	\$ 230,473
Gross profit (1)	77,950	105,685	80,303	77,036
Operating income/(loss) (1)	(11,994)	8,276	(7,789)	(9,443)
Net income/(loss) (1)	(12,254)	8,692	(8,080)	(10,296)
Basic income/(loss) per share (2)	\$ (0.28)	\$ 0.19	\$ (0.18)	\$ (0.23)
Diluted income/(loss) per share (2)	\$ (0.28)	\$ 0.19	\$ (0.18)	\$ (0.23)
Comparable store sales increase	3.6%	1.8%	9.1%	2.4%

	Quarters Ended			
	Sept. 30, 2016	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017
Net Sales	\$ 211,885	\$ 328,137	\$ 203,001	\$ 223,642
Gross profit(1)	77,339	105,982	67,156	70,268
Operating income/(loss) (1)	(9,240)	8,767	(14,678)	(17,129)
Net income/(loss) (1)	(8,855)	8,430	(14,796)	(17,321)
Basic income/(Loss) per share (2)	\$ (0.20)	\$ 0.19	\$ (0.34)	\$ (0.39)
Diluted income/(loss) per share (2)	\$ (0.20)	\$ 0.19	\$ (0.34)	\$ (0.39)
Comparable store sales increase	5.1%	3.8%	(2.7)%	1.8%

- (1) Our results are computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts presented may not equal the total computed for the year due to rounding.
- (2) Net income/(loss) per share amounts are computed independently for each of the quarters presented. Therefore, the sum of the quarterly net income/(loss) per share in fiscal years 2018 and 2017 may not equal the total computed for the year.

Our quarterly results of operations may fluctuate based upon such factors as the number and timing of store openings, the amount of net sales contributed by new and existing stores, the mix of merchandise sold, pricing, store closings or relocations, competitive factors and general economic and weather-related conditions. The timing of advertised and promotional events could impact the weighting of sales between quarters. We expect to continue to experience seasonal fluctuations in our business, with a

significant percentage of our net sales and operating income being generated in the quarter ending December 31, which includes the holiday selling season.

### **Inflation**

In our opinion, the overall impact of inflation has not had a material effect on our results of operations in any of the fiscal years of 2018, 2017, or 2016. We cannot assure that inflation will not materially affect our results of operations in the future.

### **Recent Accounting Pronouncements**

Refer to Note 1 to the Consolidated Financial Statements.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to various market risks, including changes in interest rates. Market risk is the potential loss arising from adverse changes in market prices and rates, such as interest rates. Based on our market risk sensitive instruments outstanding as of June 30, 2018, as described below, we have determined that there was no material market risk exposure to our consolidated financial position, results of operations or cash flows as of such date. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

**Interest Rates.** Our Revolving Credit Facility is a variable interest rate agreement, and therefore affected by fluctuations in market interest rates. Borrowings may incur interest at either LIBOR or the prime rate, plus the applicable margin, at our election (except with respect to swing loans, which incur interest solely at the prime rate plus the applicable margin). In fiscal 2018, we borrowed \$195.5 million and repaid \$187.5 million under our Revolving Credit Facility. We consider our exposure to adverse market interest rate fluctuations to be minimal. As of June 30, 2018, we had \$38.5 million of outstanding borrowings under our Revolving Credit Facility. More information about debt held by us is available in Note 3 to the Consolidated Financial Statements.

## Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements of Tuesday Morning Corporation and its subsidiaries and Report of Independent Registered Public Accounting Firm are included in this Form 10-K and incorporated herein by reference.

Index	Page Number
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
<a href="#">Consolidated Balance Sheets as of June 30, 2018 and 2017</a>	F-3
<a href="#">Consolidated Statements of Operations for the fiscal years ended June 30, 2018, 2017, and 2016</a>	F-4
<a href="#">Consolidated Statements of Stockholders' Equity for the fiscal years ended June 30, 2018, 2017, and 2016</a>	F-5
<a href="#">Consolidated Statements of Cash Flows for the fiscal years ended June 30, 2018, 2017, and 2016</a>	F-6
<a href="#">Notes to Consolidated Financial Statements for the fiscal years ended June 30, 2018, 2017, and 2016</a>	F-7

## Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

### Item 9A. 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 (the "Exchange Act")) were effective as of June 30, 2018 to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is (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 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 principal executive officer and principal 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.

#### Management's Annual Report on Internal Control Over Financial Reporting

Management of Tuesday Morning is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or Rule 15(d)-15(f) under the Exchange Act. Tuesday Morning's internal control over financial reporting is designed 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management (with the participation of our principal executive officer and our principal financial officer) assessed the effectiveness of Tuesday Morning's internal control over financial reporting as of June 30, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013 Framework). Based on this assessment, management concluded that, as of June 30, 2018, Tuesday Morning's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of June 30, 2018. The report follows on the next page.

## Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Tuesday Morning Corporation

### Opinion on Internal Control over Financial Reporting

We have audited Tuesday Morning Corporation's internal control over financial reporting as of June 30, 2018, based on criteria established in Internal Control —Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Tuesday Morning Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of June 30, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Tuesday Morning Corporation as of June 30, 2018 and 2017, the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2018, and the related notes and our report dated August 21, 2018 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Dallas, Texas  
August 21, 2018

## Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

The report of Independent Registered Public Accounting Firm on the consolidated financial statements is included in page F-2 of this Form 10-K.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our fourth fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

### Item 9B. Other Information

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 is incorporated herein by reference to the disclosure found in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act in connection with Tuesday Morning's 2018 Annual Meeting of Stockholders under the captions "Proposal No. 1—Election of Directors", "Corporate Governance", "Executive Officers", "Meetings and Committees of the Board", and "Section 16(a) Beneficial Ownership Reporting Compliance."

We have adopted a "Code of Business Conduct" that establishes the business conduct to be followed by all of our officers, employees and members of our Board of Directors, which is available on our website at [www.tuesdayermorning.com](http://www.tuesdayermorning.com) under "Investor Relations—Corporate Governance." Any amendment of our Code of Business Conduct or waiver to our Code of Business Conduct with respect to our directors and executive officers, will be posted on our website.

There have been no changes to the procedures by which stockholders may recommend candidates for our Board of Directors.

### Item 11. Executive Compensation

The information required by this Item 11 is incorporated herein by reference to the applicable disclosure found in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act in connection with Tuesday Morning's 2018 Annual Meeting of Stockholders under the captions "Compensation Committee Report", "Executive Compensation", and "Director Compensation."

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 is incorporated herein by reference to the applicable disclosure found in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act in connection with Tuesday Morning's 2018 Annual Meeting of Stockholders under the caption "Security Ownership of Certain Beneficial Owners and Management."

## Equity Compensation Plan Information

The following table provides information about our common stock that may be issued upon the exercise of options under equity compensation plans approved by stockholders as of the fiscal year ended June 30, 2018. We do not have any equity compensation plans that were not approved by our stockholders.

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (thousands)</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column) (thousands)</u>
Equity Compensation Plans Approved by Security Holders	3,957	\$ 7.21	3,094
Equity Compensation Plans Not Approved by Security Holders	—	—	—
<b>Total</b>	<b>3,957</b>	<b>\$ 7.21</b>	<b>3,094</b>

## Item 13. Certain Relationships and Related Transactions, Director Independence

The information required by this Item 13 is incorporated herein by reference to the applicable disclosure found in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act in connection with Tuesday Morning's 2018 Annual Meeting of Stockholders under the captions "Certain Relationships and Related Transactions" and "Corporate Governance."

## Item 14. Principal Accountant Fees and Services

The information required by this Item 14 is incorporated herein by reference to the applicable disclosure found in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act in connection with Tuesday Morning's 2018 Annual Meeting of Stockholders under the caption "Independent Registered Public Accounting Firm."

## PART IV

## Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Form 10-K.

(1) Financial Statements:

The list of financial statements required by this Item is set forth in Item 8.

(2) Financial Statement Schedules:

All financial statement schedules called for under Regulation S-X are omitted because either they are not required under the related instructions and/or are not material or are included in the consolidated financial statements or notes thereto included elsewhere in this Form 10-K.

(3) Exhibits:

See the list of exhibits in the “Exhibits Index” to this Form 10-K, which are incorporated herein by reference. The agreements have been filed to provide investors with information regarding their respective terms. The agreements are not intended to provide any other actual information about the Company or its business or operations. In particular, the assertions embodied in any representations, warranties, and covenants contained in the agreements may be subject to qualifications with respect to knowledge and materiality different from those applicable to investors and may be qualified by information in confidential disclosure schedules not included with the exhibits. These disclosure schedules may contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the agreements. Moreover, certain representations, warranties, and covenants in the agreements may have been used for the purpose of allocating risk between parties, rather than establishing matters as facts. In addition, information concerning the subject matter of the representations, warranties and covenants may have changed after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company’s public disclosures. Accordingly, investors should not rely on the representations, warranties and covenants in the agreements as characterizations of the actual state of facts about the Company or its business or operations on the date hereof.

**Item 16. Form 10-K Summary**

Not applicable.

**EXHIBIT INDEX**

Exhibit No.	Description
3.1.1	<a href="#"><u>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) filed with the Securities and Exchange Commission (the "Commission") on February 10, 1998)</u></a>
3.1.2	<a href="#"><u>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) filed with the Commission on March 29, 1999)</u></a>
3.1.3	<a href="#"><u>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) filed with the Commission on May 2, 2005)</u></a>
3.2	<a href="#"><u>Amended and Restated By-laws of the Company effective as of September 16, 2014 (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on September 19, 2014)</u></a>
10.1.1	<a href="#"><u>Credit Agreement, dated as of August 18, 2015, by and among Tuesday Morning, Inc., each of the subsidiary guarantors, the Company, TMI Holdings, Inc., the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo, National Association, as Syndication Agent (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on August 19, 2015)</u></a>
10.1.2	<a href="#"><u>Guarantee and Collateral Agreement, dated as of August 18, 2015, by and among the Company, TMI Holdings, the Borrower and certain subsidiaries of the Borrower and any other subsidiary who may become a party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on August 19, 2015)</u></a>
10.2†	<a href="#"><u>Tuesday Morning Corporation Corporate Executive Annual Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on November 8, 2013)</u></a>
10.3.1†	<a href="#"><u>Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on November 19, 2008)</u></a>
10.3.2†	<a href="#"><u>First Amendment to Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on November 9, 2012)</u></a>
10.3.3†	<a href="#"><u>Second Amendment to Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on October 23, 2012)</u></a>
10.4†	<a href="#"><u>Form of Incentive Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on March 3, 2009)</u></a>
10.5†	<a href="#"><u>Form of Nonqualified Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on March 3, 2009)</u></a>
10.6†	<a href="#"><u>Form of Restricted Stock Award Agreement under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on March 3, 2009)</u></a>
10.7†	<a href="#"><u>Form of Nonqualified Stock Option Award Agreement for Directors under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.17 to the Company's Form 10-K (File No. 000-19658) filed with the Commission on August 28, 2013)</u></a>
10.8†	<a href="#"><u>Form of Nonqualified Stock Option Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on May 8, 2014)</u></a>
10.9†	<a href="#"><u>Form of Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on May 8, 2014)</u></a>

Exhibit No.	Description
10.10†	<a href="#"><u>Form of Performance Based Nonqualified Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company’s Form 10-Q (File No. 000-19658) filed with the Commission on May 8, 2014)</u></a>
10.11†	<a href="#"><u>Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K (File No. 000-19658) filed with the Commission on September 19, 2014)</u></a>
10.12.1†	<a href="#"><u>Composite Copy of Tuesday Morning Corporation 2014 Long-Term Incentive Plan, as amended (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 22, 2016)</u></a>
10.12.2†	<a href="#"><u>Second Amendment to Tuesday Morning Corporation 2014 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.34 to the Company’s Form 10-K (File No. 000-19658) filed with the Commission on August 24, 2017)</u></a>
10.13†	<a href="#"><u>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) filed with the Commission on November 14, 2014)</u></a>
10.14†	<a href="#"><u>Form of Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company’s Form 8-K (File No. 000-19658) filed with the Commission on November 14, 2014)</u></a>
10.15†	<a href="#"><u>Form of Restricted Stock Award Agreement for Directors under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company’s Form 8-K (File No. 000-19658) filed with the Commission on November 14, 2014)</u></a>
10.16.1†	<a href="#"><u>Employment Agreement, dated December 11, 2015, by and between Steven R. Becker and the Company (the “Becker Employment Agreement”)(incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K (File No. 000-19658) filed with the Commission on December 14, 2015)</u></a>
10.16.2†	<a href="#"><u>Amendment, dated May 1, 2018, to Employment Agreement, by and between Steven R. Becker and the Company (incorporated by reference to Exhibit 10.1 to the Company’s Form 10-Q (File No. 000-19658) filed with the Commission on May 3, 2018)</u></a>
10.17†	<a href="#"><u>Form of Nonqualified Stock Option Award Agreement (Time-Based Vesting) under the Becker Employment Agreement and 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) filed with the Commission on December 14, 2015)</u></a>
10.18†	<a href="#"><u>Form of Nonqualified Stock Option Award Agreement (Performance-Based Vesting) under the Becker Employment Agreement and the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company’s Form 8-K (File No. 000-19658) filed with the Commission on December 14, 2015)</u></a>
10.19†	<a href="#"><u>Form of Non-Qualified Stock Option Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company’s Form 10-Q (File No. 000-19658) filed with the Commission on October 29, 2015)</u></a>
10.20†	<a href="#"><u>Form of Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company’s Form 10-Q (File No. 000-19658) filed with the Commission on October 29, 2015)</u></a>
10.21†	<a href="#"><u>Tuesday Morning Executive Severance Plan, effective May 1, 2018 (incorporated by reference to Exhibit 10.1 to the Company’s Form 10-Q (File No. 000-19658) filed with the Commission on May 3, 2018)</u></a>
10.22†	<a href="#"><u>Form of Retention Agreement (Executive Officers other than Chief Executive Officer) (incorporated by reference to Exhibit 10.3 to the Company’s Form 10-Q (File No. 000-19658) filed with the Commission on May 3, 2018)</u></a>
10.23	<a href="#"><u>Agreement dated as of October 1, 2017, by and among Tuesday Morning Corporation, Jeerreddi II, LP, Purple Mountain Capital Partners LLC and the entities and natural persons set forth in the signature pages thereto (incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K (File No. 000-19658) as filed with the Commission on October 2, 2017)</u></a>

Exhibit No.	Description
10.24†	<a href="#">Form of Restricted Stock Award Agreement for Directors under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan</a>
10.25†	<a href="#">Form of Non-Qualified Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan</a>
10.26†	<a href="#">Form of Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan</a>
10.27†	<a href="#">Form of Performance-Based Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan</a>
21.1	<a href="#">Subsidiaries of the Company</a>
23.1	<a href="#">Consent of Independent Registered Public Accounting Firm</a>
31.1	<a href="#">Certification by the Chief Executive Officer of the Company Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification by the Chief Financial Officer of the Company Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">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</a>
32.2	<a href="#">Certification of the Chief Financial Officer of the Company Pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
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

† Management contract or compensatory plan or arrangement



INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
<a href="#">Consolidated Balance Sheets as of June 30, 2018 and 2017</a>	F-3
<a href="#">Consolidated Statements of Operations for the fiscal years ended June 30, 2018, 2017, and 2016</a>	F-4
<a href="#">Consolidated Statements of Stockholders' Equity for the fiscal years ended June 30, 2018, 2017, and 2016</a>	F-5
<a href="#">Consolidated Statements of Cash Flows for the fiscal years ended June 30, 2018, 2017, and 2016</a>	F-6
<a href="#">Notes to Consolidated Financial Statements for the fiscal years ended June 30, 2018, 2017, and 2016</a>	F-7

## Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Tuesday Morning Corporation

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Tuesday Morning Corporation (the Company) as of June 30, 2018 and 2017, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated August 21, 2018 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

Dallas, Texas  
August 21, 2018

**Tuesday Morning Corporation**  
**Consolidated Balance Sheets**  
(In thousands, except for per share data)

	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,510	\$ 6,263
Inventories	234,365	221,906
Prepaid expenses	6,301	6,367
Other current assets	1,206	1,982
<b>Total Current Assets</b>	<b>251,382</b>	<b>236,518</b>
Property and equipment, net	121,117	118,397
Deferred financing costs	671	986
Other assets	3,086	2,252
<b>Total Assets</b>	<b>\$ 376,256</b>	<b>\$ 358,153</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 88,912	\$ 67,326
Accrued liabilities	41,765	44,260
Income taxes payable	66	11
<b>Total Current Liabilities</b>	<b>130,743</b>	<b>111,597</b>
Borrowings under revolving credit facility	38,480	30,500
Deferred rent	22,883	13,883
Asset retirement obligation — non-current	3,100	2,307
Other liabilities — non-current	796	1,027
<b>Total Liabilities</b>	<b>196,002</b>	<b>159,314</b>
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; 47,648,958 shares issued and 45,865,297 shares outstanding at June 30, 2018 and 46,904,295 shares issued and 45,120,634 shares outstanding at June 30, 2017	469	469
Additional paid-in capital	237,957	234,604
Retained deficit	(51,360)	(29,422)
Less: 1,783,661 common shares in treasury, at cost, at June 30, 2018, 1,783,661 common shares in treasury at cost at June 30, 2017	(6,812)	(6,812)
<b>Total Stockholders' Equity</b>	<b>180,254</b>	<b>198,839</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 376,256</b>	<b>\$ 358,153</b>

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

**Tuesday Morning Corporation**  
**Consolidated Statements of Operations**  
(In thousands, except per share data)

	Fiscal Years Ended June 30,		
	2018	2017	2016
Net sales	\$ 1,006,332	\$ 966,665	\$ 956,396
Cost of sales	665,358	645,920	614,594
Gross profit	340,974	320,745	341,802
Selling, general and administrative expenses	361,924	353,025	339,398
Operating income/(loss)	(20,950)	(32,280)	2,404
Other income/(expense):			
Interest expense	(2,061)	(1,485)	(1,068)
Other income, net	934	1,420	2,640
Income/(loss) before income taxes	(22,077)	(32,345)	3,976
Income tax provision/(benefit)	(139)	197	263
Net income/(loss)	<u>\$ (21,938)</u>	<u>\$ (32,542)</u>	<u>\$ 3,713</u>
<b>Earnings Per Share</b>			
Net income/(loss) per common share:			
Basic	\$ (0.50)	\$ (0.74)	\$ 0.08
Diluted	\$ (0.50)	\$ (0.74)	\$ 0.08
Weighted average number of common shares:			
Basic	44,282	43,943	43,705
Diluted	44,282	43,943	43,736

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

**Tuesday Morning Corporation**  
**Consolidated Statements of Stockholders' Equity**  
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained (Deficit) Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount				
<b>Balance at June 30, 2015</b>	44,069	\$ 458	\$ 227,085	\$ (593)	\$ (6,661)	\$ 220,289
Net income	—	—	—	3,713	—	3,713
Shares issued or canceled in connection with employee stock incentive plans and related tax effect	505	5	—	—	—	5
Shares issued in connection with exercises of employee stock options	5	—	—	—	—	—
Purchase of treasury stock	(18)	—	—	—	(128)	(128)
Share-based compensation expense	—	—	3,403	—	—	3,403
<b>Balance at June 30, 2016</b>	<u>44,561</u>	<u>\$ 463</u>	<u>\$ 230,488</u>	<u>\$ 3,120</u>	<u>\$ (6,789)</u>	<u>\$ 227,282</u>
Net loss	—	—	—	(32,542)	—	(32,542)
Shares issued or canceled in connection with employee stock incentive plans and related tax effect	558	6	—	—	—	6
Shares issued in connection with exercises of employee stock options	6	—	2	—	—	2
Purchase of treasury stock	(4)	—	—	—	(23)	(23)
Share-based compensation expense	—	—	4,114	—	—	4,114
<b>Balance at June 30, 2017</b>	<u>45,121</u>	<u>\$ 469</u>	<u>\$ 234,604</u>	<u>\$ (29,422)</u>	<u>\$ (6,812)</u>	<u>\$ 198,839</u>
Net loss	—	—	—	(21,938)	—	(21,938)
Shares issued or canceled in connection with employee stock incentive plans and related tax effect	741	—	—	—	—	—
Shares issued in connection with exercises of employee stock options	3	—	4	—	—	4
Purchase of treasury stock	—	—	—	—	—	—
Share-based compensation expense	—	—	3,349	—	—	3,349
<b>Balance at June 30, 2018</b>	<u>45,865</u>	<u>\$ 469</u>	<u>\$ 237,957</u>	<u>\$ (51,360)</u>	<u>\$ (6,812)</u>	<u>\$ 180,254</u>

