

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 0-19658

TUESDAY MORNING CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

(972) 387-3562
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

Class	Outstanding at May 6, 2014
Common Stock, par value \$0.01 per share	43,471,961

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Tuesday Morning Corporation
Consolidated Balance Sheets
March 31, 2014 (unaudited) and June 30, 2013
(In thousands, except per share data)

	March 31, 2014	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 41,615	\$ 28,896
Inventories	205,784	211,981
Prepaid expenses	7,556	6,609
Deferred income taxes	—	991
Other current assets	603	2,310
Total Current Assets	255,558	250,787
Property and equipment, net	67,237	66,009
Deferred financing costs	1,565	2,011
Other assets	701	1,203
Deferred income tax — non current	3,655	1,870
Total Assets	<u>\$ 328,716</u>	<u>\$ 321,880</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 73,341	\$ 72,958
Accrued liabilities	40,289	35,719
Deferred income taxes payable	3,655	—
Income taxes payable	122	85
Total Current Liabilities	117,407	108,762
Deferred rent	2,711	2,885
Other liabilities — non current	—	2,289
Income tax payable - non current	404	487
Total Liabilities	120,522	114,423
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, authorized 10,000,000 shares; none issued or outstanding	—	—
Common stock, par value \$0.01 per share, authorized 100,000,000 shares; 45,222,267 shares issued and 43,467,961 shares outstanding at March 31, 2014 and 44,517,731 shares issued and 42,785,978 shares outstanding at June 30, 2013	452	445
Additional paid-in capital	217,825	214,012
Retained deficit	(3,565)	(802)
Less: 1,754,306 common shares in treasury, at cost, at March 31, 2014 and 1,731,753 common shares in treasury, at cost, at June 30, 2013	(6,518)	(6,198)
Total Stockholders' Equity	208,194	207,457
Total Liabilities and Stockholders' Equity	<u>\$ 328,716</u>	<u>\$ 321,880</u>

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Net sales	\$ 182,765	\$ 178,073	\$ 652,214	\$ 636,179
Cost of sales	114,664	111,916	421,348	443,515
Gross profit	68,101	66,157	230,866	192,664
Selling, general and administrative expenses	75,730	77,891	232,678	237,875
Operating loss	(7,629)	(11,734)	(1,812)	(45,211)
Other income (expense):				
Interest income	5	2	20	2
Interest expense	(360)	(384)	(1,129)	(1,292)
Other income (expense), net	(4)	(140)	79	(1,349)
Other expense, net	(359)	(522)	(1,030)	(2,639)
Loss before income taxes	(7,988)	(12,256)	(2,842)	(47,850)
Income tax provision (benefit)	440	110	(79)	(7,057)
Net loss	<u>\$ (8,428)</u>	<u>\$ (12,366)</u>	<u>\$ (2,763)</u>	<u>\$ (40,793)</u>
Earnings Per Share				
Net loss per common share:				
Basic	\$ (0.20)	\$ (0.29)	\$ (0.06)	\$ (0.97)
Diluted	\$ (0.20)	\$ (0.29)	\$ (0.06)	\$ (0.97)
Weighted average number of common shares:				
Basic	43,072	42,427	42,863	42,164
Diluted	43,072	42,427	42,863	42,164
Dividends per common share	\$ —	\$ —	\$ —	\$ —

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

Tuesday Morning Corporation
Statement of Comprehensive Loss (unaudited)
(In thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Net loss	\$ (8,428)	\$ (12,366)	\$ (2,763)	\$ (40,793)
Other Comprehensive Income (Loss):				
Foreign currency translation adjustments	—	(2)	—	54
Less: Reclassification adjustment for losses included in net income/(loss)	—	—	—	(1)
Other Comprehensive Income, before tax	—	(2)	—	53
Less: Income tax provision (benefit) related to items of other comprehensive income	—	(1)	—	20
Comprehensive Loss	<u>\$ (8,428)</u>	<u>\$ (12,367)</u>	<u>\$ (2,763)</u>	<u>\$ (40,760)</u>