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

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

	Years Ended June 30,		
	2018	2017	2016
<b>Cash flows from operating activities:</b>			
Net income/(loss)	\$ (21,938)	\$ (32,542)	\$ 3,713
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation and amortization	25,671	21,349	16,010
Amortization of financing costs	315	326	462
Loss on disposal of assets	82	79	700
Gain on sale-leaseback transaction	(371)	(741)	(2,515)
Share-based compensation	3,433	4,184	3,115
Deferred income taxes	(565)	31	11
Construction allowances from landlords	8,568	2,566	—
Change in operating assets and liabilities:			
Inventories	(12,543)	20,339	(32,043)
Prepaid and other current assets	559	(1,138)	633
Accounts payable	22,612	(16,337)	6,611
Accrued liabilities	(362)	(2,047)	6,653
Deferred rent	1,280	4,964	2,805
Income taxes payable	62	19	(10)
Other liabilities—non-current	368	(648)	2,268
Net cash provided by operating activities	<u>27,171</u>	<u>404</u>	<u>8,413</u>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(30,764)	(41,682)	(45,545)
Proceeds from sale-leaseback transaction	—	—	8,797
Purchase of intellectual property	(42)	(5)	(1,318)
Proceeds from sale of assets	83	127	41
Net cash used in investing activities	<u>(30,723)</u>	<u>(41,560)</u>	<u>(38,025)</u>
<b>Cash flows from financing activities:</b>			
Proceeds under revolving credit facility	195,500	176,500	—
Repayments under revolving credit facility	(187,520)	(146,000)	—
Change in cash overdraft	(1,026)	2,810	—
Proceeds from the exercise of employee stock options	4	8	5
Payments on capital leases	(159)	(26)	—
Purchase of treasury stock	—	(23)	(128)
Payment of financing costs	—	—	(903)
Net cash provided by/(used in) financing activities	<u>6,799</u>	<u>33,269</u>	<u>(1,026)</u>
Net increase/(decrease) in cash and cash equivalents	3,247	(7,887)	(30,638)
Cash and cash equivalents, beginning of period	6,263	14,150	44,788
Cash and cash equivalents, end of period	<u>\$ 9,510</u>	<u>\$ 6,263</u>	<u>\$ 14,150</u>
<b>Supplemental cash flow information:</b>			
Interest paid	\$ 1,615	\$ 1,113	\$ 541
Income taxes paid	285	310	256
Capital lease obligation incurred	—	817	—

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

**TUESDAY MORNING CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Throughout these notes, Tuesday Morning Corporation is referred to as “Tuesday Morning,” “we” or “the Company”.

Tuesday Morning is a leading off-price retailer, specializing in name-brand, high-quality products for the home, including upscale textiles, furnishings, housewares, gourmet food, toys and seasonal décor at prices generally below those charged by boutique, specialty and department stores, catalogs and on-line retailers in the United States. We operated 726 discount retail stores in 40 states as of June 30, 2018 (731 and 751 stores at June 30, 2017 and 2016, respectively). We distribute periodic circulars and direct mail that keep customers familiar with Tuesday Morning.

- (a) *Basis of Presentation*—The accompanying consolidated financial statements include the accounts of Tuesday Morning Corporation, a Delaware corporation, and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. 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/(loss) in any period. We do not present a separate statement of comprehensive income, as we have no material other comprehensive income items. Our fiscal year ended on June 30, 2018, which we refer to as fiscal 2018.
- (b) *Use of Estimates*—The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates.
- (c) *Cash and Cash Equivalents*—Cash and cash equivalents include 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 June 30, 2018 and 2017, credit card receivables from third party consumer credit card providers were \$7.9 million and \$4.9 million, respectively. Such receivables are generally collected within one week of the balance sheet date.
- (d) *Inventories*—Inventories, consisting of finished goods, are stated at the lower of cost or market using the retail inventory method for store inventory and the specific identification method for warehouse inventory. We have a perpetual inventory system that tracks on hand inventory and inventory sold at a SKU level. Inventory is relieved and cost of sales is recorded based on the current cost of the item sold. Buying, distribution, freight and certain other costs are capitalized as part of inventory and are charged to cost of sales as the related inventory is sold. We charged \$109.1 million, \$108.2 million, and \$83.7 million, of such capitalized inventory costs to cost of sales for the fiscal years ended June 30, 2018, 2017, and 2016, respectively. We have capitalized \$32.5 million and \$33.9 million of such costs in inventory at June 30, 2018 and 2017, respectively.

Stores conduct annual physical inventories, staggered during the second half of the fiscal year. We make adjustments to our financial statements based on the results of the physical inventories. During periods in which no physical inventories occur, we utilize an estimate for recording shrinkage reserves, based on historical trends of physical inventory results. These shrinkage reserves may require a favorable or unfavorable adjustment to actual results to the extent our subsequent physical inventories yield a different result.

We review our inventory during and at the end of each quarter to ensure that all necessary pricing actions are taken to adequately value our inventory at the lower of cost or market by recording permanent markdowns to our on hand inventory. Management believes these markdowns result in the appropriate prices necessary to stimulate demand for the merchandise. Actual recorded permanent markdowns could differ materially from management’s initial estimates based on future customer demand or economic conditions.

- (e) *Property and Equipment*—Property and equipment are stated at cost. Buildings, furniture, fixtures, leasehold improvements, capital leases and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

**Estimated Useful Lives**

Buildings	30 years
Furniture and fixtures	3 to 7 years
Leasehold improvements	Shorter of useful life or lease term
Equipment	5 to 10 years
Assets under capital lease	Shorter of useful life or lease term
Software	3 to 10 years

Upon sale or retirement of an asset, the related cost and accumulated depreciation are removed from our balance sheet and any gain or loss is recognized in the statement of operations. Expenditures for maintenance, minor renewals and repairs are expensed as incurred, while major replacements and improvements are capitalized. For both the fiscal years ended June 30, 2018 and June 30, 2017, we disposed of assets with a net book value of approximately \$0.1 million, primarily related to our store closing and relocation program. Gains or losses related to the sale or other disposal of such assets in these periods were presented in other income/(expense) on our Consolidated Statement of Operations.

- (f) *Deferred Financing Costs*—Deferred financing costs represent costs paid in connection with obtaining bank and other long-term financing. These costs are amortized over the term of the related financing using the effective interest method.
- (g) *Income Taxes*—Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment. Valuation allowances are established against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur. Valuation allowances are released when positive evidence becomes available that future taxable income is sufficient to utilize the underlying deferred tax assets.

We file our annual federal income tax return on a consolidated basis. Furthermore, we recognize uncertain tax positions when we have determined it is more likely than not that a tax position will be sustained upon examination. However, new information may become available, or applicable laws or regulations may change, thereby resulting in a favorable or unfavorable adjustment to amounts recorded.

Our results of operations included the estimated impact of the enactment of the Tax Cuts and Jobs Act of 2017 (“TCJA”), which was signed into law on December 22, 2017. The TCJA makes significant and complex changes to U.S. tax law including, but not limited to, (i) reducing the U.S. federal corporate tax rate from 35% to 21%; (ii) eliminating the corporate alternative minimum tax (“AMT”) and providing a refund mechanism for existing AMT credits; (iii) creating a new limitation on the deductibility of interest expense; (iv) changing rules related to uses and limitation of net operating loss carryforwards created in tax years beginning after December 31, 2017; and (v) significant acceleration of depreciation expense. As a result of the adoption of the TCJA upon enactment during fiscal year 2018, the blended statutory federal tax rate for the year was 27.2%. We continue to assess our accounting for the tax effects of enactment of the TCJA. Final calculations will be completed within the one year measurement period ending December 22, 2018, as required under the rules issued by the SEC. We currently expect the effect of the tax law change to have a nominal impact on our annual effective tax rate, given our cumulative loss position and the related valuation allowance on our deferred tax assets. The future impacts of the TCJA may differ due to, among other things, changes in interpretations, assumptions made, the issuance of additional guidance, and actions we may take as a result of the TCJA.

In the second fiscal quarter of 2018, we applied the provisions of the newly enacted TCJA, resulting in an approximate \$0.5 million income tax benefit connected with future refunds of AMT credits no longer requiring a valuation allowance. In the third fiscal quarter of 2018, we recognized a \$0.1 million additional benefit related to AMT credits. Applying the provisions of TCJA, including the remeasurement of our deferred taxes at the new corporate tax rate, had a material impact on our gross deferred taxes; however, the impact was mitigated as substantially all of our net deferred tax assets have corresponding valuation allowances.

- (h) *Self-Insurance Reserves*—We use a combination of insurance and self-insurance plans to provide for the potential liabilities associated with workers’ compensation, general liability, property insurance, director and officers’ liability insurance, vehicle

liability and employee health care benefits. Our stop loss limits per claim are \$500,000 for workers' compensation, \$250,000 for general liability, and \$150,000 for medical. Liabilities associated with the risks that are retained by us are estimated, in part, by historical claims experience, severity factors and the use of loss development factors.

The insurance liabilities we record are primarily influenced by the frequency and severity of claims, and include a reserve for claims incurred but not yet reported. Our estimated reserves may be materially different from our future actual claim costs, and, when required adjustments to our estimate reserves are identified, the liability will be adjusted accordingly in that period. Our self-insurance reserves for workers' compensation, general liability and medical were \$10.1 million and \$1.8 million and \$0.9 million, respectively, at June 30, 2018 and \$8.6 million, \$2.5 million, and \$1.1 million, respectively, at June 30, 2017.

We recognize insurance expenses based on the date of an occurrence of a loss including the actual and estimated ultimate costs of our claims. Claims are paid from our reserves and our current period insurance expense is adjusted for the difference in prior period recorded reserves and actual payments as well as changes in estimated reserves. Current period insurance expenses also include the amortization of our premiums paid to our insurance carriers. Expenses for workers' compensation, general liability and medical insurance were \$5.3 million, \$2.9 million and \$6.4 million, respectively, for the fiscal year ended June 30, 2018, \$4.8 million, \$3.4 million and \$7.7 million, respectively, for the fiscal year ended June 30, 2017, and \$3.4 million, \$4.0 million and \$7.3 million, respectively, for the fiscal year ended June 30, 2016.

- (i) *Revenue Recognition*—Sales are recorded at the point of sale and conveyance of merchandise to customers. Sales are net of returns and exclude sales tax. We maintain a reserve for estimated returns. We use historical customer return behavior to estimate our reserve requirements. Gift cards are sold to customers in our stores and we issue gift cards for merchandise returns in our stores. Revenue from sales of gift cards and issuances of merchandise credits is recognized when the gift card is redeemed by the customer, or if the likelihood of the gift card being redeemed by the customer is remote (gift card breakage). The gift card breakage rate is determined based upon historical redemption patterns. An estimate of the rate of gift card breakage is applied over the period of estimated performance (36 months as of the end of fiscal 2018) and the breakage amounts are included in net sales in the Consolidated Statement of Operations. We recorded \$0.6 million, \$0.9 million and \$0.6 million of gift card breakage in fiscal years 2018, 2017 and 2016 respectively.
- (j) *Advertising*—Costs for direct mail, television, radio, newspaper, digital and other media are expensed as the advertised events take place. Advertising expenses for the fiscal years ended June 30, 2018, 2017, and 2016 were \$27.2 million, \$29.0 million, and \$28.9 million, respectively. We do not receive consideration from vendors to support our advertising expenditures. As of June 30, 2018, prepaid advertising was approximately \$60,000 compared to \$149,000 at June 30, 2017.
- (k) *Financial Instruments*—The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The only financial instrument we carry is our revolving credit facility. See Note 3.
- (l) *Share-Based Compensation*—The fair value of each stock option granted during the fiscal years ended June 30, 2018, 2017 and 2016 was estimated at the date of grant using a Black-Scholes option pricing model.

The risk-free interest rate is the constant maturity risk free interest rate for U.S. Treasury instruments with terms consistent with the expected lives of the awards. The expected term of an option is based on our historical review of employee exercise behavior based on the employee class (executive or non-executive) and based on our consideration of the remaining contractual term if limited exercise activity existed for a certain employee class. The expected volatility is based on both the historical volatility of our stock based on our historical stock prices and implied volatility of our traded stock options. The expected dividend yield is based on our expectation of not paying dividends on our common stock for the foreseeable future.

These inputs were as follows:

	Fiscal Years Ended June 30,		
	2018	2017	2016
Weighted average risk-free interest rate	1.7 - 2.5%	0.6 - 1.9%	1.0 - 1.9%
Expected life of options (years)	3.8 - 4.9	3.0 - 5.5	2.9 - 5.6
Expected stock volatility	60.0 - 63.3%	52.7 - 61.0%	46.4 - 56.1%
Expected dividend yield	0.0%	0.0%	0.0%

- (m) *Net Income/(Loss) Per Common Share*—Basic net income/(loss) per common share for the fiscal years ended June 30, 2018, 2017, and 2016, was calculated by dividing net income/(loss) by the weighted average number of common shares outstanding for each period. Diluted net income/(loss) per common share for the fiscal years ended June 30, 2018, 2017, and 2016, was calculated by dividing net income by the weighted average number of common shares including the impact of dilutive common stock equivalents. See Note 9.
- (n) *Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of*— Long-lived assets, principally property and equipment and leasehold improvements, are reviewed for impairment when circumstances indicate the carrying amount of an

asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying amount. If impairment exists, an adjustment is recorded to write the asset down to its fair value, and a loss is recorded as the difference between the carrying amount and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal appraisals, as applicable. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Impairment of long-lived assets has not had a material impact on our financial position, results of operations or liquidity for the periods presented.

- (o) *Intellectual Property* — Our intellectual property primarily consists of indefinite lived trademarks. We evaluate annually whether the trademarks continue to have an indefinite life. Trademarks and other intellectual property are reviewed for impairment annually in the fourth quarter, and may be reviewed more frequently if indicators of impairment are present.
- As of June 30, 2018, the carrying value of the intellectual property, which included indefinite lived trademarks, was \$1.2 million and no impairment was identified or recorded.
- (p) *Cease use Liability* — Amounts in “Accrued liabilities” and “Other liabilities – non-current” in the Consolidated Balance Sheets include the current and long-term portions, respectively, of accruals for the net present value of future minimum lease payments, net of estimated sublease income, attributable to closed stores with remaining lease obligations. The cease use liability was \$77,000 at June 30, 2018, and was all classified as short-term. The short-term and long-term cease use liabilities were \$1.0 and \$0.5 million at June 30, 2017, respectively. Expenses related to store closings are included in “Selling, general and administrative expenses” in the Consolidated Statements of Operations.
- (q) *Sale-leaseback* — During the fourth quarter of 2016, we entered into a sale-leaseback transaction to sell two buildings and land utilized in our Dallas distribution center operations, which we did not consider part of our long-term distribution network, and leased back these facilities through December 2017. We subsequently exercised our option to extend the related lease through March 2018, which was accounted for as an operating lease and has now expired. We had no continuing involvement with the properties sold other than a normal leaseback.
- The consideration received for the sale, as reduced by closing and transaction costs, was \$8.8 million, and the net book value of properties sold was \$5.2 million, resulting in a \$3.6 million gain. The gain recognized in fiscal year 2016 was \$2.5 million, which included the portion of the gain in excess of the present value of the minimum lease payments for the leaseback, and was included in “Other income” in our Consolidated Statement of Operations. During fiscal 2017, we recognized \$0.7 million of the gain. During fiscal 2018, we recognized the remaining \$0.4 million of the gain.
- (r) *Asset Retirement Obligations* — We account for asset retirement obligations (“ARO”) in accordance with ASC 410, *Asset Retirement and Environmental Obligations*, which requires the recognition of a liability for the fair value of a legally required asset retirement obligation when incurred if the liability’s fair value can be reasonably estimated. Our ARO liabilities are associated with the disposal and retirement of leasehold improvements and removal of installed equipment, resulting from contractual obligations, at the end of a lease to restore a facility to a condition specified in the lease agreement.
- We record the net present value of the ARO liability and also record a related capital asset, in an equal amount, for leases which contractually result in an asset retirement obligation. The estimated ARO liability is based on a number of assumptions, including costs to return facilities back to specified conditions, inflation rates and discount rates. Accretion expense related to the ARO liability is recognized as operating expense in our Consolidated Statements of Operations. The capitalized asset is depreciated on a straight-line basis over the useful life of the related leasehold improvements. Upon ARO fulfillment, any difference between the actual retirement expense incurred and the recorded estimated ARO liability is recognized as an operating gain or loss in our Consolidated Statements of Operations. Our ARO liability, which totaled \$3.2 million at June 30, 2018, was comprised of a \$0.1 million short-term portion included in accrued liabilities and \$3.1 million long-term portion included in “Other liabilities—non-current” on our Consolidated Balance Sheet at June 30, 2018. At June 30, 2017, our ARO liability, which totaled \$2.5 million, was comprised of a \$0.2 million short-term portion included accrued liabilities and \$2.3 million long term portion included in “Other liabilities – non-current” on our Consolidated Balance Sheet at June 30, 2017.
- (s) *Capital lease* – During fiscal 2017, we entered into a 5-year capital lease maturing on January 31, 2022 for equipment and software. At June 30, 2018, the capital lease asset balance was \$0.6 million, the current lease liability was \$0.2 million and the long-term lease liability was \$0.4 million. The capital lease is amortized on a straight-line basis. During fiscal year 2018, the capital lease amortization was \$0.2 million. At June 30, 2017, the capital lease asset balance was \$0.8 million, the current lease liability was \$0.1 million and the long-term lease liability was \$0.6 million. During fiscal year 2017, the capital asset amortization was less than \$0.1 million.
- (t) *Legal Proceedings* — The Company was a defendant in a purported class action lawsuit, *Jerry Castillo v. Tuesday Morning Inc.*, which was filed on December 28, 2017 in the United States District Court, Middle District of Florida. The case was brought under the Fair Labor Standards Act and included allegations that the Company violated various wage and hour labor laws. Relief was sought on behalf of current and former Company employees. The lawsuit sought to recover damages,

penalties and attorneys' fees as a result of the alleged violations. The matter settled for an amount not material to the Company and the Court approved the settlement on July 9, 2018.

The Company was also a defendant in a purported class action lawsuit, Hector Velarde, on behalf of himself and all other similar situated, Pltf. vs. Tuesday Morning, Inc., which was filed on February 26, 2018 in state court and was pending in the United States District Court, Central District of California. The case was brought under the Unruh Civil Rights Act, California Code § 51 ci seq. ("Unruh Act"), the California Disabled persons Act, California Civil Code § 54 et seq. ("CDPA"), and Cal. Civ. Code § 55 et seq. and included allegations that the Company violated various public access laws. The lawsuit sought to recover damages, penalties and attorneys' fees as a result of the alleged violations. The matter settled for an amount not material to the Company and the Court approved the settlement on July 11, 2018.

- (u) *Recent Accounting Pronouncements* — In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118)," which allows the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Since the TCJA was passed late in the fourth calendar quarter of 2017, and ongoing guidance and accounting interpretation is expected over the next twelve months, management considers the deferred tax re-measurements and other items to be incomplete due to the forthcoming guidance and the ongoing analysis of final year-end data and tax positions. The Company expects to complete its analysis within the measurement period in accordance with SAB 118.

In August 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"), which provides guidance on eight specific cash flow issues in regard to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The amendments in ASU 2016-15 should be adopted on a retrospective basis unless it is impracticable to apply, in which case the amendments should be applied prospectively as of the earliest date practicable. The Company currently expects to adopt this standard in the first quarter of fiscal 2019 and is evaluating the impact that this standard will have on its consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") to reduce the complexity of certain aspects of the accounting for employee share-based payment transactions. ASU 2016-09 involves changes in several aspects of the accounting for share-based payment transactions, including the accounting for the income tax consequences of share-based awards. For public companies, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted ASU 2016-09 in the first quarter of fiscal 2018 and elected to continue to estimate forfeitures expected to occur to determine the amount of share based compensation cost to recognize in each period, as permitted by ASU 2016-09. In addition, the adoption of this standard prospectively changes the dilutive earnings per share calculation by removing excess tax benefits and deficiencies from the computation. The adoption of this standard did not materially impact our consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which is intended to improve financial reporting in connection with leasing transactions. ASU 2016-02 will require entities ("lessees") that lease assets with lease terms of more than twelve months to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or finance, while the income statement will reflect lease expense for operating leases and amortization/interest expense for finance leases. Accounting by entities that own the assets leased by lessees ("lessors") will remain largely unchanged from current GAAP. In addition, ASU 2016-02 requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. A modified retrospective approach is required for all leases existing or entered into after the beginning of the earliest comparative period in the financial statements. The Company currently expects to adopt this standard in the first quarter of fiscal 2020. While the Company is currently evaluating the provisions of ASU 2016-02 to assess the impact on the Company's consolidated financial statements and disclosures, the primary effect of adopting the new standard will be to record assets and obligations for current operating leases.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"), which changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value, except for companies using the Retail Inventory Method which will continue to use existing impairment models. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance was required to be applied on a prospective basis and was effective for fiscal years beginning after December 15, 2016, and interim periods within those years. The

Company adopted ASU 2015-11 in the first quarter of fiscal 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), an updated standard on revenue recognition, and has since modified the standard with additional ASUs. The new guidance provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using IFRS and GAAP. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration, or payment, to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of ASU 2014-09. Accordingly, this standard is effective for reporting periods beginning after December 15, 2017, including interim periods within that year. The Company has substantially concluded its assessment of the new revenue standard and will adopt this standard in the first quarter of fiscal 2019 using the modified retrospective method. The Company currently expects that this standard will not have a material impact on its consolidated financial statements but will require additional disclosures.

## (2) PROPERTY AND EQUIPMENT

Property and equipment, net of accumulated depreciation, consisted of the following (in thousands):

	June 30,	
	2018	2017
Land	\$ 6,628	\$ 6,628
Buildings and building improvements	41,479	40,879
Furniture and fixtures	61,963	56,877
Equipment	66,268	65,884
Software	43,664	40,750
Leasehold improvements	57,371	44,838
Assets under capital lease	788	804
	278,161	256,660
Less accumulated depreciation	(157,044)	(138,263)
Net property and equipment	<u>\$ 121,117</u>	<u>\$ 118,397</u>

## (3) DEBT

On August 18, 2015, we entered into a new 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 August 18, 2020 (the "Revolving Credit Facility"), and which replaced our previous revolving credit facility. The availability of funds under the Revolving Credit Facility is limited to the lesser of a calculated borrowing base and the lenders' aggregate commitments under 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. The Revolving Credit Facility requires that we satisfy a fixed charge coverage ratio at any time that our availability is less than the greater of 10% of our calculated borrowing base or \$12.5 million. Our Revolving Credit Facility may, in some instances, limit our ability to pay cash dividends and repurchase our common stock. In order for the borrower under the Revolving Credit Facility, our subsidiary, to make a restricted payment to us for the payment of a dividend or a repurchase of shares, we must, among other things, maintain availability of 20% of the lesser of our calculated borrowing base or our lenders' aggregate commitments under the Revolving Credit Facility on a pro forma basis for a specified period prior to and immediately following the restricted payment. As of June 30, 2018, we were in compliance with all of the Revolving Credit Facility covenants.

At June 30, 2018, we had \$38.5 million outstanding under the Revolving Credit Facility, \$9.5 million of outstanding letters of credit and availability of \$60.5 million. Letters of credit under the Revolving Credit Facility are primarily for self-insurance purposes. We incur commitment fees of up to 0.25% on the unused portion of the Revolving Credit Facility, payable quarterly. 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), subject to a floor of the one month LIBOR plus an applicable margin in the case of loans based on the prime rate. Interest expense for fiscal year 2018 from the Revolving Credit Facility of \$2.1 million was comprised of interest of \$1.3 million, commitment fees of \$0.4 million, and the amortization of financing fees of \$0.4 million. Interest expense from the Revolving Credit Facility of \$1.5 million for fiscal year 2017 was comprised of interest of \$0.7 million, commitment fees of \$0.4 million, and amortization of financing fees of \$0.4 million.

The fair value of the Company's debt approximated its carrying amount as of June 30, 2018.

See Note 11 for additional discussion on dividend restrictions under the Revolving Credit Facility.

#### (4) ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	June 30,	
	2018	2017
Sales and use tax	\$ 3,467	\$ 3,543
Self-insurance reserves	12,823	12,192
Wages, benefits and payroll taxes	6,006	5,710
Property taxes	1,612	1,524
Freight and distribution	4,807	4,490
Capital expenditures	1,585	4,780
Utilities	1,234	1,282
Advertising	1,102	525
Deferred rent	2,028	1,408
Cease use rent	77	991
Other	7,024	7,815
Total accrued liabilities	<u>\$ 41,765</u>	<u>\$ 44,260</u>

#### (5) INCOME TAXES

Income tax provision/(benefit) consisted of (in thousands):

	Current	Deferred	Total
<b>Fiscal Year Ended June 30, 2018</b>			
Federal	\$ —	\$ (568)	\$ (568)
State and local	426	3	429
Total	<u>\$ 426</u>	<u>\$ (565)</u>	<u>\$ (139)</u>
<b>Fiscal Year Ended June 30, 2017</b>			
Federal	\$ —	\$ 27	\$ 27
State and local	166	4	170
Total	<u>\$ 166</u>	<u>\$ 31</u>	<u>\$ 197</u>
<b>Fiscal Year Ended June 30, 2016</b>			
Federal	\$ (147)	\$ 186	\$ 39
State and local	399	(175)	224
Total	<u>\$ 252</u>	<u>\$ 11</u>	<u>\$ 263</u>

A reconciliation between income taxes computed at the blended statutory federal income tax rate of 27.2% in fiscal 2018 (see Note 1) and the statutory federal income tax rate of 34% in fiscal 2017 and 2016, and income taxes recognized in the Consolidated Statements of Operations was as follows (in thousands):

	Fiscal Year Ended		
	June 30,		
	2018	2017	2016
Federal income tax provision/(benefit) computed at statutory rate	\$ (6,005)	\$ (10,997)	\$ 1,351
State income taxes, net of related federal tax benefit	314	106	157
Increase/(decrease) in federal valuation allowance	5,182	10,076	(668)
Federal tax credits	(200)	68	(670)
Stock option expiration/deficiencies	586	938	—
Federal tax rate change	(19)	—	—
Other, net	3	6	93
Provision for income taxes	<u>\$ (139)</u>	<u>\$ 197</u>	<u>\$ 263</u>

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities for the fiscal years ended June 30, 2018, 2017 and 2016, all of which are classified as non-current in our Consolidated Balance Sheets, were comprised of the following (in thousands):

	June 30,		
	2018	2017	2016
<b>Deferred tax assets:</b>			
Other payroll and benefits	\$ 580	\$ 681	\$ 1,482
Inventory reserves	266	195	268
Self-insurance reserves	3,389	4,517	4,611
Share-based compensation	2,104	3,564	3,807
Other current assets	2,441	2,829	2,250
Deferred rent	5,705	5,068	2,266
Net operating loss and tax credits	26,040	25,610	18,497
Other noncurrent assets	—	537	1,121
Total gross deferred tax assets	<u>\$ 40,525</u>	<u>\$ 43,001</u>	<u>\$ 34,302</u>
<b>Deferred tax liabilities:</b>			
Inventory costs	\$ 5,518	\$ 9,468	\$ 8,199
Prepaid supplies	1,582	2,392	2,506
Property and equipment	9,215	4,033	7,616
Total gross deferred tax liabilities	<u>16,315</u>	<u>15,893</u>	<u>18,321</u>
Valuation allowance	<u>(23,688)</u>	<u>(27,150)</u>	<u>(15,992)</u>
Net deferred tax asset/(liability)	<u>\$ 522</u>	<u>\$ (42)</u>	<u>\$ (11)</u>

During fiscal 2013, we established a valuation allowance related to deferred tax assets. In assessing whether a deferred tax asset would be realized, we considered whether it is more likely than not that some portion or all of the deferred tax assets would not be realized. We considered the reversal of existing taxable temporary differences, projected future taxable income, tax planning strategies and loss carry back potential in making this assessment. In evaluating the likelihood that sufficient future earnings would be available in the near future to realize the deferred tax assets, we considered our cumulative losses over three years including the then-current year. Based on the foregoing, we concluded that a valuation allowance was necessary, and based on our results since fiscal 2013, we have continued to conclude that a full valuation allowance is necessary. In fiscal 2018, as a result of the TCJA enactment, the federal component of deferred taxes was remeasured at 21%, the tax rate at which they are expected to turn in future years. The valuation allowance offsetting these deferred taxes was reduced accordingly. The valuation allowance previously recorded against our AMT credits of \$571,000 was removed to reflect that they will be refunded pursuant to the TCJA beginning in our fiscal year 2020. Further, federal deferred tax liabilities related to the amortization of trademarks for tax purposes, which are not considered for purposes of the valuation allowance computation, were reduced by \$19,000 during the year, resulting in a tax benefit of that amount. In fiscal 2018, the deferred tax asset valuation allowance decreased \$3.5 million. At the end of fiscal 2018, net deferred tax assets totaled \$24.2 million, with an offsetting valuation allowance of \$23.7 million.

We have federal net operating loss carryforwards of \$89.3 million. These losses can only be carried forward and utilized to offset future taxable income, but will expire in fiscal years 2033 through 2038 if not utilized before then. Additionally, we have tax

effected state net operating loss carryforwards of \$4.8 million, which will expire throughout the years 2018 through 2038, if not utilized before then.

**Accounting for Uncertainty in Income Taxes.** The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before fiscal 2014. The Internal Revenue Service has concluded an examination of the Company for years ending on or before June 30, 2010.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at June 30, 2015	\$	147
Additions for tax positions of prior years		—
Reductions for lapse of statute of limitations		—
Balance at June 30, 2016	\$	147
Additions for tax positions of prior years		—
Reductions for lapse of statute of limitations		—
Balance at June 30, 2017	\$	147
Additions for tax positions of prior years		—
Reductions for lapse of statute of limitations		—
Balance at June 30, 2018	\$	147

The balance of taxes, interest, and penalties at June 30, 2018, that if recognized, would affect the effective tax rate is \$294,000. We classify and recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the fiscal years ended June 30, 2018, 2017 and 2016, we recognized \$7,000, \$9,000, and \$16,000 in interest, respectively. No interest or penalties were paid in the tax years ended June 30, 2018, 2017 and 2016.

We do not anticipate that the total amount of unrecognized tax benefits will significantly increase or decrease the effective tax rate within 12 months of June 30, 2018.

## (6) SHARE-BASED INCENTIVE PLANS

**Stock Option Awards.** We have established the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (the “2008 Plan”) and the Tuesday Morning Corporation 2014 Long-Term Incentive Plan, as amended (the “2014 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 2008 Plan, but equity awards granted under 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, as amended, is 6.1 million 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, expired or are cancelled, 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 Company’s ability to grant new awards under 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. On September 22, 2016, our Board of Directors adopted amendments to the 2014 Plan, which were approved at the 2016 Annual Meeting of Stockholders, to increase the number of shares of our common stock available for issuance under the 2014 Plan and to make additional amendments to the 2014 Plan to, among other things, remove liberal share recycling, reduce the number of shares exempt from minimum vesting, and eliminate discretion to accelerate vesting upon a change in control. On August 22, 2017, our Board of Directors adopted a Second Amendment to the 2014 Plan that modified the minimum vesting provisions as they apply to non-employee directors.

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. Under the 2014 Plan, stock options may not vest earlier than one year after the date of grant. “Full Value Awards” (i.e., restricted stock or restricted stock units) that constitute performance awards must vest no earlier than one year after the date of grant and Full Value Awards that constituted “Tenure Awards” (i.e., awards that vest upon passage of time) may not vest earlier than over the three-year period commencing on the date of grant (other than awards to non-employee directors which may not vest earlier

than one year from the date of grant). The Compensation Committee of our Board of Directors may grant only stock options or Full Value Awards with vesting conditions that are more favorable than the foregoing restrictions with respect to up to 5% of the shares of common stock authorized under the 2014 Plan (referred to in the 2014 Plan as “exempt shares”).

On November 16, 2016, our stockholders approved amendments to the 2014 Plan to increase the number of shares of the Company’s common stock available for issuance under the 2014 Plan by 2,500,000 shares and to make additional amendments to the 2014 Plan, including (i) reducing the percentage of shares exempt from the minimum vesting requirements under the 2014 Plan, (ii) adding a clawback policy, (iii) generally eliminating the discretion of the Board of Directors to accelerate the vesting of outstanding and unvested awards upon a change of control and (iv) providing that certain shares surrendered in payment of the exercise price of awards or withheld for tax withholding would count against the shares available under the 2014 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 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 2008 Plan and the 2014 Plan may have certain performance 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 June 30, 2018, range between \$1.24 per share and \$20.91 per share. The 2008 Plan terminated as to new awards as of September 16, 2014. There were 3.1 million shares available for grant under the 2014 Plan at June 30, 2018.

Following is a summary of transactions relating to the 2008 Plan and 2014 Plan options for the fiscal years ended June 30, 2018, 2017, and 2016 (share amounts and aggregate intrinsic value in thousands):

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options Outstanding at June 30, 2015	1,838	\$ 13.37	8.25	\$ 1,384
Granted during year	2,500	6.48		
Exercised during the year	(5)	1.24		
Forfeited or expired during year	(1,121)	11.81		
Options Outstanding at June 30, 2016	3,212	8.57	7.61	2,111
Granted during year	1,564	6.11		
Exercised during the year	(6)	1.24		
Forfeited or expired during year	(1,254)	9.88		
Options Outstanding at June 30, 2017	3,516	7.02	7.86	2
Granted during year	621	2.46		
Exercised during the year	(3)	1.24		
Forfeited or expired during year	(177)	7.21		
Options Outstanding at June 30, 2018	3,957	6.30	7.21	475
Exercisable at June 30, 2018	1,478	\$ 7.93	5.49	\$ 22

The weighted average grant date fair value of stock options granted during the fiscal years ended June 30, 2018, 2017, and 2016, was \$2.46 per share, \$2.55 per share, and \$2.75 per share, respectively. The intrinsic value of vested unexercised options at June 30, 2018 is \$22,000.

There were options to purchase 3,000, 6,208 and 4,667 shares of our common stock, which were exercised during the fiscal years ended June 30, 2018, 2017 and 2016, respectively. The aggregate intrinsic value of stock options exercised was \$3,700, \$20,100, and \$27,000 during the fiscal years ended June 30, 2018, 2017, and 2016, respectively. At June 30, 2018, we had \$6.0 million of total unrecognized share-based compensation expense related to stock options that is expected to be recognized over a weighted average period of 1.9 years.

The following table summarizes information about stock options outstanding at June 30, 2018:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
\$1.24 - \$2.45	632,358	9.16	\$ 2.30	22,928	\$ 2.07
\$3.12 - \$5.59	238,098	7.28	4.47	104,283	4.81
\$5.64 - \$5.64	690,414	7.59	5.64	197,454	5.64
\$5.88 - \$5.89	305,508	7.35	5.89	10,000	5.88
\$5.95 - \$5.95	462,825	7.03	5.95	462,825	5.95
\$6.29 - \$6.58	25,948	7.44	6.54	14,641	6.51
\$6.71 - \$6.71	913,950	8.17	6.71	104,302	6.71
\$7.90 - \$8.55	397,013	4.01	8.08	290,711	8.14
\$10.46 - \$19.36	283,597	3.40	15.18	265,580	14.96
\$20.91 - \$20.91	7,532	6.37	20.91	5,649	20.91
	<u>3,957,243</u>	7.21	\$ 6.30	<u>1,478,373</u>	\$ 7.93

**Restricted Stock Awards**—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 2008 Plan, but restricted stock awards granted under 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. Under the 2008 Plan and the 2014 Plan, as of June 30, 2018, there were 1,433,269 shares of restricted stock outstanding with award vesting periods, both performance-based and service-based, of one to four years and a weighted average grant date fair value of \$3.95 per share.

The following table summarizes information about restricted stock awards outstanding for the fiscal years ended June 30, 2018, 2017, and 2016 (share amounts in thousands):

	Number of Shares	Weighted-Average Fair Value at Date of Grant
Outstanding at June 30, 2015	432	\$ 16.95
Granted during year	869	6.98
Vested during year	(175)	12.52
Forfeited during year	(364)	12.65
Outstanding at June 30, 2016	762	\$ 8.65
Granted during year	941	5.80
Vested during year	(230)	8.38
Forfeited during year	(383)	7.73
Outstanding at June 30, 2017	1,090	\$ 6.57
Granted during year	981	2.44
Vested during year	(398)	6.81
Forfeited during year	(240)	4.94
Outstanding at June 30, 2018	<u>1,433</u>	\$ 3.95

**Performance-Based Restricted Stock Awards and Performance-Based Stock Option Awards.** As of June 30, 2018, there were 1,643,918 unvested performance-based restricted stock awards and performance-based stock options outstanding under the 2014 Plan, which are included in the respective stock option and restricted stock tables above.

**Share-based compensation costs:** We recognized share-based compensation costs as follows (in thousands):

	<b>Fiscal Years Ended June 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Amortization of share-based compensation during the period	\$ 3,349	\$ 4,114	\$ 3,403
Amounts capitalized in inventory	(1,280)	(1,497)	(1,724)
Amount recognized and charged to cost of sales	1,364	1,567	1,436
Amounts charged against income for the period before tax	<u>\$ 3,433</u>	<u>\$ 4,184</u>	<u>\$ 3,115</u>

## **(7) OPERATING LEASES**

We lease substantially all store locations under operating leases. Our existing store leases generally are for an initial term of five to ten years with two five-year renewal options and, in limited circumstances, our store leases involve a tenant allowance for leasehold improvements. We record rent expense ratably over the life of the lease beginning with the date we take possession of or have the right to use the premises, and if our leases provide for a tenant allowance, we record the landlord reimbursement as a liability and ratably amortize the liability as a reduction to rent expense over the lease term beginning with the date we take possession of or control the physical access to the premises. Leases for new stores also typically allow us the ability to terminate a lease after 24 to 60 months if the store does not deliver sales expectations.

In fiscal 2015, we executed a lease for approximately 0.6 million square feet related to our new, additional distribution center in Phoenix, Arizona, which started operations in the fourth quarter of fiscal year 2016. The future minimum rental payments for this lease are included in the table below.

Future minimum rental payments under our operating leases are as follows (in thousands):

<b>Fiscal Years Ending June 30,</b>	
2019	\$ 92,104
2020	77,523
2021	65,594
2022	56,753
2023	50,308
Thereafter	160,817
<b>Total minimum rental payments</b>	<u><u>\$ 503,099</u></u>

Rent expense for the fiscal years ended June 30, 2018, 2017, and 2016 was \$118.3 million, \$108.0 million, and \$98.3 million, respectively. Rent expense includes rent for store locations and our distribution centers. Contingent rent based on sales is not material to our financial statements.