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

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

	Nine Months Ended March 31,	
	2014	2013
Net cash flows from operating activities:		
Net loss	\$ (2,763)	\$ (40,793)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	9,090	10,402
Amortization of financing fees	446	443
Deferred income taxes	3,265	(7,139)
Loss on disposal of assets	361	2,055
Share-based compensation	1,829	2,350
Other non-cash items	—	54
Change in operating assets and liabilities:		
Inventories	6,237	28,776
Prepaid and other current assets	1,262	335
Accounts payable	383	(2,723)
Accrued liabilities	4,570	8,208
Other payable — non-current	(2,289)	—
Deferred rent	(174)	(554)
Income taxes payable	(450)	49
Net cash provided by operating activities	<u>21,767</u>	<u>1,463</u>
Net cash flows from investing activities:		
Proceeds from sale of assets	34	—
Capital expenditures	(10,713)	(8,312)
Net cash used in investing activities	<u>(10,679)</u>	<u>(8,312)</u>
Net cash flows from financing activities:		
Repayments under revolving credit facility	(25,100)	(94,665)
Proceeds under revolving credit facility	25,100	94,665
Change in cash overdraft	—	—
Excess tax benefit related to exercise of stock options	—	—
Purchase of treasury stock	(320)	(87)
Proceeds from the exercise of employee stock options	1,951	1,678
Net cash provided by financing activities	<u>1,631</u>	<u>1,591</u>
Net increase (decrease) in cash and cash equivalents	12,719	(5,258)
Cash and cash equivalents, beginning of period	28,896	39,740
Cash and cash equivalents, end of period	<u>\$ 41,615</u>	<u>\$ 34,482</u>

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

Tuesday Morning Corporation
Notes to Consolidated Financial Statements (unaudited)

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

1. **Basis of presentation** — The unaudited interim consolidated financial statements included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. These financial statements include all adjustments, consisting only of those of a normal recurring nature, which, in the opinion of management, are necessary to present fairly the results of the interim periods presented and should be read in conjunction with the audited consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013. The balance sheet at June 30, 2013 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements. For further information, refer to the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013. The results of operations for the three and nine month periods ended March 31, 2014 are not necessarily indicative of the results to be expected for the full fiscal year ending June 30, 2014.

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

2. **Share-based incentive plans — Stock Option Awards.** We have established the Tuesday Morning Corporation 1997 Long-Term Equity Incentive Plan, as amended (the “1997 Plan”), the Tuesday Morning Corporation 2004 Long-Term Equity Incentive Plan, as amended (the “2004 Plan”), and the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (the “2008 Plan”), which allow for the granting of stock options to directors, officers and key employees of, and certain other key individuals who perform services for us and our subsidiaries. The 1997 Plan authorized grants of options to purchase up to 4.8 million shares of authorized, but unissued common stock. Equity awards may no longer be granted under the 1997 Plan, but options previously granted under the plan are still exercisable. The 2004 Plan and the 2008 Plan authorize grants of options to purchase up to 2.0 million and 5.4 million shares, respectively, of authorized, but unissued common stock.

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

Options granted under the 1997 Plan and the 2004 Plan typically vest over periods of one to five years and expire ten years from the date of grant, while options granted under the 2008 Plan typically vest over periods of one to four years and expire ten years from the date of grant. Options granted under the 2004 Plan and the 2008 Plan may have certain performance requirements in addition to service terms. If the performance conditions are not satisfied, the options are forfeited. There were 10,000 and 135,000 performance shares outstanding under the 2004 Plan and 2008 Plan, respectively. The exercise prices of stock options outstanding on March 31, 2014, range between \$1.24 per share and \$35.23 per share. There were 6,637 and 1.9 million shares available for grant under the 2004 Plan and the 2008 Plan, respectively, at March 31, 2014.

Restricted Stock Awards. Under the terms of the 2004 Plan and the 2008 Plan, we may also grant restricted stock awards to directors, officers, key employees and certain other key individuals who perform services for us and our subsidiaries. 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. There are no restricted stock awards outstanding under the 1997 Plan, which terminated pursuant to its terms as of December 29, 2007. Under the 2004 Plan and the 2008 Plan, as of March 31, 2014, there were 345,443 shares of restricted stock outstanding with award vesting periods of one to four years and a weighted average fair value of \$12.48 per share.