## **(8) 401(K) PROFIT SHARING PLAN**

We have a 401(k) profit sharing plan for the benefit of our full-time employees who become eligible after one month of service, and for our part-time employees who become eligible after both 12 months of service and a minimum of 1,000 hours worked. Under the plan, eligible employees may request us to deduct and contribute from 1% to 75% of their salary to the plan, subject to Internal Revenue Service Regulations. We match each participant's contribution up to 4% of participant's compensation. We expensed contributions of \$1.4 million, \$1.3 million, and \$1.2 million for the fiscal years ended June 30, 2018, 2017, and 2016, respectively.

## (9) EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings/(loss) per common share (in thousands, except per share amounts):

	Fiscal Year Ended June 30,		
	2018	2017	2016
Net income/(loss)	\$ (21,938)	\$ (32,542)	\$ 3,713
Less: Income to participating securities	—	—	40
Net income/(loss) attributable to common shares	\$ (21,938)	\$ (32,542)	\$ 3,673
Weighted average common shares outstanding—basic	44,282	43,943	43,705
Effect of dilutive stock equivalents	—	—	31
Weighted average common shares outstanding—dilutive	44,282	43,943	43,736
Net income/(loss) per common share—basic	\$ (0.50)	\$ (0.74)	\$ 0.08
Net income/(loss) per common share—diluted	\$ (0.50)	\$ (0.74)	\$ 0.08

For the years ended June 30, 2018 and June 30, 2017, all options representing the rights to purchase shares were not included in the diluted loss per share calculation, because the assumed exercise of such options would have been anti-dilutive. Options representing rights to purchase shares of common stock of 0.1 million for the year ended June 30, 2016 were not included in the diluted earnings per share calculation because the assumed exercise of such options would have been anti-dilutive.

## (10) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

A summary of the unaudited quarterly results is as follows for the years ended June 30, 2018 and 2017 (in thousands, except per share amounts):

	Quarters Ended			
	Sept. 30, 2017	Dec. 31, 2017	Mar. 31, 2018	June 30, 2018
Net sales	\$ 218,756	\$ 333,807	\$ 223,296	\$ 230,473
Gross profit (1)	77,950	105,685	80,303	77,036
Operating income/(loss) (1)	(11,994)	8,276	(7,789)	(9,443)
Net income/(loss) (1)	(12,254)	8,692	(8,080)	(10,296)
Basic income/(loss) per share (2)	\$ (0.28)	\$ 0.19	\$ (0.18)	\$ (0.23)
Diluted income/(loss) per share (2)	\$ (0.28)	\$ 0.19	\$ (0.18)	\$ (0.23)

	Quarters Ended			
	Sept. 30, 2016	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017
Net sales	\$ 211,885	\$ 328,137	\$ 203,001	\$ 223,642
Gross profit (1)	77,339	105,982	67,156	70,268
Operating income/(loss) (1)	(9,240)	8,767	(14,678)	(17,129)
Net income/(loss) (1)	(8,855)	8,430	(14,796)	(17,321)
Basic income/(loss) per share (2)	\$ (0.20)	\$ 0.19	\$ (0.34)	\$ (0.39)
Diluted income/(loss) per share (2)	\$ (0.20)	\$ 0.19	\$ (0.34)	\$ (0.39)

(1) Our results are computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts presented may not equal the total computed for the year due to rounding.

(2) Net income/(loss) per share amounts are computed independently for each of the quarters presented. Therefore, the sum of the quarterly net income/(loss) per share in fiscal years 2018 and 2017 may not equal the total computed for the year.

A significant portion of our net sales and net earnings are realized during the period from October through December while the increase in merchandise purchases in preparation for this holiday selling season occurs in prior months.

**(11) DIVIDEND RESTRICTIONS**

The Revolving Credit Facility discussed in Note 3 restricts the ability of Tuesday Morning, Inc., the borrower under the Revolving Credit Facility and Tuesday Morning's principal operating subsidiary, to incur additional liens and indebtedness, make investments and dispositions, pay dividends (including to Tuesday Morning), or enter into certain other transactions, among other restrictions. As a consolidated deficit exists as of June 30, 2018, no retained earnings are free of limitation on the payment of dividends on that date.

At June 30, 2018, restricted net assets of consolidated subsidiaries were \$12.1 million.

**Tuesday Morning Corporation (parent company only)**  
**Condensed Balance Sheets**

	June 30, 2018	June 30, 2017
<b>ASSETS</b>		
Current assets:		
Accounts receivable from subsidiaries	\$ 26,529	\$ 24,489
Total current assets	26,529	24,489
Noncurrent assets:		
Investment in subsidiaries	153,725	174,350
Total noncurrent assets	153,725	174,350
Total Assets	<u>\$ 180,254</u>	<u>\$ 198,839</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable to subsidiaries	\$ —	\$ —
Total current liabilities	—	—
Noncurrent Liabilities		
Total Liabilities	—	—
Stockholders' equity:		
Common stock	469	469
Additional paid-in capital	237,957	234,604
Retained deficit	(51,360)	(29,422)
Less: Treasury stock	(6,812)	(6,812)
Total stockholders' equity	<u>180,254</u>	<u>198,839</u>
Total Liabilities and Stockholders' Equity	<u>\$ 180,254</u>	<u>\$ 198,839</u>

**Tuesday Morning Corporation (parent company only)**  
**Condensed Statement of Operations**

	Fiscal Years Ended June 30		
	2018	2017	2016
Net sales	\$ —	\$ —	\$ —
Cost of sales	—	—	—
Gross profit	—	—	—
Selling, general and administrative expenses	—	—	—
Operating income/(loss)	—	—	—
Other income/(expense):			
Interest expense	—	—	—
Other income/(expense), net	—	—	—
Income/(loss) before taxes	—	—	—
Income tax provision	—	—	—
Net income/(loss) of subsidiaries	(21,938)	(32,542)	3,713
Net income/(loss)	<u>\$ (21,938)</u>	<u>\$ (32,542)</u>	<u>\$ 3,713</u>

**A. Basis of presentation**

In the condensed, parent company-only financial statements, Tuesday Morning Corporation's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. These condensed parent company-only financial statements should be read in conjunction with Tuesday Morning Corporation's consolidated financial statements. Condensed statements of cash flows were not presented because Tuesday Morning Corporation had no cash flow activities during fiscal 2018, fiscal 2017, or fiscal 2016.

**B. Guarantees and Restrictions**

As of June 30, 2018, Tuesday Morning, Inc. had \$60.5 million of available credit on the Revolving Credit Facility that provides commitments of up to \$180.0 million for revolving loans and letters of credit. Tuesday Morning Corporation, Tuesday Morning Inc. and the subsidiaries of Tuesday Morning, Inc. have guaranteed all obligations under the Revolving Credit Facility. In the event of default under the Revolving Credit Facility, Tuesday Morning Corporation, Tuesday Morning, Inc. and the subsidiaries of Tuesday Morning, Inc. will be directly liable to the debt holders. The Revolving Credit Facility includes restrictions on the ability of Tuesday Morning Corporation, Tuesday Morning, Inc. and the subsidiaries of Tuesday Morning, Inc. to incur additional liens and indebtedness, make investments and dispositions, pay dividends or make other transactions, among other restrictions. Under the Revolving Credit Facility, in order for Tuesday Morning, Inc. to make a dividend to Tuesday Morning Corporation for the payment of a dividend or a repurchase of shares, Tuesday Morning, Inc. must, among other things, maintain availability of 20% of the lesser of the calculated borrowing base or the lenders' aggregate commitments under the Revolving Credit Facility on a pro forma basis for a specified period prior to and immediately following the restricted payment.

**RESTRICTED STOCK AWARD AGREEMENT**  
**Tuesday Morning Corporation**  
**2014 Long-Term Incentive Plan**

This **RESTRICTED STOCK AWARD AGREEMENT** (this "**Agreement**") is entered into between Tuesday Morning Corporation, a Delaware corporation (the "**Company**"), and \_\_\_\_\_ [Name] (the "**Participant**") effective as of \_\_\_\_\_ [Option\_Date, Month DD, YYYY] (the "**Date of Grant**"), pursuant to the Tuesday Morning Corporation 2014 Long-Term Incentive Plan, as amended (the "**Plan**"), the terms of which are incorporated by reference herein in their entirety.

**WHEREAS**, the Company desires to grant to the Participant the shares of common stock, par value \$0.01 per share ("**Common Stock**"), as an inducement for the Participant's continued and effective performance of services for the Company as a member of the Board of Directors of the Company (the "**Board**"), subject to the terms and conditions of this Agreement; and

**WHEREAS**, the Participant desires to have the opportunity to hold the Common Stock subject to the terms and conditions of this Agreement;

**NOW, THEREFORE**, in consideration of the premises, mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **Grant of Restricted Stock.** Effective as of the Date of Grant, the Company shall cause to be issued in the Participant's name \_\_\_\_\_ [ number of **Total\_Shares\_Granted**] shares of Common Stock (the "**Restricted Stock**"). The Company shall electronically register the Restricted Stock, and any Retained Distributions issued with respect to the Restricted Stock, in the Participant's name and note that such shares are Restricted Stock. If certificates evidencing the Restricted Stock, or any Retained Distributions, are issued to the Participant during the Restricted Period, such certificates shall bear a restrictive legend, substantially as provided in Section 15.10 of the Plan, to the effect that ownership of such Restricted Stock (and any such Retained Distributions), and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms, and conditions provided in the Plan and this Agreement. The Participant shall have the right to vote the Restricted Stock awarded to the Participant and to receive and retain all regular cash dividends, and to exercise all other rights, powers and privileges of a holder of Common Stock, with respect to such Restricted Stock, with the exception that (a) the Participant shall not be entitled to delivery of a stock certificate or certificates representing such Restricted Stock until the Forfeiture Restrictions applicable thereto shall have expired and the Participant requests delivery of a certificate as described in Section 6.4(a) of the Plan, (b) the Company shall retain custody of all Retained Distributions made or declared with respect to the Restricted Stock (and such Retained Distributions shall be subject to the same restrictions, terms and conditions as are applicable to the Restricted Stock) until such time, if ever, as the Restricted Stock with respect to which such Retained Distributions shall have been made, paid, or declared shall have become vested, and such Retained Distributions shall not

---

bear interest or be segregated in separate accounts and (c) the Participant may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the Restricted Stock or any Retained Distributions during the Restricted Period. Upon issuance, the certificates for the Restricted Stock shall be delivered to the Secretary of the Company or to such other depository as may be designated by the Committee as a depository for safekeeping until the forfeiture of such Restricted Stock occurs or the Forfeiture Restrictions lapse, together with stock powers or other written instruments or electronic agreements of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock and any securities constituting Retained Distributions which shall be forfeited in accordance with the Plan and this Agreement. In accepting the award of Restricted Stock set forth in this Agreement, the Participant accepts and agrees to be bound by all the terms and conditions of the Plan and this Agreement.

2. **Definitions.** For purposes of this Agreement, the following terms shall have the meanings indicated below:

(a) **“Cause”** shall mean the occurrence of one of the following events: (i) commission of fraud, embezzlement, theft, felony or an act of dishonesty in the course of the Participant’s service to the Company or an Affiliate which conduct damaged the Company or an Affiliate, (ii) disclosure of trade secrets of the Company or an Affiliate, or (iii) violation of the terms of any non-competition, non-disclosure or similar agreement with respect to the Company or any Affiliate to which the Participant is a party.

(b) **“Forfeiture Restrictions”** shall mean any prohibitions and restrictions set forth herein with respect to the sale or other disposition of Restricted Stock issued to the Participant hereunder and the obligation to forfeit and surrender such Restricted Stock to the Company.

(c) **“Good Reason”** shall mean a material breach by the Company of this Agreement that is not cured within thirty (30) days of written notice by the Participant to the Company. The foregoing event shall not constitute Good Reason unless the Participant delivers to the Company a written notice specifying the alleged Good Reason within ninety (90) days after the Participant first learns of the existence of the circumstances giving rise to the Good Reason; within thirty (30) days following delivery of such notice, the Company has failed to cure the circumstances giving rise to Good Reason; and the Participant resigns within sixty (60) days after the end of the cure period.

(d) **“Restricted Period”** shall mean the period designated by the Committee during which Restricted Stock is subject to the Forfeiture Restrictions and may not be sold, assigned, transferred, pledged, or otherwise encumbered.

(e) **“Retained Distributions”** shall mean any securities or other property (other than regular cash dividends) distributed by the Company in respect of the Restricted Stock during any Restricted Period.

Capitalized terms not otherwise defined in this Agreement shall have the meanings given to such terms in the Plan.

3. **Transfer Restrictions.** The Restricted Stock granted hereby may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of

---

(other than by will or the applicable laws of descent and distribution) to the extent then subject to the Forfeiture Restrictions, except as otherwise authorized by the Committee. Any such attempted sale, assignment, pledge, exchange, hypothecation, transfer, encumbrance or disposition in violation of this Agreement shall be void and the Company shall not be bound thereby. Further, the Restricted Stock granted hereby that is no longer subject to Forfeiture Restrictions may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. The Participant also agrees (a) that the Company may refuse to cause the transfer of the Restricted Stock to be registered on the applicable stock transfer records if such proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of any applicable securities law and (b) that the Company may give related instructions to the transfer agent, if any, to stop registration of the transfer of the Restricted Stock. The Restricted Stock is registered with the Securities and Exchange Commission under a Registration Statement on Form S-8. A Prospectus describing the Plan and the Stock is available from the Company.

4. **Vesting.** The Restricted Stock that is granted hereby shall be subject to Forfeiture Restrictions. The Forfeiture Restrictions shall lapse as to the Restricted Stock that is granted hereby in accordance with the provisions of subsections (a) through (d) of this Section 4.

(a) **Generally.** The Forfeiture Restrictions shall lapse as to the Restricted Stock that is granted hereby as provided in subsection (b), provided that the Participant has not incurred a Termination of Service prior to the date provided in subsection (b). If the Participant has incurred a Termination of Service before the date provided in subsection (b) then, except as otherwise specified in subsections (c) or (d) below, the Forfeiture Restrictions then applicable to any of the Restricted Stock shall not lapse and all of the Restricted Stock with respect to which Forfeiture Restrictions have not then lapsed shall be forfeited to the Company upon such Termination of Service.

(b) **Vesting Date.** The Forfeiture Restrictions shall lapse, and the Restricted Stock will vest, subject to the provisions of subsection (a), with respect to one hundred percent (100%) of the Restricted Stock on the first anniversary of the Date of Grant.

(c) **Death or Total and Permanent Disability.** Notwithstanding any provisions of Section 4 to the contrary, in the event the Participant's Termination of Service is due to the Participant's death or Total and Permanent Disability prior to the date provided in subsection (b), the Forfeiture Restrictions shall lapse on the date of such Termination of Service due to death or Total and Permanent Disability.

(d) **Change in Control.** Notwithstanding any provisions of Section 4 to the contrary, in the event (i) a Change in Control occurs prior to the date of the Participant's Termination of Service and (ii) the Participant incurs a Termination of Service during the two (2) year period commencing on the date that the Change in Control occurred, either (A) by the Company without Cause or (B) by the Participant for Good Reason, the Forfeiture Restrictions shall lapse upon the occurrence of such Change in Control.

5. **Effect of Lapse of Restrictions.** Upon the lapse of the Forfeiture Restrictions with respect to the Restricted Stock granted hereby, if requested by the Participant as described in

---

Section 6.4(a) of the Plan, the Company shall cause to be delivered to the Participant a stock certificate representing such Restricted Stock, and such Restricted Stock shall be transferable by the Participant (except to the extent that any proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of applicable securities law).

6. **Capital Adjustments and Reorganizations.** The existence of the Restricted Stock shall not affect in any way the right or power of the Company or its stockholders to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.

7. **Section 83(b) Election.** The Participant shall not exercise the election permitted under section 83(b) of the Code with respect to the Restricted Stock without the written approval of the Chief Financial Officer of the Company.

8. **No Fractional Shares.** All provisions of this Agreement concern whole shares of Common Stock. If the application of any provision hereunder would yield a fractional share, such fractional share shall be rounded down to the next whole share if it is less than 0.5 and rounded up to the next whole share if it is 0.5 or more.

9. **Not a Service Agreement.** This Agreement is not an employment or service agreement, and no provision of this Agreement shall be construed or interpreted to create an employment or service relationship between the Participant and the Company or guarantee the right to remain a member of the Board for any specified term.

10. **Limit of Liability.** Under no circumstances will the Company or an Affiliate be liable for any indirect, incidental, consequential or special damages (including lost profits or taxes) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan, this Agreement or the Restricted Stock.

11. **Legend.** The Participant consents to the placing on the certificate for the Restricted Stock of an appropriate legend restricting resale or other transfer of the Restricted Stock except in accordance with the Securities Act of 1933 and all applicable rules thereunder.

12. **Notices.** Any notice, instruction, authorization, request or demand required hereunder shall be in writing, and shall be delivered either by personal delivery, telegram, telex, telecopy or similar facsimile means, by certified or registered mail, return receipt requested, or by courier or delivery service, addressed to the Company at the Company's principal business office address and to the Participant at the Participant's residential address as shown in the records of the Company, or at such other address and number as a party shall have previously designated by written notice given to the other party in the manner hereinabove set forth. Notices shall be deemed given when received, if sent by facsimile means (confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by facsimile means); and when delivered (or upon the date of attempted delivery where delivery is refused), if hand-

---

delivered, sent by express courier or delivery service, or sent by certified or registered mail, return receipt requested.

13. **Amendment and Waiver.** Except as otherwise provided herein or in the Plan, or as necessary to implement the provisions of the Plan, this Agreement may be amended, modified or superseded only by written instrument executed, or an electronic agreement agreed to, by the Company and the Participant. Only a written instrument executed and delivered by, or an electronic agreement agreed to by, the party waiving compliance hereof shall waive any of the terms or conditions of this Agreement. Any waiver granted by the Company shall be effective only if executed and delivered by a duly authorized director or officer of the Company other than the Participant. The failure of any party at any time or times to require performance of any provisions hereof shall in no manner effect the right to enforce the same. No waiver by any party of any term or condition, or the breach of any term or condition contained in this Agreement, in one or more instances, shall be construed as a continuing waiver of any such condition or breach, a waiver of any other condition, or the breach of any other term or condition.

14. **Governing Law and Severability.** The validity, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The invalidity of any provision of this Agreement shall not affect any other provision of this Agreement, which shall remain in full force and effect.

15. **Successors and Assigns.** Subject to the limitations which this Agreement imposes upon the transferability of the Restricted Stock granted hereby, this Agreement shall bind, be enforceable by and inure to the benefit of the Company and its successors and assigns, and to the Participant, the Participant's permitted assigns and upon the Participant's death, the Participant's estate and beneficiaries thereof (whether by will or the laws of descent and distribution), executors, administrators, agents, legal and personal representatives.

16. **Miscellaneous.** This Agreement is awarded pursuant to and is subject to all of the provisions of the Plan, including amendments to the Plan, if any.

17. **Acceptance.** The Participant, by his or her acceptance of the Restricted Stock, agrees to be bound by all of the terms and conditions of this Agreement and the Plan, and further consents to and agrees to be bound by the Irrevocable Stock Power presented herewith.

---

## IRREVOCABLE STOCK POWER

**KNOW ALL MEN BY THESE PRESENTS, That For Value Received**, the Participant (as defined in the Award Agreement) has bargained, sold, assigned and transferred and by these presents does bargain, sell, assign and transfer unto Tuesday Morning Corporation, a Delaware corporation (the "**Company**"), the Restricted Stock transferred pursuant to the **RESTRICTED STOCK AWARD AGREEMENT** dated as of and effective \_\_\_\_\_ [Option\_Date, Month DD, YYYY], between the Company and the Participant granting such Restricted Stock to the Participant (the "**Award Agreement**"); **and** subject to and in accordance with the terms of the Award Agreement the Participant does hereby constitute and appoint the Secretary of the Company the Participant's true and lawful attorney, IRREVOCABLY, to sell, assign, transfer, hypothecate, pledge and make over all or any part of such Restricted Stock and for that purpose to make and execute all necessary acts of assignment and transfer thereof, and to substitute one or more persons with like full power, hereby ratifying and confirming all that said attorney or his or her substitutes shall lawfully do by virtue hereof.

**NONQUALIFIED STOCK OPTION AWARD AGREEMENT  
FOR EMPLOYEES**

***Tuesday Morning Corporation  
2014 Long-Term Incentive Plan***

This **NONQUALIFIED STOCK OPTION AWARD AGREEMENT** (this “**Agreement**”) is entered into between Tuesday Morning Corporation, a Delaware corporation (the “**Company**”), and \_\_\_\_\_ (the “**Participant**”). The Board of Directors of the Company has adopted, and the stockholders of the Company have approved, the Tuesday Morning Corporation 2014 Long-Term Incentive Plan, as amended (the “**Plan**”), the terms of which are incorporated by reference herein in their entirety. The Company has agreed to grant the Participant this option to purchase shares of common stock of the Company as an inducement for the Participant’s continued and effective performance of services for the Company. Any term used in this Agreement that is not specifically defined herein shall have the meaning specified in the Plan.

**IT IS AGREED:**

1. **Grant of Option.** Subject to the terms of the Plan and this Agreement, on \_\_\_\_\_ (the “**Date of Grant**”), the Company granted to the Participant an option (the “**Option**”) to purchase \_\_\_\_\_ shares of the common stock of the Company, \$.01 par value per share (“**Common Stock**”), at a price of \$\_\_\_\_\_ per share (the “**Option Price**”), subject to adjustment as provided in the Plan.

2. **Type of Option.** The Option is a nonqualified stock option which is not intended to be governed by section 422 of the Code.

3. **Participant’s Agreement.** In accepting the Option, the Participant accepts and agrees to be bound by all the terms and conditions of the Plan which pertain to nonqualified stock options granted under the Plan.

4. **Vesting of Option.** Subject to the provisions hereof and the provisions of the Plan, the Option will vest and become exercisable as follows:

(a) Except as otherwise provided in this Section 4, the Option will vest and become exercisable in accordance with the following schedule:<sup>1</sup>

(i) \_\_\_\_\_ on \_\_\_\_\_, the Option will vest with respect to, and may be exercised for up to, one-quarter (25%) of the shares of Common Stock subject to the Option;

(ii) \_\_\_\_\_ on \_\_\_\_\_, the Option will vest with respect to, and may be exercised for up to, one-quarter (25%) of the shares of Common Stock subject to the Option;

<sup>1</sup> NTD: Unless granted as “Exempt Shares,” the Option cannot fully vest prior to the first anniversary of the Date of Grant.

(iii) on \_\_\_\_\_, the Option will vest with respect to, and may be exercised for up to, one-quarter (25%) of the shares of Common Stock subject to the Option; and

(iv) on \_\_\_\_\_, the Option will vest with respect to, and may be exercised for up to, one-quarter (25%) of the shares of Common Stock subject to the Option.

To the extent not exercised, installments shall be cumulative and may be exercised in whole or in part.

(b) Notwithstanding any provision of this Section 4 to the contrary, in the event of the Participant's Termination of Service due to the Participant's death or Total and Permanent Disability before a date provided in subsection (a), then all of the shares of Common Stock subject to the Option which have not yet vested will vest and become exercisable on the date of the Participant's death or Total and Permanent Disability.

(c) Notwithstanding any provisions of this Section 4 to the contrary, in the event (i) a Change in Control occurs prior to the date of the Participant's Termination of Service and (ii) the Participant incurs a Termination of Service during the two (2) year period commencing on the date that the Change in Control occurred, either (A) by the Company without Cause (as defined below) or (B) by the Participant for Good Reason (as defined below), then all of the shares of Common Stock subject to the Option which have not yet vested will vest and become exercisable on the date of such Change in Control.

(d) For purposes of this Agreement, the following terms shall have the meanings indicated below:

(i) "**Cause**" means the occurrence of one of the following events: (A) commission of fraud, embezzlement, theft, felony or an act of dishonesty in the course of the Participant's employment by the Company or an Affiliate which conduct damaged the Company or an Affiliate, (B) disclosure of trade secrets of the Company or an Affiliate, or (C) violation of the terms of any non-competition, non-disclosure or similar agreement with respect to the Company or any Affiliate to which the Participant is a party.

(ii) "**Good Reason**" means (A) a material reduction by the Company of the Participant's annual compensation without the Participant's consent; (B) a material breach by the Company of this Agreement that is not cured within thirty (30) days of written notice by the Participant to the Company; or (C) without the Participant's consent, the Company relocates its principal executive offices, or requires the Participant to have the Participant's principal work location change, which results in the Participant's principal work location being changed to a location in excess of fifty (50) miles from the location of the Company's principal executive offices as of the date hereof. The foregoing events shall not constitute Good Reason unless the Participant delivers to the Company a written notice specifying the circumstances giving rise to the alleged Good Reason within ninety (90) days after the Participant first learns of the existence of the circumstances giving rise to Good Reason; within thirty (30) days following delivery of such notice, the Company has failed to cure the circumstances giving rise to Good Reason; and the Participant resigns within sixty (60) days after the end of the cure period.

---

**Manner of Exercise.**

(a) To the extent that the Option is vested and exercisable in accordance with Section 4 of this Agreement, the Option may be exercised by the Participant at any time, or from time to time, in whole or in part, on or prior to the termination of the Option (as set forth in Sections 4 and 6 of this Agreement) upon payment of the Option Price for the shares to be acquired in accordance with the terms and conditions of this Agreement and the Plan.

(b) If the Participant is entitled to exercise the vested and exercisable portion of the Option, and wishes to do so, in whole or part, the Participant shall (i) deliver to the Company a fully completed notice of exercise, in a form as may hereinafter be designated by the Company in its sole discretion, specifying the exercise date (which shall be at least three (3) days after giving such notice unless an earlier time is mutually agreed upon) and the number of shares of Common Stock to be purchased pursuant to such exercise and (ii) remit to the Company in a form satisfactory to the Company, in its sole discretion, the Option Price for the shares of Common Stock to be acquired on exercise of the Option, plus an amount sufficient to satisfy any withholding tax obligations of the Company that arise in connection with such exercise (as determined by the Company) in accordance with the provisions of Section 7 of this Agreement and Section 15.7 of the Plan.

(c) The Company's obligation to deliver shares of Common Stock to the Participant under this Agreement is subject to and conditioned upon the Participant satisfying all tax obligations associated with the Participant's receipt, holding and exercise of the Option. Unless otherwise approved by the Committee, all such tax obligations shall be payable in accordance with the provisions of Section 7 of this Agreement and Section 15.7 of the Plan. The Company and its Subsidiaries, as applicable, shall be entitled to deduct from any compensation otherwise due to the Participant the amount necessary to satisfy all such taxes.

(d) Upon full payment of the Option Price and satisfaction of all applicable tax obligations, and subject to the applicable terms and conditions of the Plan and the terms and conditions of this Agreement, the Company shall electronically register the shares of Common Stock purchased hereunder in the Participant's name (or the name of the person exercising the Option in the event of the Participant's death ) but shall not issue certificates to the Participant (or the person exercising the Option in the event of the Participant's death) unless the Participant (or such other person) requests delivery of a certificate as described in Section 8.3(b) of the Plan.

6. **Termination of Option.** Except as otherwise provided in Section 4 of this Agreement, unless the Option terminates earlier as provided in this Section 6, the Option shall terminate and become null and void on the tenth anniversary of the Date of Grant (the "**Option General Expiration Date**"). Except as otherwise provided in Section 4 of this Agreement, if the Participant incurs a Termination of Service for any reason, the Option shall not continue to vest after such Termination of Service.

(a) If the Participant incurs a Termination of Service due to the Participant's death or Total and Permanent Disability, the Option shall remain exercisable for, and shall otherwise terminate and become null and void at the end of, a period of one year from the date of

---

such death or Total and Permanent Disability, but in no event after the Option General Expiration Date.

(b) If the Participant incurs a Termination of Service upon the occurrence of the Participant's Retirement, (i) the portion of the Option that was exercisable on the date of Retirement shall remain exercisable for, and shall otherwise terminate and become null and void at the end of, a period of up to three years after the date of Retirement, but in no event after (x) the Option General Expiration Date or (y) the day before the date the Participant begins engaging in Competition (as that term is defined in Section 22) during such three-year period, unless he or she receives written consent to do so from the Board or the Committee, and (ii) the portion of the Option that was not exercisable on the date of Retirement shall be forfeited and become null and void immediately upon such Retirement.

(c) If the Participant incurs a Termination of Service due to Cause, all of the Option shall be forfeited and become null and void immediately upon such Termination of Service, whether or not then exercisable.

(d) If the Participant incurs a Termination of Service for any reason other than death, Total and Permanent Disability, Retirement or Cause, (i) the portion of the Option that was exercisable on the date of such Termination of Service shall remain exercisable for, and shall otherwise terminate and become null and void at the end of, a period of up to 90-days after the date of such Termination of Service, but in no event after (x) the Option General Expiration Date or (y) the day before the date the Participant begins engaging in Competition during such 90-day period, unless he or she receives written consent to do so from the Board or the Committee, and (ii) the portion of the Option that was not exercisable on the date of such Termination of Service shall be forfeited and become null and void immediately upon such Termination of Service. In the event the Participant has entered into an employment contract with the Company, the termination provisions of the employment contract will supersede the terms stated in Section 6(d) herein.

(e) Upon the death of the Participant prior to the expiration of the Option, the Participant's executors, administrators or any person or persons to whom the Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the Option, to exercise the Option with respect to the number of shares of Common Stock that the Participant would have been entitled to exercise if he or she were still alive.

(f) Notwithstanding anything to the contrary contained herein, in the event the Participant fails to comply with the confidentiality and non-solicitation provisions of Exhibit A, or the non-solicitation and/or confidentiality provisions contained in any written agreement by and between the Participant and the Company, then all of the Option shall be forfeited and become null and void immediately upon such Termination of Service, whether or not then exercisable, and this Agreement (other than the provisions of this subsection (f) and the provisions of Exhibit A) will be terminated on the date of such violation.

7. **Tax Withholding.** The Company or, if applicable, any Subsidiary (for purposes of this Section 7, the term "**Company**" shall be deemed to include any applicable Subsidiary), shall

---

be entitled to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to the receipt of the Option, this Agreement, the vesting of the Option or the exercise of the Option. Alternatively, the Company may require the Participant (or other person validly exercising the Option) to pay such sums for taxes directly to the Company in cash or by check within one (1) day after the date of vesting or exercise of the Option, as applicable. Such payments shall be required to be made when requested by the Company and may be required to be made prior to the delivery of any certificate representing shares of Common Stock. Such payment may be made by (a) the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding obligations of the Company; (b) if the Company, in its sole discretion, so consents in writing, the actual delivery by the exercising Participant to the Company of shares of Common Stock that the Participant has not acquired from the Company within six (6) months prior to the date of exercise, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding payment; (c) if the Company, in its sole discretion, so consents in writing, the Company's withholding of a number of shares to be delivered upon the exercise of the Option, which shares so withheld have an aggregate Fair Market Value that equals (but does not exceed) the required tax withholding payment; or (d) any combination of (a), (b), or (c).

8. **Capital Adjustments and Reorganizations.** The existence of the Option shall not affect in any way the right or power of the Company or its stockholders to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.

9. **Employment Relationship.** For purposes of this Agreement, the Participant shall be considered to be in the employment of the Company as long as the Participant has an employment relationship with the Company. The Committee shall determine any questions as to whether and when there has been a Termination of Service, and the cause of such Termination of Service, under the Plan, and the Committee's determination shall be final and binding on all persons.

10. **No Fractional Shares.** All provisions of this Agreement concern whole shares of Common Stock. If the application of any provision hereunder would yield a fractional share, such fractional share shall be rounded down to the next whole share if it is less than 0.5 and rounded up to the next whole share if it is 0.5 or more.

11. **Limit of Liability.** Under no circumstances will the Company or an Affiliate be liable for any indirect, incidental, consequential or special damages (including lost profits or taxes) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan, this Agreement or the Option.

12. **Not an Employment Agreement.** This Agreement is not an employment agreement, and no provision of this Agreement shall be construed or interpreted to create an employment relationship between the Participant and the Company, its Subsidiaries or any of its

---

Affiliates or guarantee the right to remain employed by the Company, its Subsidiaries or any of its Affiliates for any specified term.

13. **No Rights As Stockholder.** The Participant shall not have any rights as a stockholder with respect to any shares of Common Stock covered by the Option until the date of the registration or issuance of such shares following the Participant's exercise of the Option pursuant to its terms and conditions and payment of all amounts for and with respect to the shares of Common Stock. No adjustment shall be made for dividends or other rights for which the record date is prior to the date a certificate or certificates are issued for such shares or an uncertificated book-entry representing such shares is made.

14. **Legend.** The Participant consents to the placing on the certificate for any shares covered by the Option of an appropriate legend restricting resale or other transfer of such shares except in accordance with the Securities Act of 1933 and all applicable rules thereunder.

15. **Notices.** Any notice, instruction, authorization, request, demand or other communications required hereunder shall be in writing, and shall be delivered either by personal delivery, telegram, telex, telecopy or similar facsimile means, by certified or registered mail, return receipt requested, or by courier or delivery service, addressed to the Company at the Company's principal business office address to the attention of the Vice President, Tax and to the Participant at the Participant's residential address as it appears on the books and records of the Company, or at such other address and number as a party shall have previously designated by written notice given to the other party in the manner hereinabove set forth. Notices shall be deemed given when received, if sent by facsimile means (confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by facsimile means); and when delivered (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by express courier or delivery service, or sent by certified or registered mail, return receipt requested.

16. **Amendment and Waiver.** Except as otherwise provided herein or in the Plan, or as necessary to implement the provisions of the Plan, this Agreement may be amended, modified or superseded only by written instrument executed, or an electronic agreement agreed to, by the Company and the Participant. Only a written instrument executed and delivered by, or an electronic agreement agreed to by, the party waiving compliance hereof shall waive any of the terms or conditions of this Agreement. Any waiver granted by the Company shall be effective only if executed and delivered by a duly authorized director or officer of the Company other than the Participant. The failure of any party at any time or times to require performance of any provisions hereof shall in no manner effect the right to enforce the same. No waiver by any party of any term or condition, or the breach of any term or condition contained in this Agreement, in one or more instances, shall be construed as a continuing waiver of any such condition or breach, a waiver of any condition, or the breach of any other term of condition.

17. **Dispute Resolution.** In the event of any difference of opinion concerning the meaning or effect of the Plan or this Agreement, such difference shall be resolved by the Committee.

---

18. **Governing Law and Severability.** The validity, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The invalidity of any provision of this Agreement shall not affect any other provision of this Agreement, which shall remain in full force and effect.

19. **Transfer Restrictions.** The shares of Common Stock subject to the Option granted hereby may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. The Participant also agrees (a) that the Company may refuse to cause the transfer of shares of Common Stock subject to the Option to be registered on the applicable stock transfer records if such proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of any applicable securities law and (b) that the Company may give related instructions to the transfer agent, if any, to stop registration of the transfer of the shares of Common Stock subject to the Option.

20. **Successors and Assigns.** This Agreement shall, except as herein stated to the contrary, inure to the benefit of and bind the legal representatives, successors and assigns of the parties hereto.

21. **Option Transfer Prohibitions.** Except as otherwise authorized by the Committee, the Option granted to the Participant under this Agreement shall not be transferable or assignable by the Participant other than by will or the laws of descent and distribution, and shall be exercisable during the Participant's lifetime only by the Participant.

22. **Definition.** Unless the context reasonably requires a broader, narrower or different meaning, "**Competition**" means the Participant engaging in, or otherwise directly or indirectly being employed by or acting as a consultant or lender to, or being a director, officer, employee, principal, agent, stockholder, member, owner or partner of, or permitting the Participant's name to be used in connection with the activities of any other business or organization which competes, directly or indirectly, with the business of the Company as the same shall be constituted at any time during the period the Participant was employed by or affiliated with the Company.

23. **Acceptance.** The Participant, by his or her acceptance of the Option, agrees to be bound by all of the terms and conditions of this Agreement, including, without limitation, the provisions of Exhibit A, and the Plan.

24. **Disclaimer of Reliance.** Except for the specific representations expressly made by the Company in this Agreement and Exhibit A, the Participant specifically disclaims that the Participant is relying upon or has relied upon any communications, promises, statement, inducements or representation(s) that may have been made, oral or written regarding the subject matter of this Agreement. The Participant represents that the Participant relied solely and only on the Participant's own judgment in making the decision to enter into this Agreement.

---

## EXHIBIT A

### 1. *Confidential Information, the Participant's Non-Disclosure Agreement and Work Product Ownership.*

- (a) Confidential Information. During the Participant's employment with the Company, the Company shall provide the Participant otherwise prohibited access to certain of its Confidential Information which is not known to the Company's competitors or within the Company's industry generally, which was developed by the Company over a long period of time and/or at its substantial expense, and which is of great competitive value to the Company. For purposes of this Agreement, "**Confidential Information**" includes all trade secrets and confidential and proprietary information of the Company, including, but not limited to, the following: all documents or information, in whatever form or medium, concerning or relating to the Company's operations; procedures; computer systems; customer information; methods of doing business; merchandise; marketing plans and methods; financial and accounting information; policies and practices; product information and strategy; project and prospect locations and leads; developmental or experimental work; research; development; know-how; technical data; designs; plans for research or future products; improvements; discoveries; database schemas or tables; development tools or techniques; finances; business plans; sales plans and strategies; budgets; pricing and pricing strategies and techniques; costs; customer and client lists and profiles; customer and client nonpublic personal information; supplier lists; business records; audits; management methods and information; reports, recommendations and conclusions; business practices; strategies; training manuals; vendors; suppliers; contractual relationships; and other business information disclosed or made available to the Participant by the Company, either directly or indirectly, in writing, orally, or by drawings or observation, that is not known to the public or any of the Company's competitors or within the Company's industry generally, which was developed by the Company at its expense, and which is of value to the Company. Confidential Information prepared or compiled by the Participant and/or the Company or furnished to the Participant during the Participant's employment with the Company shall be the sole and exclusive property of the Company, and none of such Confidential Information or copies thereof, shall be retained by the Participant. The Participant acknowledges that the Company does not voluntarily disclose Confidential Information, but rather takes precautions to prevent dissemination of Confidential Information beyond those employees such as the Participant entrusted with such information. The Participant further acknowledges that the Confidential Information: (i) is entrusted to the Participant because of the Participant's position with the Company; and (ii) is of such value and nature as to make it reasonable and necessary for the Participant to protect and preserve the confidentiality and secrecy of the Confidential Information. The Participant acknowledges and agrees that the Confidential Information is a valuable, special, and a unique asset of the Company, the disclosure of which could cause substantial injury and loss of profits and goodwill to the Company. While the Participant may not disclose any such Confidential Information, the Participant has the right to discuss wages, benefits or other terms
-

and conditions of employment. Nothing in this Agreement, including the definition of “**Confidential Information**” above and the nondisclosure requirements in Section 1(b) is intended to restrict the Participant’s right to have such discussions.

(b) Non-Disclosure.