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Performance Shares and Performance Units. As of March 31, 2014 there were 10,000 performance shares outstanding under the 2004 Plan and 135,000 performance shares outstanding under the 2008 Plan.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Amortization of share-based compensation during the period	\$ 873	\$ 1,423	\$ 1,866	\$ 2,364
Amounts capitalized in ending inventory	(222)	(333)	(531)	(643)
Amounts recognized and charged to cost of sales	142	237	494	629
Amounts charged against income for the period before tax	\$ 793	\$ 1,327	\$ 1,829	\$ 2,350

3. Comprehensive income or loss — Comprehensive income or loss is defined as net income or loss plus the change in equity during a period from transactions and other events, excluding those resulting from investments by and distributions to stockholders. We account for foreign currency forward contracts as cash flow hedges in accordance with ASC 815 (formerly SFAS No. 133), “Accounting for Derivative Instruments and Hedging Activities.” Changes in the fair value of the contracts that are considered to be effective are recorded in other comprehensive income or loss until the hedged item is recorded in earnings. Effective cash flow hedges are reclassified out of other comprehensive income or loss and into cost of sales when the hedged inventory is sold. Ineffective cash flow hedges are recorded in other income or loss and were not material for the periods presented. The effect of foreign exchange contracts on our financial position or results of operations has historically been immaterial. Comprehensive loss for the three months ended March 31, 2014 was \$8.4 million compared to a comprehensive loss for the three months ended March 31, 2013 of \$12.4 million, while comprehensive loss for the nine months ended March 31, 2014 was \$2.8 million compared to a comprehensive loss for the nine months ended March 31, 2013 of \$40.8 million.

4. Commitments and contingencies — On May 13, 2013, the Company was named as a defendant in the following lawsuit, *Kathleen Mason v. Tuesday Morning Corporation d/b/a Delaware TMC Corporation*, filed in County Court in Dallas County, Texas, cause number CC-13-02863-E (subsequently refiled and issued cause number CC-13-03372-E). The plaintiff was the former President and Chief Executive Officer of the Company and her employment was terminated in June 2012. In the petition, the plaintiff alleged disability discrimination, deliberate indifference and retaliation in violation of the Texas Commission on Human Rights Act. Each claim stemmed from the plaintiff’s allegation that the Company regarded the plaintiff as having a disability (cancer) and fired her because of her disability. The plaintiff sought more than \$1 million in monetary relief, including claims for compensatory damages, attorneys’ fees, costs and interest. The Company denied the allegations. The Company filed a Special Exception and Answer to Plaintiff’s Original Petition on July 12, 2013. On March 29, 2014, the Company and the plaintiff entered into a confidential settlement agreement and release. On April 17, 2014, the Court executed an Order to Dismiss with Prejudice thereby dismissing the litigation. The terms of the settlement did not have a material adverse effect on the Company’s financial condition or results of operations.

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Net loss	\$ (8,428)	\$ (12,366)	\$ (2,763)	\$ (40,793)
Less: Income to participating securities	—	—	—	—
Net loss attributable to common shares	\$ (8,428)	\$ (12,366)	\$ (2,763)	\$ (40,793)
Weighted average number of common shares outstanding basic	43,072	42,427	42,863	42,164
Effect of dilutive stock equivalents	—	—	—	—
Weighted average number of common shares outstanding dilutive	43,072	42,427	43,863	42,164
Net loss per common share basic	\$ (0.20)	\$ (0.29)	\$ (0.06)	\$ (0.97)
Net loss per common share diluted	\$ (0.20)	\$ (0.29)	\$ (0.06)	\$ (0.97)

All options representing rights to purchase shares were excluded from diluted loss per share for the three and nine month periods ended March 31, 2014 and March 31, 2013, as the Company had a net loss for those periods.

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

At March 31, 2014, we had no amounts outstanding under the Revolving Credit Facility, \$6.9 million of outstanding letters of credit and availability of \$99.2 million under the Revolving Credit Facility. Letters of credit under the Revolving Credit Facility are primarily for self-insurance purposes. We incur commitment fees of up to 0.375% on the unused portion of the Revolving Credit Facility. Any borrowing under the Revolving Credit Facility incurs interest at LIBOR or the prime rate, plus an applicable margin, at our election (except with respect to swing loans, which incur interest solely at the prime rate plus the applicable margin). These rates are increased or reduced as our average daily availability changes. Interest expense of \$0.4 million for the quarter ended March 31, 2014 was due to commitment fees of \$0.2 million and the amortization of financing fees of \$0.2 million. Interest expense for the quarter ended March 31, 2013 was \$0.4 million, due to \$0.2 million in commitment fees and \$0.2 million in amortized financing fees.