- (i) The Participant shall hold all Confidential Information in strict confidence. The Participant shall not, during the period of the Participant’s employment or at any time thereafter, disclose to anyone, or publish, use for any purpose, exploit, or allow or assist another person to use, disclose or exploit, except for the benefit of the Company, without prior written authorization, any Confidential Information or part thereof, except as permitted: (1) in the ordinary course of the Company’s business or the Participant’s work for the Company; or (2) by law. The Participant shall use all reasonable precautions to assure that all Confidential Information is properly protected and kept from unauthorized persons. Further, the Participant shall not directly or indirectly, use the Company’s Confidential Information or information regarding the names, contact information, skills and compensation of employees and contractors of the Company to: (1) call upon, solicit business from, attempt to conduct business with, conduct business with, interfere with or divert business away from any customer, client, vendor or supplier of the Company with whom or which the Company conducted business within the eighteen (18) months prior to the Participant’s termination from employment with the Company; and/or (2) recruit, solicit, hire or attempt to recruit, solicit, or hire, directly or by assisting others, any persons employed by or associated with the Company. The Participant agrees that the Participant shall take all steps necessary to safeguard all Confidential Information and prevent its wrongful use, disclosure, or dissemination of any other person or entity. The Participant further agrees that in the event the Participant is subpoenaed, served with any legal process or notice or otherwise requested to produce or divulge, directly or indirectly, any Confidential Information by any entity, agency, or person in any formal or informal proceeding including, but not limited to, any interview, deposition, administrative or judicial hearing and/or trial, and upon the Participant’s receipt of such subpoena, process, notice or request, the Company requests that the Participant notify and deliver via overnight delivery service a copy of the subpoena, process, notice or other request to: the Company’s General Counsel at 6250 LBJ Freeway, Dallas, Texas 75240.
  - (ii) The Participant shall immediately notify the Company’s General Counsel if the Participant learns of or suspects any unauthorized disclosure of Confidential Information concerning the Company.
  - (iii) Subject to Section 1(b)(iv), the Participant agrees that the Participant shall not use or disclose any confidential or trade secret information belonging to any former employer or third party, and the Participant shall not bring onto
-

the premises of the Company or onto any the Company property any confidential or trade secret information belonging to any former employer or third party without such third parties' consent.

(iv) During the Participant's employment, the Company will receive from third parties their confidential and/or proprietary information, subject to a duty on the Company's part to maintain the confidentiality of and to use such information only for certain limited purposes. The Participant agrees to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person or organization or to use it except as necessary in the course of the Participant's employment with the Company and in accordance with the Company's agreement with such third party.

(c) Return of the Company Property. Upon the termination of the Participant's employment for any reason, the Participant shall immediately return and deliver to the Company any and all property, including, without limitation, Confidential Information, software, devices, data, reports, proposals, lists, correspondence, materials, equipment, computers, hard drives, papers, books, records, documents, memoranda, manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, books of account, drawings, prints, plans, and the like which belong to the Company or which relate to the Company's business and which are in the Participant's possession, custody or control, whether prepared by the Participant or others. If at any time after termination of the Participant's employment, for any reason, the Participant determines that the Participant has any Confidential Information in the Participant's possession or control, the Participant shall immediately return to the Company all such Confidential Information in the Participant's possession or control, including all copies and portions thereof. Further, the Participant shall not retain any property, including, without limitation, Confidential Information, data, information, or documents, belonging to the Company or any copies thereof (in electronic or hard copy format).

2. **Non-Solicitation.** In Section 1, the Company promised to provide the Participant certain Confidential Information. The Participant recognizes and agrees that: (i) the Company has devoted a considerable amount of time, effort, and expense to develop its Confidential Information and business goodwill; (ii) the Company's Confidential Information and business goodwill are valuable assets to the Company; and (iii) any unauthorized use or disclosure of the Confidential Information would cause irreparable harm to the Company for which there is no adequate remedy at law, including damage to the Company's business goodwill. To protect the Confidential Information and business goodwill of the Company, the Participant agrees to the following restrictive covenants.

(a) Non-Solicitation. The Participant agrees that, as part of the Participant's employment or association with the Company, the Participant will become familiar with the salary, pay scale, capabilities, experiences, skill and desires of the Company's employees and consultants. For these reasons, the Participant agrees that to protect the Company's Confidential Information, legitimate business

---

interests, and business goodwill, it is necessary to enter into the following restrictive covenant. The Participant agrees that, during the Participant's employment and for a period of twelve (12) months following the date on which the Participant's employment with the Company terminates for any reason ("**Restrictive Covenant Period**"), the Participant, whether directly or indirectly, shall not recruit, solicit, hire or attempt to recruit, solicit, or hire, directly or by assisting others, any persons employed by or associated with the Company, nor shall the Participant contact or communicate with any such persons for the purpose of inducing such persons to terminate their employment or association with the Company. For purposes of this paragraph, the "persons" covered by this prohibition include current employees and persons who were employed by the Company within twelve (12) months of the time of the attempted recruiting, solicitation, or hiring.

- (b) **Remedies.** The Participant acknowledges that the restrictions contained in Section 1 and Section 2, in view of the nature of the Company's business, are reasonable and necessary to protect their legitimate business interests, business goodwill and reputation, and that any violation of these restrictions would result in irreparable injury and continuing damage to the Company, and that money damages would not be a sufficient remedy to the Company for any such breach or threatened breach. Therefore, the Participant agrees that the Company shall be entitled to a temporary restraining order and injunctive relief restraining the Participant from the commission of any breach or threatened breach of Section 1 or Section 2, without the necessity of establishing irreparable harm or the posting of a bond, and to recover from the Participant damages incurred by the Company as a result of the breach, as well as the Company's attorneys' fees, costs and expenses related to any breach or threatened breach of this Agreement and enforcement of this Agreement. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation, the recovery of money damages, attorneys' fees, and costs. The existence of any claim or cause of action by the Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the restrictive covenants contained in Section 1 or Section 2, or preclude injunctive relief.
  - (c) **Tolling.** If the Participant violates any of the restrictions contained in this Section 2, the Restrictive Covenant Period shall be suspended and shall not run in favor of the Participant until such time that the Participant cures the violation to the satisfaction of the Company; the period of time in which the Participant is in breach shall be added to the Restrictive Covenant Period.
  - (d) **Notice.** If the Participant, in the future, seeks or is offered employment, or any other position or capacity with another company or entity, the Participant agrees to inform each new employer or entity, before accepting employment, of the existence of the restrictions in Section 1 and Section 2. The Company shall be entitled to advise such person or subsequent employer of the provisions of Section 1 and
-

Section 2 and to otherwise deal with such person to ensure that the provisions of Section 1 and Section 2 are enforced and duly discharged.

## RESTRICTED STOCK AWARD AGREEMENT

*Tuesday Morning Corporation  
2014 Long-Term Incentive Plan*

This **RESTRICTED STOCK AWARD AGREEMENT** (this “**Agreement**”) is entered into between Tuesday Morning Corporation, a Delaware corporation (the “**Company**”), and \_\_\_\_\_ (the “**Participant**”) effective as of \_\_\_\_\_ (the “**Date of Grant**”), pursuant to the Tuesday Morning Corporation 2014 Long-Term Incentive Plan, as amended (the “**Plan**”), the terms of which are incorporated by reference herein in their entirety.

**WHEREAS**, the Company desires to grant to the Participant the shares of common stock, par value \$0.01 per share (“**Common Stock**”), as an inducement for the Participant’s continued and effective performance of services for the Company, subject to the terms and conditions of this Agreement; and

**WHEREAS**, the Participant desires to have the opportunity to hold the Common Stock subject to the terms and conditions of this Agreement;

**NOW, THEREFORE**, in consideration of the premises, mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **Grant of Restricted Stock.** Effective as of the Date of Grant, the Company shall cause to be issued in the Participant’s name \_\_\_\_\_ shares of Common Stock (the “**Restricted Stock**”). The Company shall electronically register the Restricted Stock, and any Retained Distributions issued with respect to the Restricted Stock, in the Participant’s name and note that such shares are Restricted Stock. If certificates evidencing the Restricted Stock, or any Retained Distributions, are issued to the Participant during the Restricted Period, such certificates shall bear a restrictive legend, substantially as provided in Section 15.10 of the Plan, to the effect that ownership of such Restricted Stock (and any such Retained Distributions), and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms, and conditions provided in the Plan and this Agreement. The Participant shall have the right to vote the Restricted Stock awarded to the Participant and to receive and retain all regular cash dividends, and to exercise all other rights, powers and privileges of a holder of Common Stock, with respect to such Restricted Stock, with the exception that (a) the Participant shall not be entitled to delivery of a stock certificate or certificates representing such Restricted Stock until the Forfeiture Restrictions applicable thereto shall have expired and the Participant requests delivery of a certificate as described in Section 6.4(a) of the Plan, (b) the Company shall retain custody of all Retained Distributions made or declared with respect to the Restricted Stock (and such Retained Distributions shall be subject to the same restrictions, terms and conditions as are applicable to the Restricted Stock) until such time, if ever, as the Restricted Stock with
-

respect to which such Retained Distributions shall have been made, paid, or declared shall have become vested, and such Retained Distributions shall not bear interest or be segregated in separate accounts and (c) the Participant may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the Restricted Stock or any Retained Distributions during the Restricted Period. Upon issuance, the certificates for the Restricted Stock shall be delivered to the Secretary of the Company or to such other depository as may be designated by the Committee as a depository for safekeeping until the forfeiture of such Restricted Stock occurs or the Forfeiture Restrictions lapse, together with stock powers or other written instruments or electronic agreements of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock and any securities constituting Retained Distributions which shall be forfeited in accordance with the Plan and this Agreement. In accepting the award of Restricted Stock set forth in this Agreement, the Participant accepts and agrees to be bound by all the terms and conditions of the Plan and this Agreement.

2. **Definitions.** For purposes of this Agreement, the following terms shall have the meanings indicated below:

- (a) **“Cause”** shall mean the occurrence of one of the following events: (i) commission of fraud, embezzlement, theft, felony or an act of dishonesty in the course of the Participant’s employment by the Company or an Affiliate which conduct damaged the Company or an Affiliate, (ii) disclosure of trade secrets of the Company or an Affiliate, or (iii) violation of the terms of any non-competition, non-disclosure or similar agreement with respect to the Company or any Affiliate to which the Participant is a party.
  - (b) **“Forfeiture Restrictions”** shall mean any prohibitions and restrictions set forth herein with respect to the sale or other disposition of Restricted Stock issued to the Participant hereunder and the obligation to forfeit and surrender such Restricted Stock to the Company.
  - (c) **“Good Reason”** shall mean (i) a material reduction by the Company of the Participant’s annual compensation without the Participant’s consent; (ii) a material breach by the Company of this Agreement that is not cured within thirty (30) days of written notice by the Participant to the Company; or (iii) without the Participant’s consent, the Company relocates its principal executive offices, or requires the Participant to have the Participant’s principal work location change, which results in the Participant’s principal work location being changed to a location in excess of fifty (50) miles from the location of the Company’s principal executive offices as of the date hereof. The foregoing events shall not constitute Good Reason unless the Participant delivers to the Company a written notice specifying the circumstances giving rise to the alleged Good Reason within ninety (90) days after the Participant first learns of the existence of the circumstances giving rise to Good Reason; within thirty (30) days following delivery of such notice, the Company has failed to cure the circumstances giving rise to Good Reason; and the Participant resigns within sixty (60) days after the end of the cure period.
-

- (d) “**Restricted Period**” shall mean the period designated by the Committee during which Restricted Stock is subject to the Forfeiture Restrictions and may not be sold, assigned, transferred, pledged, or otherwise encumbered.
- (e) “**Retained Distributions**” shall mean any securities or other property (other than regular cash dividends) distributed by the Company in respect of the Restricted Stock during any Restricted Period.

Capitalized terms not otherwise defined in this Agreement shall have the meanings given to such terms in the Plan.

- 3. **Transfer Restrictions.** Except as otherwise authorized by the Committee, the Restricted Stock granted hereby may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of (other than by will or the applicable laws of descent and distribution) to the extent then subject to the Forfeiture Restrictions. Any such attempted sale, assignment, pledge, exchange, hypothecation, transfer, encumbrance or disposition in violation of this Agreement shall be void and the Company shall not be bound thereby. Further, the Restricted Stock granted hereby that is no longer subject to Forfeiture Restrictions may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. The Participant also agrees (a) that the Company may refuse to cause the transfer of the Restricted Stock to be registered on the applicable stock transfer records if such proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of any applicable securities law and (b) that the Company may give related instructions to the transfer agent, if any, to stop registration of the transfer of the Restricted Stock. The Restricted Stock is registered with the Securities and Exchange Commission under a Registration Statement on Form S-8. A Prospectus describing the Plan and the Stock is available from the Company.
  - 4. **Vesting.** The Restricted Stock that is granted hereby shall be subject to Forfeiture Restrictions. The Forfeiture Restrictions shall lapse as to the Restricted Stock that is granted hereby in accordance with the provisions of subsections (a) through (d) of this Section 4.
    - (a) *Generally.* The Forfeiture Restrictions shall lapse as to the Restricted Stock that is granted hereby as provided in subsection (b), provided that the Participant has not incurred a Termination of Service prior to the applicable date provided in subsection (b). If the Participant has incurred a Termination of Service before a date provided in subsection (b) then, except as otherwise specified in subsections (c) or (d) below, the Forfeiture Restrictions then applicable to any of the Restricted Stock shall not lapse and all of the Restricted Stock with respect to which Forfeiture Restrictions have not then lapsed shall be forfeited to the Company upon such Termination of Service.
-

- (b) *Vesting Date.* The Forfeiture Restrictions shall lapse, and the Restricted Stock will vest (subject to the provisions of subsection (a)) in accordance with the following schedule:<sup>1</sup>
- (i) on \_\_\_\_\_, the Forfeiture Restrictions shall lapse, and the Restricted Stock will vest, with respect to one-quarter (25%) of the Restricted Stock;
  - (ii) on \_\_\_\_\_, the Forfeiture Restrictions shall lapse, and the Restricted Stock will vest, with respect to an additional one-quarter (25%) of the Restricted Stock;
  - (iii) on \_\_\_\_\_, the Forfeiture Restrictions shall lapse, and the Restricted Stock will vest, with respect to an additional one-quarter (25%) of the Restricted Stock; and
  - (iv) on \_\_\_\_\_, the Forfeiture Restrictions shall lapse, and the Restricted Stock will vest, with respect to the remaining one-quarter (25%) of the Restricted Stock, so that on \_\_\_\_\_, the Restricted Stock will vest in full.
- (c) *Death or Total and Permanent Disability.* Notwithstanding any provisions of Section 4 to the contrary, in the event the Participant's Termination of Service is due to the Participant's death or Total and Permanent Disability prior to a date provided in subsection (b), the Forfeiture Restrictions for all of the Restricted Stock with respect to which Forfeiture Restrictions have not then lapsed shall lapse on the date of such Termination of Service due to death or Total and Permanent Disability.
- (d) *Change in Control.* Notwithstanding any provisions of Section 4 to the contrary, in the event (i) a Change in Control occurs prior to the date of the Participant's Termination of Service and (ii) the Participant incurs a Termination of Service during the two (2) year period commencing on the date that the Change in Control occurred, either (A) by the Company without Cause or (B) by the Participant for Good Reason, the Forfeiture Restrictions for all of the Restricted Stock with respect to which Forfeiture Restrictions have not then lapsed shall lapse upon the occurrence of such Change in Control.
- (e) *Forfeiture Upon Violation of Confidentiality/Nonsolicitation Provisions.* Notwithstanding anything to the contrary contained herein, in the event the Participant fails to comply with the confidentiality and non-solicitation provisions of Exhibit A, or the non-solicitation and/or confidentiality provisions contained in any written agreement by and between the Participant and the Company, then (i) the Forfeiture Restrictions shall not lapse, and any unvested Restricted Stock shall be immediately forfeited to the Company as of the date of such violation, and (ii) any Restricted Stock for which the Forfeiture Restrictions have lapsed, but that had

---

<sup>1</sup> NTD: Unless granted as "Exempt Shares," the Restricted Stock cannot vest earlier than over the three-year period commencing on the Date of Grant, and on a pro rata basis. The Company's standard four-year pro rata vesting schedule complies with this requirement.

---

not yet been delivered to the Participant shall be immediately forfeited and this Agreement (other than the provisions of this subsection (e) and the provisions of Exhibit A) will be terminated on the date of such violation.

5. ***Effect of Lapse of Restrictions.*** Upon the lapse of the Forfeiture Restrictions with respect to the Restricted Stock granted hereby, if requested by the Participant as described in Section 6.4(a) of the Plan, the Company shall cause to be delivered to the Participant a stock certificate representing such Restricted Stock, and such Restricted Stock shall be transferable by the Participant (except to the extent that any proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of applicable securities law).
  6. ***Capital Adjustments and Reorganizations.*** The existence of the Restricted Stock shall not affect in any way the right or power of the Company or its stockholders to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.
  7. ***Section 83(b) Election.*** The Participant shall not exercise the election permitted under section 83(b) of the Code with respect to the Restricted Stock without the written approval of the Chief Financial Officer of the Company.
  8. ***No Fractional Shares.*** All provisions of this Agreement concern whole shares of Common Stock. If the application of any provision hereunder would yield a fractional share, such fractional share shall be rounded down to the next whole share if it is less than 0.5 and rounded up to the next whole share if it is 0.5 or more.
  9. ***Not an Employment Agreement.*** This Agreement is not an employment or service agreement, and no provision of this Agreement shall be construed or interpreted to create an employment or service relationship between the Participant and the Company or guarantee the right to continue in the employment of the Company or a Subsidiary for any specified term.
  10. ***Limit of Liability.*** Under no circumstances will the Company or an Affiliate be liable for any indirect, incidental, consequential or special damages (including lost profits or taxes) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan, this Agreement or the Restricted Stock.
  11. ***Legend.*** The Participant consents to the placing on the certificate for the Restricted Stock of an appropriate legend restricting resale or other transfer of the Restricted Stock except in accordance with the Securities Act of 1933 and all applicable rules thereunder.
  12. ***Notices.*** Any notice, instruction, authorization, request or demand required hereunder shall be in writing, and shall be delivered either by personal delivery, telegram, telex, telecopy or similar facsimile means, by certified or registered mail, return receipt requested, or by
-

courier or delivery service, addressed to the Company at the Company's principal business office address and to the Participant at the Participant's residential address as shown in the records of the Company, or at such other address and number as a party shall have previously designated by written notice given to the other party in the manner hereinabove set forth. Notices shall be deemed given when received, if sent by facsimile means (confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by facsimile means); and when delivered (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by express courier or delivery service, or sent by certified or registered mail, return receipt requested.

13. **Amendment and Waiver.** Except as otherwise provided herein or in the Plan, or as necessary to implement the provisions of the Plan, this Agreement may be amended, modified or superseded only by written instrument executed, or an electronic agreement agreed to, by the Company and the Participant. Only a written instrument executed and delivered by, or an electronic agreement agreed to by, the party waiving compliance hereof shall waive any of the terms or conditions of this Agreement. Any waiver granted by the Company shall be effective only if executed and delivered by a duly authorized director or officer of the Company other than the Participant. The failure of any party at any time or times to require performance of any provisions hereof shall in no manner effect the right to enforce the same. No waiver by any party of any term or condition, or the breach of any term or condition contained in this Agreement, in one or more instances, shall be construed as a continuing waiver of any such condition or breach, a waiver of any other condition, or the breach of any other term or condition.
  14. **Governing Law and Severability.** The validity, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The invalidity of any provision of this Agreement shall not affect any other provision of this Agreement, which shall remain in full force and effect.
  15. **Successors and Assigns.** Subject to the limitations which this Agreement imposes upon the transferability of the Restricted Stock granted hereby, this Agreement shall bind, be enforceable by and inure to the benefit of the Company and its successors and assigns, and to the Participant, the Participant's permitted assigns and upon the Participant's death, the Participant's estate and beneficiaries thereof (whether by will or the laws of descent and distribution), executors, administrators, agents, legal and personal representatives.
  16. **Miscellaneous.** This Agreement is awarded pursuant to and is subject to all of the provisions of the Plan, including amendments to the Plan, if any.
  17. **Tax Withholding.** The Company or, if applicable, any Subsidiary (for purposes of this Section 17, the term "**Company**" shall be deemed to include any applicable Subsidiary), shall be entitled to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to the vesting of, or lapse of restrictions on, this Award. Alternatively, the Company may require the Participant (or other person validly exercising the Award) to pay such sums for taxes
-

directly to the Company in cash or by check within one (1) day after the date of vesting or lapse of restrictions. Such payments shall be required to be made when requested by the Company and may be required to be made prior to the removal of any restrictions on such shares or the delivery of any certificate representing shares of Common Stock, if such certificate is requested by the Participant in accordance with Section 6.4(a) of the Plan. Such payment may be made by (a) the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding obligations of the Company; (b) if the Company, in its sole discretion, so consents in writing, the actual delivery by the Participant to the Company of shares of Common Stock that the Participant has not acquired from the Company within six (6) months prior thereto, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding payment; (c) if the Company, in its sole discretion, so consents in writing, the Company's withholding of a number of shares to be delivered upon the vesting of the Restricted Stock, which shares so withheld have an aggregate Fair Market Value that equals (but does not exceed) the required tax withholding payment; or (d) any combination of (a), (b), or (c).