7. Depreciation — Accumulated depreciation of owned equipment and property at March 31, 2014 and June 30, 2013 was \$119.7 million and \$112.2 million, respectively.

8. Income taxes — Tuesday Morning Corporation or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With a few exceptions, Tuesday Morning Corporation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2009. The Internal Revenue Service has concluded an examination of the Company for all taxable years ended on or before June 30, 2010. The effective tax rates for the quarters ended March 31, 2014 and March 31, 2013 were (5.5%) and (0.9%), respectively. The effective tax rate was lower for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013 due to the deferred tax asset valuation allowance which was established starting in the quarter ended December 31, 2012. The effective tax rates for nine months ended March 31, 2014 and March 31, 2013 were 2.8% and 14.7%, respectively. The effective tax rate was lower for the nine months ended March 31, 2014 as compared to the nine months ended March 31, 2013 due to the deferred tax asset valuation allowance which was established starting in the quarter ended December 31, 2012. The inventory markdown, recorded in the quarter ending December 31, 2012, generated a large net operating loss, which, in turn, requires a full valuation allowance against deferred tax assets. A deviation from the customary relationship between income tax expense/(benefit) and pretax income/(loss) results from the full valuation allowance.

9. Cash and cash equivalents — Cash and cash equivalents are comprised of cash, credit card receivables and all highly liquid instruments with original maturities of three months or less. Cash equivalents are carried at cost, which approximates fair value. At March 31, 2014 and at June 30, 2013, credit card receivables from third party consumer credit card providers were \$4.5 million and \$7.4 million, respectively.

10. Recent accounting pronouncements — There were no accounting pronouncements issued during the third quarter of fiscal 2014 that affected the Company.

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

The following discussion should be read in conjunction with our unaudited interim consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

Business Overview

- We sell deeply discounted, upscale decorative home accessories, housewares, seasonal goods and famous-maker gifts significantly below retail prices charged by department stores and specialty and on-line retailers in 811 stores in 41 states. We also have a promotional sale each month that creates a sense of urgency and excitement for our customer base.
- We are currently executing a business turnaround strategy to improve our store operations, merchandise offerings, sales productivity and overall profitability. A number of specific costs have been and will continue to be incurred as we execute this strategy. To provide enhanced information regarding our business performance, we have shown the effects of these specific costs in the Results of Operations section.
- One key goal of our new strategy is to significantly increase our inventory turnover. As a result, our approach to pricing, the timing of markdowns, and our level and quality of inventory differs significantly from prior years.
- Net sales for the third quarter of fiscal 2014 were \$182.8 million, increasing \$4.7 million, or 2.6%, from \$178.1 million for the same period last year. Comparable store sales for the quarter ended March 31, 2014 increased by 6.4%, compared to the same period last year, which was due to an 8.4% increase in customer transactions partially offset by a 1.9% decrease in average ticket. Net sales for the nine months ended March 31, 2014 increased \$16.0 million, or 2.5%, to \$652.2 million from \$636.2 million for the same period last year. Comparable store sales for the nine months ended March 31, 2014 increased by 5.7%, compared to the same period last year, which was due to a 9.4% increase in customer transactions partially offset by a 3.4% decrease in average ticket.
- Cost of sales, as a percentage of net sales, for the third quarter of fiscal 2014 was 62.7%, compared to 62.8% for the same period last year. Cost of sales, as a percentage of net sales, for the nine months ended March 31, 2014 was 64.6%, compared to 69.7% for the same period last year.
- For the third quarter of fiscal 2014, selling, general and administrative expenses decreased \$2.2 million to \$75.7 million, from \$77.9 million for the same quarter last year. For the nine months ended March 31, 2014, selling, general and administrative expenses decreased approximately \$5.2 million to \$232.7 million, from \$237.9 million for the same period last year.
- We incurred a net loss of \$8.4 million and a net loss per share of \$0.20 for the quarter ended March 31, 2014, compared to a net loss of \$12.4 million and a net loss per share of \$0.29 for the same period last year. For the nine months ended March 31, 2014, we incurred a net loss of \$2.8 million and net loss of \$0.06 per share, compared to a net loss of \$40.8 million and a net loss of \$0.97 per share for the same period last year.
- Inventory levels at March 31, 2014 decreased \$6.2 million to \$205.8 million from \$212.0 million at June 30, 2013 due to normal seasonal selling patterns, combined with favorable results from our inventory productivity initiative. Compared to the same date last year, inventories decreased \$31.1 million from \$236.9 million at March 31, 2013.
- Cash and cash equivalents at March 31, 2014 increased \$12.7 million to \$41.6 million from \$28.9 million at June 30, 2013. Compared to the same date last year, cash and cash equivalents increased \$7.1 million from \$34.5 million at March 31, 2013.