18. **Acceptance.** The Participant, by his or her acceptance of the Restricted Stock, agrees to be bound by all of the terms and conditions of this Agreement, including, without limitation, the provisions of Exhibit A, and the Plan, and further consents to and agrees to be bound by the Irrevocable Stock Power presented herewith.
  19. **Disclaimer of Reliance.** Except for the specific representations expressly made by the Company in this Agreement and Exhibit A, the Participant specifically disclaims that the Participant is relying upon or has relied upon any communications, promises, statement, inducements or representation(s) that may have been made, oral or written regarding the subject matter of this Agreement. The Participant represents that the Participant relied solely and only on the Participant's own judgment in making the decision to enter into this Agreement.
-

## EXHIBIT A

### 1. *Confidential Information, the Participant's Non-Disclosure Agreement and Work Product Ownership.*

- (a) Confidential Information. During the Participant's employment with the Company, the Company shall provide the Participant otherwise prohibited access to certain of its Confidential Information which is not known to the Company's competitors or within the Company's industry generally, which was developed by the Company over a long period of time and/or at its substantial expense, and which is of great competitive value to the Company. For purposes of this Agreement, "**Confidential Information**" includes all trade secrets and confidential and proprietary information of the Company, including, but not limited to, the following: all documents or information, in whatever form or medium, concerning or relating to the Company's operations; procedures; computer systems; customer information; methods of doing business; merchandise; marketing plans and methods; financial and accounting information; policies and practices; product information and strategy; project and prospect locations and leads; developmental or experimental work; research; development; know-how; technical data; designs; plans for research or future products; improvements; discoveries; database schemas or tables; development tools or techniques; finances; business plans; sales plans and strategies; budgets; pricing and pricing strategies and techniques; costs; customer and client lists and profiles; customer and client nonpublic personal information; supplier lists; business records; audits; management methods and information; reports, recommendations and conclusions; business practices; strategies; training manuals; vendors; suppliers; contractual relationships; and other business information disclosed or made available to the Participant by the Company, either directly or indirectly, in writing, orally, or by drawings or observation, that is not known to the public or any of the Company's competitors or within the Company's industry generally, which was developed by the Company at its expense, and which is of value to the Company. Confidential Information prepared or compiled by the Participant and/or the Company or furnished to the Participant during the Participant's employment with the Company shall be the sole and exclusive property of the Company, and none of such Confidential Information or copies thereof, shall be retained by the Participant. The Participant acknowledges that the Company does not voluntarily disclose Confidential Information, but rather takes precautions to prevent dissemination of Confidential Information beyond those employees such as the Participant entrusted with such information. The Participant further acknowledges that the Confidential Information: (i) is entrusted to the Participant because of the Participant's position with the Company; and (ii) is of such value and nature as to make it reasonable and necessary for the Participant to protect and preserve the confidentiality and secrecy of the Confidential Information. The Participant acknowledges and agrees that the Confidential Information is a valuable, special, and a unique asset of the Company, the disclosure of which could cause substantial injury and loss of profits and goodwill to the Company. While the Participant may not disclose any such Confidential
-

Information, the Participant has the right to discuss wages, benefits or other terms and conditions of employment. Nothing in this Agreement, including the definition of “**Confidential Information**” above and the nondisclosure requirements in Section 1(b) is intended to restrict the Participant’s right to have such discussions.

(b) Non-Disclosure.

- (i) The Participant shall hold all Confidential Information in strict confidence. The Participant shall not, during the period of the Participant’s employment or at any time thereafter, disclose to anyone, or publish, use for any purpose, exploit, or allow or assist another person to use, disclose or exploit, except for the benefit of the Company, without prior written authorization, any Confidential Information or part thereof, except as permitted: (1) in the ordinary course of the Company’s business or the Participant’s work for the Company; or (2) by law. The Participant shall use all reasonable precautions to assure that all Confidential Information is properly protected and kept from unauthorized persons. Further, the Participant shall not directly or indirectly, use the Company’s Confidential Information or information regarding the names, contact information, skills and compensation of employees and contractors of the Company to: (1) call upon, solicit business from, attempt to conduct business with, conduct business with, interfere with or divert business away from any customer, client, vendor or supplier of the Company with whom or which the Company conducted business within the eighteen (18) months prior to the Participant’s termination from employment with the Company; and/or (2) recruit, solicit, hire or attempt to recruit, solicit, or hire, directly or by assisting others, any persons employed by or associated with the Company. The Participant agrees that the Participant shall take all steps necessary to safeguard all Confidential Information and prevent its wrongful use, disclosure, or dissemination of any other person or entity. The Participant further agrees that in the event the Participant is subpoenaed, served with any legal process or notice or otherwise requested to produce or divulge, directly or indirectly, any Confidential Information by any entity, agency, or person in any formal or informal proceeding including, but not limited to, any interview, deposition, administrative or judicial hearing and/or trial, and upon the Participant’s receipt of such subpoena, process, notice or request, the Company requests that the Participant notify and deliver via overnight delivery service a copy of the subpoena, process, notice or other request to: the Company’s General Counsel at 6250 LBJ Freeway, Dallas, Texas 75240.
  
  - (ii) The Participant shall immediately notify the Company’s General Counsel if the Participant learns of or suspects any unauthorized disclosure of Confidential Information concerning the Company.
-

- (iii) Subject to Section 1(b)(iv), the Participant agrees that the Participant shall not use or disclose any confidential or trade secret information belonging to any former employer or third party, and the Participant shall not bring onto the premises of the Company or onto any the Company property any confidential or trade secret information belonging to any former employer or third party without such third parties' consent.
- (iv) During the Participant's employment, the Company will receive from third parties their confidential and/or proprietary information, subject to a duty on the Company's part to maintain the confidentiality of and to use such information only for certain limited purposes. The Participant agrees to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person or organization or to use it except as necessary in the course of the Participant's employment with the Company and in accordance with the Company's agreement with such third party.

(c) Return of the Company Property. Upon the termination of the Participant's employment for any reason, the Participant shall immediately return and deliver to the Company any and all property, including, without limitation, Confidential Information, software, devices, data, reports, proposals, lists, correspondence, materials, equipment, computers, hard drives, papers, books, records, documents, memoranda, manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, books of account, drawings, prints, plans, and the like which belong to the Company or which relate to the Company's business and which are in the Participant's possession, custody or control, whether prepared by the Participant or others. If at any time after termination of the Participant's employment, for any reason, the Participant determines that the Participant has any Confidential Information in the Participant's possession or control, the Participant shall immediately return to the Company all such Confidential Information in the Participant's possession or control, including all copies and portions thereof. Further, the Participant shall not retain any property, including, without limitation, Confidential Information, data, information, or documents, belonging to the Company or any copies thereof (in electronic or hard copy format).

2. **Non-Solicitation.** In Section 1, the Company promised to provide the Participant certain Confidential Information. The Participant recognizes and agrees that: (i) the Company has devoted a considerable amount of time, effort, and expense to develop its Confidential Information and business goodwill; (ii) the Company's Confidential Information and business goodwill are valuable assets to the Company; and (iii) any unauthorized use or disclosure of the Confidential Information would cause irreparable harm to the Company for which there is no adequate remedy at law, including damage to the Company's business goodwill. To protect the Confidential Information and business goodwill of the Company, the Participant agrees to the following restrictive covenants.

---

- (a) Non-Solicitation. The Participant agrees that, as part of the Participant's employment or association with the Company, the Participant will become familiar with the salary, pay scale, capabilities, experiences, skill and desires of the Company's employees and consultants. For these reasons, the Participant agrees that to protect the Company's Confidential Information, legitimate business interests, and business goodwill, it is necessary to enter into the following restrictive covenant. The Participant agrees that, during the Participant's employment and for a period of twelve (12) months following the date on which the Participant's employment with the Company terminates for any reason ("**Restrictive Covenant Period**"), the Participant, whether directly or indirectly, shall not recruit, solicit, hire or attempt to recruit, solicit, or hire, directly or by assisting others, any persons employed by or associated with the Company, nor shall the Participant contact or communicate with any such persons for the purpose of inducing such persons to terminate their employment or association with the Company. For purposes of this paragraph, the "persons" covered by this prohibition include current employees and persons who were employed by the Company within twelve (12) months of the time of the attempted recruiting, solicitation, or hiring.
- (b) Remedies. The Participant acknowledges that the restrictions contained in Section 1 and Section 2, in view of the nature of the Company's business, are reasonable and necessary to protect their legitimate business interests, business goodwill and reputation, and that any violation of these restrictions would result in irreparable injury and continuing damage to the Company, and that money damages would not be a sufficient remedy to the Company for any such breach or threatened breach. Therefore, the Participant agrees that the Company shall be entitled to a temporary restraining order and injunctive relief restraining the Participant from the commission of any breach or threatened breach of Section 1 or Section 2, without the necessity of establishing irreparable harm or the posting of a bond, and to recover from the Participant damages incurred by the Company as a result of the breach, as well as the Company's attorneys' fees, costs and expenses related to any breach or threatened breach of this Agreement and enforcement of this Agreement. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation, the recovery of money damages, attorneys' fees, and costs. The existence of any claim or cause of action by the Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the restrictive covenants contained in Section 1 or Section 2, or preclude injunctive relief.
- (c) Tolling. If the Participant violates any of the restrictions contained in this Section 2, the Restrictive Covenant Period shall be suspended and shall not run in favor of the Participant until such time that the Participant cures the violation to the
-

satisfaction of the Company; the period of time in which the Participant is in breach shall be added to the Restrictive Covenant Period.

- (d) Notice. If the Participant, in the future, seeks or is offered employment, or any other position or capacity with another company or entity, the Participant agrees to inform each new employer or entity, before accepting employment, of the existence of the restrictions in Section 1 and Section 2. The Company shall be entitled to advise such person or subsequent employer of the provisions of Section 1 and Section 2 and to otherwise deal with such person to ensure that the provisions of Section 1 and Section 2 are enforced and duly discharged.
-

## IRREVOCABLE STOCK POWER

***KNOW ALL MEN BY THESE PRESENTS, That For Value Received,*** the Participant (as defined in the Award Agreement) has bargained, sold, assigned and transferred and by these presents does bargain, sell, assign and transfer unto Tuesday Morning Corporation, a Delaware corporation (the "***Company***"), the Restricted Stock transferred pursuant to the **RESTRICTED STOCK AWARD AGREEMENT** dated as of and effective \_\_\_\_\_, 201\_\_, between the Company and the Participant granting such Restricted Stock to the Participant (the "***Award Agreement***"); ***and*** subject to and in accordance with the terms of the Award Agreement the Participant does hereby constitute and appoint the Secretary of the Company the Participant's true and lawful attorney, IRREVOCABLY, to sell, assign, transfer, hypothecate, pledge and make over all or any part of such Restricted Stock and for that purpose to make and execute all necessary acts of assignment and transfer thereof, and to substitute one or more persons with like full power, hereby ratifying and confirming all that said attorney or his or her substitutes shall lawfully do by virtue hereof.

**RESTRICTED STOCK AWARD AGREEMENT**  
**(Performance Based)**

*Tuesday Morning Corporation*  
*2014 Long-Term Incentive Plan*

This **RESTRICTED STOCK AWARD AGREEMENT** (this "**Agreement**") is entered into between Tuesday Morning Corporation, a Delaware corporation (the "**Company**"), and \_\_\_\_\_ (the "**Participant**") effective as of \_\_\_\_\_ (the "**Date of Grant**"), pursuant to the Tuesday Morning Corporation 2014 Long-Term Incentive Plan, as amended (the "**Plan**"), the terms of which are incorporated by reference herein in their entirety.

**WHEREAS**, the Company desires to grant to the Participant the shares of common stock, par value \$0.01 per share ("**Common Stock**"), as an inducement for the Participant's continued and effective performance of services for the Company, subject to the terms and conditions of this Agreement; and

**WHEREAS**, the Participant desires to have the opportunity to hold the Common Stock subject to the terms and conditions of this Agreement;

**NOW, THEREFORE**, in consideration of the premises, mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **Grant of Restricted Stock.** Effective as of the Date of Grant, the Company shall cause to be issued in the Participant's name [TOTAL NUMBER OF SHARES THAT COULD VEST AT MAXIMUM PERFORMANCE] shares of Common Stock (the "**Restricted Stock**"), [TOTAL NUMBER OF SHARES THAT COULD VEST AT TARGET] shares of which are "**Target Shares**" for purposes of Exhibit A. The Company shall electronically register the Restricted Stock, and any Retained Distributions issued with respect to the Restricted Stock, in the Participant's name and note that such shares are Restricted Stock. If certificates evidencing the Restricted Stock, or any Retained Distributions, are issued to the Participant during the Restricted Period, such certificates shall bear a restrictive legend, substantially as provided in Section 15.10 of the Plan, to the effect that ownership of such Restricted Stock (and any such Retained Distributions), and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms, and conditions provided in the Plan and this Agreement. The Participant shall have the right to vote the Restricted Stock awarded to the Participant and to receive and retain all regular cash dividends, and to exercise all other rights, powers and privileges of a holder of Common Stock, with respect to such Restricted Stock, with the exception that (a) the Participant shall not be entitled to delivery of a stock certificate or certificates representing such Restricted Stock until the Forfeiture Restrictions applicable thereto shall have expired and the Participant requests delivery of a certificate as described in Section 6.4(a) of the Plan, (b) the Company shall retain custody of all Retained Distributions made or declared
-

with respect to the Restricted Stock (and such Retained Distributions shall be subject to the same restrictions, terms and conditions as are applicable to the Restricted Stock) until such time, if ever, as the Restricted Stock with respect to which such Retained Distributions shall have been made, paid, or declared shall have become vested, and such Retained Distributions shall not bear interest or be segregated in separate accounts and (c) the Participant may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the Restricted Stock or any Retained Distributions during the Restricted Period. Upon issuance, the certificates for the Restricted Stock shall be delivered to the Secretary of the Company or to such other depository as may be designated by the Committee as a depository for safekeeping until the forfeiture of such Restricted Stock occurs or the Forfeiture Restrictions lapse, together with stock powers or other written instruments or electronic agreements of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock and any securities constituting Retained Distributions which shall be forfeited in accordance with the Plan and this Agreement. In accepting the award of Restricted Stock set forth in this Agreement, the Participant accepts and agrees to be bound by all the terms and conditions of the Plan and this Agreement.

2. **Definitions.** For purposes of this Agreement, the following terms shall have the meanings indicated below:

- (a) **“Cause”** shall mean the occurrence of one of the following events: (i) commission of fraud, embezzlement, theft, felony or an act of dishonesty in the course of the Participant’s employment by the Company or an Affiliate which conduct damaged the Company or an Affiliate, (ii) disclosure of trade secrets of the Company or an Affiliate, or (iii) violation of the terms of any non-competition, non-disclosure or similar agreement with respect to the Company or any Affiliate to which the Participant is a party.
  - (b) **“Forfeiture Restrictions”** shall mean any prohibitions and restrictions set forth herein with respect to the sale or other disposition of Restricted Stock issued to the Participant hereunder and the obligation to forfeit and surrender such Restricted Stock to the Company.
  - (c) **“Good Reason”** shall mean (i) a material reduction by the Company of the Participant’s annual compensation without the Participant’s consent; (ii) a material breach by the Company of this Agreement that is not cured within thirty (30) days of written notice by the Participant to the Company; or (iii) without the Participant’s consent, the Company relocates its principal executive offices, or requires the Participant to have the Participant’s principal work location change, which results in the Participant’s principal work location being changed to a location in excess of fifty (50) miles from the location of the Company’s principal executive offices as of the date hereof. The foregoing events shall not constitute Good Reason unless the Participant delivers to the Company a written notice specifying the circumstances giving rise to the alleged Good Reason within ninety (90) days after the Participant first learns of the existence of the circumstances giving rise to Good Reason; within thirty (30) days following delivery of such notice, the Company has
-

failed to cure the circumstances giving rise to Good Reason; and the Participant resigns within sixty (60) days after the end of the cure period.

- (d) “**Restricted Period**” shall mean the period designated by the Committee during which Restricted Stock is subject to the Forfeiture Restrictions and may not be sold, assigned, transferred, pledged, or otherwise encumbered.
- (e) “**Retained Distributions**” shall mean any securities or other property (other than regular cash dividends) distributed by the Company in respect of the Restricted Stock during any Restricted Period.

Capitalized terms not otherwise defined in this Agreement shall have the meanings given to such terms in the Plan.