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Results of Operations

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

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

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)
Net sales	\$ 182,765	—	\$ 182,765	\$ 178,073	—	\$ 178,073
Percent increase from prior year	2.6%	—	2.6%	3.1%	—	3.1%
Comparable store sales increase (1)	6.4%	—	6.4%	2.8%	—	2.8%
Gross profit	\$ 68,101	\$ —	\$ 68,101	\$ 66,157	\$ —	\$ 66,157
Selling, general and administrative expenses (2)	\$ 75,730	\$ (2,202)	\$ 73,528	\$ 77,891	\$ (4,839)	\$ 73,052
Operating income/(loss) (3)	\$ (7,629)	\$ 2,202	\$ (5,427)	\$ (11,734)	\$ 4,839	\$ (6,895)
Interest income	\$ 5	—	\$ 5	\$ 2	—	\$ 2
Interest expense	\$ (360)	—	\$ (360)	\$ (384)	—	\$ (384)
Other income/(expense), net	\$ (4)	—	\$ (4)	\$ (140)	\$ 148	\$ 8
Income tax provision/(benefit)	\$ 440	\$ (567)	\$ (127)	\$ 110	\$ (2,530)	\$ (2,420)
Net income/(loss) (3)	\$ (8,428)	\$ 2,769	\$ (5,659)	\$ (12,366)	\$ 7,517	\$ (4,849)
Diluted income/(loss) per share (3)	\$ (0.20)	\$ 0.06	\$ (0.13)	\$ (0.29)	\$ 0.18	\$ (0.11)
Ratios as a percent of net sales:						
Gross profit	37.3%	—	37.3%	37.2%	—	37.2%
Selling, general and administrative expenses	41.4%	(1.2)%	40.2%	43.7%	(2.7)%	41.0%
Operating income/(loss)	(4.2)%	1.2%	(3.0)%	(6.6)%	2.7%	(3.9)%

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

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

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

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

	Nine Months Ended March 31, 2014			Nine Months Ended March 31, 2013		
	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)
Net sales	\$ 652,214	—	\$ 652,214	\$ 636,179	—	\$ 636,179
Percent increase from prior year	2.5%	—	2.5%	3.2%	—	3.2%
Comparable store sales increase (1)	5.7%	—	5.7%	3.7%	—	3.7%
Gross profit (2)	\$ 230,866	\$ 1,810	\$ 232,676	\$ 192,664	\$ 41,809	\$ 234,473
Selling, general and administrative expenses (2)	\$ 232,678	\$ (4,839)	\$ 227,839	\$ 237,875	\$ (11,731)	\$ 226,144
Operating income/(loss) (3)	\$ (1,812)	\$ 6,649	\$ 4,837	\$ (45,211)	\$ 53,540	\$ 8,329
Interest income	\$ 20	—	\$ 20	\$ 2	—	\$ 2
Interest expense	\$ (1,129)	—	\$ (1,129)	\$ (1,292)	—	\$ (1,292)
Other income/(expense), net	\$ 79	—	\$ 79	\$ (1,349)	\$ 1,535	\$ 186
Income tax provision/(benefit)	\$ (79)	\$ 166	\$ 87	\$ (7,057)	\$ 9,678	\$ 2,621
Net income/(loss) (3)	\$ (2,763)	\$ 6,483	\$ 3,720	\$ (40,793)	\$ 45,397	\$ 4,604
Diluted income/(loss) per share (3)	\$ (0.06)	\$ 0.15	\$ 0.09	\$ (0.97)	\$ 1.08	\$ 0.11
Ratios as a percent of net sales:						
Gross profit	35.4%	0.3%	35.7%	30.3%	6.6%	36.9%
Selling, general and administrative expenses	35.7%	(0.7)%	34.9%	37.4%	(1.8)%	35.5%
Operating income/(loss)	(0.3)%	1.0%	0.7%	(7.1)%	8.4%	1.3%

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

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

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

Non-GAAP Financial Measures

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

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

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

(in thousands, except for percentages and ratios)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Operating loss (GAAP)	\$ (7,629)	\$ (11,734)	\$ (1,812)	\$ (45,211)
As a percent of net sales	-4.2%	-6.6%	-0.3%	-7.1%
Non-GAAP adjustments:				
Adjustment reducing cost of sales:				
Inventory write-down	\$ —	\$ —	\$ 1,810	\$ 41,809
Adjustments reducing selling, general and administrative expenses:				
Store reorganization and clean-up	—	—	—	1,125
Compensation	606	3,907	2,160	5,594
Legal, consulting, and recruiting	1,596	932	2,679	5,012
Adjusted operating income/(loss) (non-GAAP)	\$ (5,427)	\$ (6,895)	\$ 4,837	\$ 8,329
As a percent of net sales	-3.0%	-3.9%	0.7%	1.3%

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

(in thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Net loss from continuing operations (GAAP)	\$ (8,428)	\$ (12,366)	\$ (2,763)	\$ (40,793)
Non-GAAP adjustments:				
Inventory write-down, net of tax of \$—, \$—, \$787, and \$15,466(2)	—	—	1,023	26,343
Store reorganization and clean-up, net of tax of \$—, \$—, \$—, and \$416(2)	—	—	—	709
Compensation, net of tax of \$72, \$1,492, \$940, and \$2,117(1)(2)	534	2,415	1,220	3,477
Legal, consulting, and recruiting, net of tax of \$189, \$355, \$1,166, and \$1,865(1)(2)	1,407	577	1,513	3,147
Disposal of systems, net of tax of \$—, \$56, \$—, and \$570(1)(2)	—	92	—	965
Deferred tax asset valuation allowance	828	4,433	2,727	10,756
Adjusted net income/(loss) from continuing operations (non-GAAP)	\$ (5,659)	\$ (4,849)	\$ 3,720	\$ 4,604

- (1) The effective tax rate utilized in this non-GAAP adjusted net income/(loss) reconciliation is 11.9% for the three months ended March 31, 2014 and 38.2% for the three months ended March 31, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014 and of \$10.8 million as of March 31, 2013.
- (2) The effective tax rate utilized in this non-GAAP adjusted net income/(loss) reconciliation is 43.5% for the nine months ended March 31, 2014 and 37.1% for the nine months ended March 31, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014 and of \$10.8 million as of March 31, 2013.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Diluted loss per share from continuing operations (GAAP)	\$ (0.20)	\$ (0.29)	\$ (0.06)	\$ (0.97)
Non-GAAP adjustments:				
Inventory write-down, net of tax (2)	—	—	0.02	0.63
Store reorganization and clean-up, net of tax (2)	—	—	—	0.02
Compensation, net of tax(1) (2)	0.01	0.07	0.03	0.08
Legal, consulting, and recruiting, net of tax(1) (2)	0.04	0.01	0.04	0.07
Disposal of systems, net of tax(1) (2)	—	0.00	—	0.02
Deferred tax asset valuation allowance	0.02	0.10	0.06	0.26
Adjusted diluted income/(loss) per share from continuing operations (non-GAAP)	\$ (0.13)	\$ (0.11)	\$ 0.09	\$ 0.11

- (1) The effective tax rate utilized in this non-GAAP adjusted diluted income/(loss) per share reconciliation is 11.9% for the three months ended March 31, 2014 and 38.2% for the three months ended March 31, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014 and of \$10.8 million as of March 31, 2013.
- (2) The effective tax rate utilized in this non-GAAP adjusted diluted income/(loss) per share reconciliation is 43.5% for the nine months ended March 31, 2014 and 37.1% for the nine months ended March 31, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014 and of \$10.8 million as of March 31, 2013.