- 3. **Transfer Restrictions.** Except as otherwise authorized by the Committee, the Restricted Stock granted hereby may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of (other than by will or the applicable laws of descent and distribution) to the extent then subject to the Forfeiture Restrictions. Any such attempted sale, assignment, pledge, exchange, hypothecation, transfer, encumbrance or disposition in violation of this Agreement shall be void and the Company shall not be bound thereby. Further, the Restricted Stock granted hereby that is no longer subject to Forfeiture Restrictions may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. The Participant also agrees (a) that the Company may refuse to cause the transfer of the Restricted Stock to be registered on the applicable stock transfer records if such proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of any applicable securities law and (b) that the Company may give related instructions to the transfer agent, if any, to stop registration of the transfer of the Restricted Stock. The Restricted Stock is registered with the Securities and Exchange Commission under a Registration Statement on Form S-8. A Prospectus describing the Plan and the Stock is available from the Company.
  - 4. **Vesting.** The Restricted Stock that is granted hereby shall be subject to Forfeiture Restrictions. The Forfeiture Restrictions shall lapse as to the Restricted Stock that is granted hereby in accordance with the provisions of subsections (a) through (e) of this Section 4.
    - (a) *Generally.* The Forfeiture Restrictions shall lapse as to the Restricted Stock that is granted hereby as provided in subsection (b), provided that the Participant has not incurred a Termination of Service prior to the applicable date provided in subsection (b). If the Participant has incurred a Termination of Service before a date provided in subsection (b) then, except as otherwise specified in subsections (c) or (d) below, the Forfeiture Restrictions then applicable to any of the Restricted Stock shall not lapse and all of the Restricted Stock with respect to which Forfeiture Restrictions have not then lapsed shall be forfeited to the Company upon such Termination of Service.
-

- (b) *Vesting Date and Criteria.* The Restricted Shares will vest, and the Forfeiture Restrictions will lapse, as specified herein and upon the satisfaction of the conditions contained in Exhibit A.
  - (c) *Death or Total and Permanent Disability.* Notwithstanding any provisions of Section 4 to the contrary, in the event the Participant's Termination of Service is due to the Participant's death or Total and Permanent Disability prior to a date provided in subsection (b), the Forfeiture Restrictions for all of the Restricted Stock with respect to which Forfeiture Restrictions have not then lapsed shall lapse on the date of such Termination of Service due to death or Total and Permanent Disability.
  - (d) *[Change in Control.* Notwithstanding any provisions of Section 4 to the contrary, in the event (i) a Change in Control occurs prior to the date of the Participant's Termination of Service and (ii) the Participant incurs a Termination of Service during the two (2) year period commencing on the date that the Change in Control occurred, either (A) by the Company without Cause or (B) by the Participant for Good Reason, the Forfeiture Restrictions for all of the Restricted Stock with respect to which Forfeiture Restrictions have not then lapsed shall lapse upon the occurrence of such Change in Control.]
  - (e) *Forfeiture Upon Violation of Confidentiality/Nonsolicitation Provisions.* Notwithstanding anything to the contrary contained herein, in the event the Participant fails to comply with the confidentiality and non-solicitation provisions of Exhibit B, or the non-solicitation and/or confidentiality provisions contained in any written agreement by and between the Participant and the Company, then (i) the Forfeiture Restrictions shall not lapse, and any unvested Restricted Stock shall be immediately forfeited to the Company as of the date of such violation, and (ii) any Restricted Stock for which the Forfeiture Restrictions have lapsed, but that had not yet been delivered to the Participant shall be immediately forfeited and this Agreement (other than the provisions of this subsection (e) and the provisions of Exhibit B) will be terminated on the date of such violation.
5. ***Effect of Lapse of Restrictions.*** Upon the lapse of the Forfeiture Restrictions with respect to the Restricted Stock granted hereby, if requested by the Participant as described in Section 6.4(a) of the Plan, the Company shall cause to be delivered to the Participant a stock certificate representing such Restricted Stock, and such Restricted Stock shall be transferable by the Participant (except to the extent that any proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of applicable securities law).
6. ***Capital Adjustments and Reorganizations.*** The existence of the Restricted Stock shall not affect in any way the right or power of the Company or its stockholders to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.
-

7. **Section 83(b) Election.** The Participant shall not exercise the election permitted under section 83(b) of the Code with respect to the Restricted Stock without the written approval of the Chief Financial Officer of the Company.
  8. **No Fractional Shares.** All provisions of this Agreement concern whole shares of Common Stock. If the application of any provision hereunder would yield a fractional share, such fractional share shall be rounded down to the next whole share if it is less than 0.5 and rounded up to the next whole share if it is 0.5 or more.
  9. **Not an Employment Agreement.** This Agreement is not an employment or service agreement, and no provision of this Agreement shall be construed or interpreted to create an employment or service relationship between the Participant and the Company or guarantee the right to continue in the employment of the Company or a Subsidiary for any specified term.
  10. **Limit of Liability.** Under no circumstances will the Company or an Affiliate be liable for any indirect, incidental, consequential or special damages (including lost profits or taxes) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan, this Agreement or the Restricted Stock.
  11. **Legend.** The Participant consents to the placing on the certificate for the Restricted Stock of an appropriate legend restricting resale or other transfer of the Restricted Stock except in accordance with the Securities Act of 1933 and all applicable rules thereunder.
  12. **Notices.** Any notice, instruction, authorization, request or demand required hereunder shall be in writing, and shall be delivered either by personal delivery, telegram, telex, telecopy or similar facsimile means, by certified or registered mail, return receipt requested, or by courier or delivery service, addressed to the Company at the Company's principal business office address and to the Participant at the Participant's residential address as shown in the records of the Company, or at such other address and number as a party shall have previously designated by written notice given to the other party in the manner hereinabove set forth. Notices shall be deemed given when received, if sent by facsimile means (confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by facsimile means); and when delivered (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by express courier or delivery service, or sent by certified or registered mail, return receipt requested.
  13. **Amendment and Waiver.** Except as otherwise provided herein or in the Plan, or as necessary to implement the provisions of the Plan, this Agreement may be amended, modified or superseded only by written instrument executed, or an electronic agreement agreed to, by the Company and the Participant. Only a written instrument executed and delivered by, or an electronic agreement agreed to by, the party waiving compliance hereof shall waive any of the terms or conditions of this Agreement. Any waiver granted by the Company shall be effective only if executed and delivered by a duly authorized director or officer of the Company other than the Participant. The failure of any party at any time or times to require performance of any provisions hereof shall in no manner effect the right
-

to enforce the same. No waiver by any party of any term or condition, or the breach of any term or condition contained in this Agreement, in one or more instances, shall be construed as a continuing waiver of any such condition or breach, a waiver of any other condition, or the breach of any other term or condition.

14. **Governing Law and Severability.** The validity, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The invalidity of any provision of this Agreement shall not affect any other provision of this Agreement, which shall remain in full force and effect.
  15. **Successors and Assigns.** Subject to the limitations which this Agreement imposes upon the transferability of the Restricted Stock granted hereby, this Agreement shall bind, be enforceable by and inure to the benefit of the Company and its successors and assigns, and to the Participant, the Participant's permitted assigns and upon the Participant's death, the Participant's estate and beneficiaries thereof (whether by will or the laws of descent and distribution), executors, administrators, agents, legal and personal representatives.
  16. **Miscellaneous.** This Agreement is awarded pursuant to and is subject to all of the provisions of the Plan, including amendments to the Plan, if any.
  17. **Tax Withholding.** The Company or, if applicable, any Subsidiary (for purposes of this Section 17, the term "**Company**" shall be deemed to include any applicable Subsidiary), shall be entitled to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to the vesting of, or lapse of restrictions on, this Award. Alternatively, the Company may require the Participant (or other person validly exercising the Award) to pay such sums for taxes directly to the Company in cash or by check within one (1) day after the date of vesting or lapse of restrictions. Such payments shall be required to be made when requested by the Company and may be required to be made prior to the removal of any restrictions on such shares or the delivery of any certificate representing shares of Common Stock, if such certificate is requested by the Participant in accordance with Section 6.4(a) of the Plan. Such payment may be made by (a) the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding obligations of the Company; (b) if the Company, in its sole discretion, so consents in writing, the actual delivery by the Participant to the Company of shares of Common Stock that the Participant has not acquired from the Company within six (6) months prior thereto, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding payment; (c) if the Company, in its sole discretion, so consents in writing, the Company's withholding of a number of shares to be delivered upon the vesting of the Restricted Stock, which shares so withheld have an aggregate Fair Market Value that equals (but does not exceed) the required tax withholding payment; or (d) any combination of (a), (b), or (c).
-

18. **Acceptance.** The Participant, by his or her acceptance of the Restricted Stock, agrees to be bound by all of the terms and conditions of this Agreement, including, without limitation, the provisions of Exhibit A, Exhibit B and the Plan, and further consents to and agrees to be bound by the Irrevocable Stock Power presented herewith.
19. **Disclaimer of Reliance.** Except for the specific representations expressly made by the Company in this Agreement and Exhibit A, the Participant specifically disclaims that the Participant is relying upon or has relied upon any communications, promises, statement, inducements or representation(s) that may have been made, oral or written regarding the subject matter of this Agreement. The Participant represents that the Participant relied solely and only on the Participant's own judgment in making the decision to enter into this Agreement.
-

## EXHIBIT A

**[Describe vesting dates and performance criteria here]<sup>1</sup>**

---

<sup>1</sup> NTD: Unless granted as "Exempt Shares," the Restricted Stock granted hereunder cannot vest earlier than one year after the Date of Grant.

---

## EXHIBIT B

### 1. ***Confidential Information, the Participant's Non-Disclosure Agreement and Work Product Ownership.***

- (a) **Confidential Information.** During the Participant's employment with the Company, the Company shall provide the Participant otherwise prohibited access to certain of its Confidential Information which is not known to the Company's competitors or within the Company's industry generally, which was developed by the Company over a long period of time and/or at its substantial expense, and which is of great competitive value to the Company. For purposes of this Agreement, "***Confidential Information***" includes all trade secrets and confidential and proprietary information of the Company, including, but not limited to, the following: all documents or information, in whatever form or medium, concerning or relating to the Company's operations; procedures; computer systems; customer information; methods of doing business; merchandise; marketing plans and methods; financial and accounting information; policies and practices; product information and strategy; project and prospect locations and leads; developmental or experimental work; research; development; know-how; technical data; designs; plans for research or future products; improvements; discoveries; database schemas or tables; development tools or techniques; finances; business plans; sales plans and strategies; budgets; pricing and pricing strategies and techniques; costs; customer and client lists and profiles; customer and client nonpublic personal information; supplier lists; business records; audits; management methods and information; reports, recommendations and conclusions; business practices; strategies; training manuals; vendors; suppliers; contractual relationships; and other business information disclosed or made available to the Participant by the Company, either directly or indirectly, in writing, orally, or by drawings or observation, that is not known to the public or any of the Company's competitors or within the Company's industry generally, which was developed by the Company at its expense, and which is of value to the Company. Confidential Information prepared or compiled by the Participant and/or the Company or furnished to the Participant during the Participant's employment with the Company shall be the sole and exclusive property of the Company, and none of such Confidential Information or copies thereof, shall be retained by the Participant. The Participant acknowledges that the Company does not voluntarily disclose Confidential Information, but rather takes precautions to prevent dissemination of Confidential Information beyond those employees such as the Participant entrusted with such information. The Participant further acknowledges that the Confidential Information: (i) is entrusted to the Participant because of the Participant's position with the Company; and (ii) is of such value and nature as to make it reasonable and necessary for the Participant to protect and preserve the confidentiality and secrecy of the Confidential Information. The Participant acknowledges and agrees that the Confidential Information is a valuable, special, and a unique asset of the Company, the disclosure of which could cause substantial injury and loss of profits and goodwill to the Company. While the Participant may not disclose any such Confidential
-

Information, the Participant has the right to discuss wages, benefits or other terms and conditions of employment. Nothing in this Agreement, including the definition of “**Confidential Information**” above and the nondisclosure requirements in Section 1(b) is intended to restrict the Participant’s right to have such discussions.

(b) Non-Disclosure.

- (i) The Participant shall hold all Confidential Information in strict confidence. The Participant shall not, during the period of the Participant’s employment or at any time thereafter, disclose to anyone, or publish, use for any purpose, exploit, or allow or assist another person to use, disclose or exploit, except for the benefit of the Company, without prior written authorization, any Confidential Information or part thereof, except as permitted: (1) in the ordinary course of the Company’s business or the Participant’s work for the Company; or (2) by law. The Participant shall use all reasonable precautions to assure that all Confidential Information is properly protected and kept from unauthorized persons. Further, the Participant shall not directly or indirectly, use the Company’s Confidential Information or information regarding the names, contact information, skills and compensation of employees and contractors of the Company to: (1) call upon, solicit business from, attempt to conduct business with, conduct business with, interfere with or divert business away from any customer, client, vendor or supplier of the Company with whom or which the Company conducted business within the eighteen (18) months prior to the Participant’s termination from employment with the Company; and/or (2) recruit, solicit, hire or attempt to recruit, solicit, or hire, directly or by assisting others, any persons employed by or associated with the Company. The Participant agrees that the Participant shall take all steps necessary to safeguard all Confidential Information and prevent its wrongful use, disclosure, or dissemination of any other person or entity. The Participant further agrees that in the event the Participant is subpoenaed, served with any legal process or notice or otherwise requested to produce or divulge, directly or indirectly, any Confidential Information by any entity, agency, or person in any formal or informal proceeding including, but not limited to, any interview, deposition, administrative or judicial hearing and/or trial, and upon the Participant’s receipt of such subpoena, process, notice or request, the Company requests that the Participant notify and deliver via overnight delivery service a copy of the subpoena, process, notice or other request to: the Company’s General Counsel at 6250 LBJ Freeway, Dallas, Texas 75240.
- (ii) The Participant shall immediately notify the Company’s General Counsel if the Participant learns of or suspects any unauthorized disclosure of Confidential Information concerning the Company.
-

(iii) Subject to Section 1(b)(iv), the Participant agrees that the Participant shall not use or disclose any confidential or trade secret information belonging to any former employer or third party, and the Participant shall not bring onto the premises of the Company or onto any the Company property any confidential or trade secret information belonging to any former employer or third party without such third parties' consent.

(iv) During the Participant's employment, the Company will receive from third parties their confidential and/or proprietary information, subject to a duty on the Company's part to maintain the confidentiality of and to use such information only for certain limited purposes. The Participant agrees to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person or organization or to use it except as necessary in the course of the Participant's employment with the Company and in accordance with the Company's agreement with such third party.

(c) Return of the Company Property. Upon the termination of the Participant's employment for any reason, the Participant shall immediately return and deliver to the Company any and all property, including, without limitation, Confidential Information, software, devices, data, reports, proposals, lists, correspondence, materials, equipment, computers, hard drives, papers, books, records, documents, memoranda, manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, books of account, drawings, prints, plans, and the like which belong to the Company or which relate to the Company's business and which are in the Participant's possession, custody or control, whether prepared by the Participant or others. If at any time after termination of the Participant's employment, for any reason, the Participant determines that the Participant has any Confidential Information in the Participant's possession or control, the Participant shall immediately return to the Company all such Confidential Information in the Participant's possession or control, including all copies and portions thereof. Further, the Participant shall not retain any property, including, without limitation, Confidential Information, data, information, or documents, belonging to the Company or any copies thereof (in electronic or hard copy format).

2. **Non-Solicitation.** In Section 1, the Company promised to provide the Participant certain Confidential Information. The Participant recognizes and agrees that: (i) the Company has devoted a considerable amount of time, effort, and expense to develop its Confidential Information and business goodwill; (ii) the Company's Confidential Information and business goodwill are valuable assets to the Company; and (iii) any unauthorized use or disclosure of the Confidential Information would cause irreparable harm to the Company for which there is no adequate remedy at law, including damage to the Company's business goodwill. To protect the Confidential Information and business goodwill of the Company, the Participant agrees to the following restrictive covenants.

---

- (a) Non-Solicitation. The Participant agrees that, as part of the Participant's employment or association with the Company, the Participant will become familiar with the salary, pay scale, capabilities, experiences, skill and desires of the Company's employees and consultants. For these reasons, the Participant agrees that to protect the Company's Confidential Information, legitimate business interests, and business goodwill, it is necessary to enter into the following restrictive covenant. The Participant agrees that, during the Participant's employment and for a period of twelve (12) months following the date on which the Participant's employment with the Company terminates for any reason ("**Restrictive Covenant Period**"), the Participant, whether directly or indirectly, shall not recruit, solicit, hire or attempt to recruit, solicit, or hire, directly or by assisting others, any persons employed by or associated with the Company, nor shall the Participant contact or communicate with any such persons for the purpose of inducing such persons to terminate their employment or association with the Company. For purposes of this paragraph, the "persons" covered by this prohibition include current employees and persons who were employed by the Company within twelve (12) months of the time of the attempted recruiting, solicitation, or hiring.
- (b) Remedies. The Participant acknowledges that the restrictions contained in Section 1 and Section 2, in view of the nature of the Company's business, are reasonable and necessary to protect their legitimate business interests, business goodwill and reputation, and that any violation of these restrictions would result in irreparable injury and continuing damage to the Company, and that money damages would not be a sufficient remedy to the Company for any such breach or threatened breach. Therefore, the Participant agrees that the Company shall be entitled to a temporary restraining order and injunctive relief restraining the Participant from the commission of any breach or threatened breach of Section 1 or Section 2, without the necessity of establishing irreparable harm or the posting of a bond, and to recover from the Participant damages incurred by the Company as a result of the breach, as well as the Company's attorneys' fees, costs and expenses related to any breach or threatened breach of this Agreement and enforcement of this Agreement. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation, the recovery of money damages, attorneys' fees, and costs. The existence of any claim or cause of action by the Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the restrictive covenants contained in Section 1 or Section 2, or preclude injunctive relief.
- (c) Tolling. If the Participant violates any of the restrictions contained in this Section 2, the Restrictive Covenant Period shall be suspended and shall not run in favor of the Participant until such time that the Participant cures the violation to the
-

satisfaction of the Company; the period of time in which the Participant is in breach shall be added to the Restrictive Covenant Period.

- (d) Notice. If the Participant, in the future, seeks or is offered employment, or any other position or capacity with another company or entity, the Participant agrees to inform each new employer or entity, before accepting employment, of the existence of the restrictions in Section 1 and Section 2. The Company shall be entitled to advise such person or subsequent employer of the provisions of Section 1 and Section 2 and to otherwise deal with such person to ensure that the provisions of Section 1 and Section 2 are enforced and duly discharged.
-

## IRREVOCABLE STOCK POWER

***KNOW ALL MEN BY THESE PRESENTS, That For Value Received***, the Participant (as defined in the Award Agreement) has bargained, sold, assigned and transferred and by these presents does bargain, sell, assign and transfer unto Tuesday Morning Corporation, a Delaware corporation (the "***Company***"), the Restricted Stock transferred pursuant to the **RESTRICTED STOCK AWARD AGREEMENT** dated as of and effective \_\_\_\_\_, between the Company and the Participant granting such Restricted Stock to the Participant (the "***Award Agreement***"); ***and*** subject to and in accordance with the terms of the Award Agreement the Participant does hereby constitute and appoint the Secretary of the Company the Participant's true and lawful attorney, IRREVOCABLY, to sell, assign, transfer, hypothecate, pledge and make over all or any part of such Restricted Stock and for that purpose to make and execute all necessary acts of assignment and transfer thereof, and to substitute one or more persons with like full power, hereby ratifying and confirming all that said attorney or his or her substitutes shall lawfully do by virtue hereof.

**Subsidiaries of Tuesday Morning Corporation**

TMI Holdings, Inc., a Delaware corporation

Tuesday Morning, Inc., a Texas corporation

Friday Morning, LLC, a Texas limited liability company

Days of the Week, Inc., a Delaware corporation

Nights of the Week, Inc., a Delaware corporation

Tuesday Morning Partners, Ltd., a Texas limited partnership

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-84496) of Tuesday Morning Corporation,
- (2) Registration Statement (Form S-3 No. 333-108275) of Tuesday Morning Corporation,
- (3) Registration Statement (Form S-3 No. 333-147103) of Tuesday Morning Corporation,
- (4) Registration Statement (Form S-8 No. 333-214880) pertaining to the Tuesday Morning Corporation 2014 Long-Term Incentive Plan,
- (5) Registration Statement (Form S-8 No. 333-200779) pertaining to the Tuesday Morning Corporation 2014 Long-Term Incentive Plan,
- (6) Registration Statement (Form S-8 No. 333-185314) pertaining to the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan,
- (7) Registration Statement (Form S-8 No. 333-159035) pertaining to the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan,
- (8) Registration Statement (Form S-8 No. 333-79441) pertaining to the Tuesday Morning Corporation Employee Stock Purchase Plan,
- (9) Registration Statement (Form S-8 No. 333-90315) pertaining to the Tuesday Morning Corporation 1997 Long-Term Equity Incentive Plan,
- (10) Registration Statement (Form S-8 No. 333-117880) pertaining to the Tuesday Morning Corporation 2004 Long-Term Equity Incentive Plan, and
- (11) Registration Statement (Form S-8 No. 333-145811) pertaining to the Tuesday Morning Corporation 1997 Long-Term Equity Incentive Plan;

of our reports dated August 21, 2018, with respect to the consolidated financial statements of Tuesday Morning Corporation and the effectiveness of internal control over financial reporting of Tuesday Morning Corporation included in this Annual Report (Form 10-K) for the year ended June 30, 2018.

/s/ Ernst & Young LLP

Dallas, Texas  
August 21, 2018

## CERTIFICATION

I, Steven R. Becker, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: August 21, 2018

By: /s/ STEVEN R. BECKER  
Steven R. Becker  
*Chief Executive Officer*

## CERTIFICATION

I, Stacie R. Shirley, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: August 21, 2018

By: /s/ STACIE R. SHIRLEY

Stacie R. Shirley

*Executive Vice President, Chief Financial Officer and Treasurer*

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

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

1. The Annual Report on Form 10-K of Tuesday Morning Corporation for the fiscal year ended June 30, 2018 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: August 21, 2018

By: /s/ STEVEN R. BECKER  
Steven R. Becker  
*Chief Executive Officer*

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

I, Stacie R Shirley, the Executive Vice President, Chief Financial Officer and Treasurer of Tuesday Morning Corporation, hereby certify that to the best of my knowledge and belief:

1. The Annual Report on Form 10-K of Tuesday Morning Corporation for the fiscal year ended June 30, 2018 fully complies with the requirements of Sections 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: August 21, 2018

By: /s/ STACIE R. SHIRLEY

Stacie R. Shirley

*Executive Vice President, Chief Financial Officer and Treasurer*