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

Net sales for the third quarter of fiscal 2014 were \$182.8 million, increasing \$4.7 million or 2.6% from \$178.1 million for the same period last year. Comparable store sales for the quarter ended March 31, 2014 increased by 6.4% compared to the third quarter of fiscal 2013. Stores are included in the same store sales calculation at the beginning of the quarter following the anniversary date of the store opening. A store that relocates within the same geographic market or modifies its available retail space is still considered the same store for purposes of this computation. Non-comparable store sales include sales from new stores not included in comparable store sales and sales from stores that have closed. The increase in comparable store sales for the third quarter of fiscal 2014 was comprised of an 8.4% increase in customer transactions partially offset by a 1.9% decrease in average ticket. Our comparable store sales increase was partially offset by a decrease in our non-comparable store sales and e-Commerce sales, which decreased a total of \$6.0 million or 3.4% of net sales for the prior year quarter. The non-comparable store sales decrease is driven by 26 store closures, partially offset by eight store openings, which have occurred since the end of the third quarter of fiscal 2013. We discontinued e-Commerce sales in June 2013.

(in thousands)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Increase/ (Decrease)	% Increase/ (Decrease)
Comparable Store Sales	\$ 178,317	\$ 167,619	\$ 10,698	6.4%
Non-comparable Store Sales	4,448	8,187	(3,739)	-45.7%
Total Store Sales	182,765	175,806	6,959	4.0%
e-Commerce	—	2,267	(2,267)	-100.0%
Total Company Sales	\$ 182,765	\$ 178,073	\$ 4,692	2.6%

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We opened four new stores and closed 12 existing stores during the third quarter of fiscal 2014. In addition, we relocated five existing stores during the third quarter of fiscal 2014. Our store base decreased by eight stores for the third quarter of fiscal 2014, while the store base decreased by 14 stores for the same period in fiscal 2013.

Store Openings/Closings

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Fiscal Year Ended June 30, 2013
Stores open at beginning of period	819	843	852
Stores opened during the period	4	—	10
Stores closed during the period	(12)	(14)	(34)
Stores open at end of period	<u>811</u>	<u>829</u>	<u>828</u>

Gross profit for the third quarter of fiscal 2014 was \$68.1 million, an increase of 2.9% compared to \$66.2 million in gross profit for the same quarter in fiscal 2013. Gross profit as a percentage of net sales was 37.3% for the third quarter of fiscal 2014, relatively flat compared to 37.2% for the third quarter of fiscal 2013. Improvement in gross profit was primarily driven by freight and distribution efficiencies.

Selling, general and administrative expenses decreased \$2.2 million for the third quarter of fiscal 2014 to \$75.7 million, compared to \$77.9 million for the same quarter last year. As a percent of net sales, selling, general and administrative expenses decreased to 41.4% for the third quarter of fiscal 2014 from 43.7% for the same quarter of fiscal 2013. We incurred selling, general and administrative expenses of \$2.2 million in the third quarter of fiscal 2014 and \$4.8 million in the third quarter of fiscal 2013 in connection with our business turnaround, primarily related to executive compensation, severance, and legal expenses. Excluding these expenses, which we do not believe to be indicative of our on-going expense structure, selling, general and administrative expenses, as a percent of net sales were 40.2% compared to 41.0% for the same quarter last year.

Our operating loss was \$7.6 million for the third quarter of fiscal 2014 as compared to an operating loss of \$11.7 million for the third quarter of fiscal 2013. Business turnaround related expenses were \$2.6 million less in the third quarter of fiscal 2014 as compared to the same quarter in the prior year.

Income tax expense for the quarter ended March 31, 2014 was \$0.4 million compared to income tax expense of \$0.1 million for the same period last year. The effective tax rates for the quarters ended March 31, 2014 and March 31, 2013 were (5.5%) and (0.9%), respectively. The effective tax rate was lower for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013, due to a full deferred tax asset valuation allowance at March 31 2014, compared to a valuation allowance less carryback refund at March 31, 2013. The deferred tax asset valuation allowance as of March 31, 2014 and March 31, 2013 was \$18.9 million and \$10.8 million, respectively.

We had a net loss of \$8.4 million, or \$0.20 per share, for the third quarter of fiscal 2014 compared to a net loss of \$12.4 million, or \$0.29 per share, for the third quarter of fiscal 2013. Our results were impacted by the effects of the items described above and a reduced effective tax rate due to the establishment of a deferred tax asset valuation allowance beginning in the third quarter of fiscal 2013. Excluding the business turnaround charges, our non-GAAP adjusted net loss was \$5.7 million, or \$0.13 per share, for the third quarter ended March 31, 2014, compared to non-GAAP adjusted net loss of \$4.8 million, or \$0.11 per share, for the same period last year.

**Nine Months Ended March 31, 2014
Compared to the Nine Months Ended March 31, 2013**

Net sales increased \$16.0 million, or 2.5%, to \$652.2 million during the first nine months of fiscal 2014 from \$636.2 million for the same period in fiscal 2013. The increase for the first nine months of fiscal 2014 was primarily due to a 5.7% increase in sales from comparable stores. The increase in comparable store sales for the first nine months of fiscal 2014 was comprised of a 9.4% increase in customer transactions, partially offset by a 3.4% decrease in average ticket. Our comparable store sales increase was partially offset by a decrease in our non-comparable store sales and e-Commerce sales, which decreased a total of \$18.3 million, or 2.9% of net sales, for the same period in fiscal 2013. The non-comparable store sales decrease is driven by 26 store closures, partially offset by eight store openings, which have occurred since the end of the third quarter of fiscal 2013. We discontinued e-Commerce sales in June 2013.

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(in thousands)

	Nine Months Ended March 31, 2014	Nine Months Ended March 31, 2013	Increase/ (Decrease)	% Increase/ (Decrease)
Comparable Store Sales	\$ 641,641	\$ 607,257	\$ 34,384	5.7%
Non-comparable Store Sales	10,217	20,799	(10,582)	-50.9%
Total Store Sales	651,858	628,056	23,802	3.8%
e-Commerce	356	8,123	(7,767)	-95.6%
Total Company Sales	\$ 652,214	\$ 636,179	\$ 16,035	2.5%

We opened six new stores and closed 23 existing stores during the first nine months of fiscal 2014. In addition, we relocated eight existing stores during the first nine months of fiscal 2014. Our store base decreased by 17 stores for the first nine months of fiscal 2014, and the store base decreased by 23 stores for the same period in fiscal 2013.

Store Openings/Closings

	Nine Months Ended March 31, 2014	Nine Months Ended March 31, 2013	Fiscal Year Ended June 30, 2013
Stores open at beginning of period	828	852	852
Stores opened during the period	6	8	10
Stores closed during the period	(23)	(31)	(34)
Stores open at end of period	811	829	828

Gross profit for the first nine months of fiscal 2014 was \$230.9 million, an increase of 19.8% compared to \$192.7 million in gross profit for the same period in fiscal 2013. The increase in gross profit as a percentage of net sales, from 30.3% for the first nine months of fiscal 2013 to 35.4% for the first nine months of fiscal 2014, was primarily due to the \$41.8 million inventory valuation charge recorded in the second quarter of fiscal 2013, along with a lower initial mark-up, partially offset by lower buying and distribution costs in fiscal 2014. One goal of the Company's business turnaround initiative is to increase merchandise sell-through and inventory turnover. As a result, retail pricing was more competitive and markdowns on seasonal and aged inventory have been accelerated relative to prior years.

Selling, general and administrative expenses decreased \$5.2 million for the first nine months of fiscal 2014 to \$232.7 million, compared to \$237.9 million for the same nine month period last year. As a percent of net sales, selling, general and administrative expenses decreased to 35.7% for the first nine months of fiscal 2014 from 37.4% for the same period of fiscal 2013. We incurred selling, general and administrative expenses of \$4.8 million in the first nine months of fiscal 2014 and \$11.7 million in the first nine months of fiscal 2013 in connection with our business turnaround, primarily related to executive compensation, severance, and legal expenses. Excluding these expenses, which we do not believe to be indicative of our on-going expense structure, selling, general and administrative expenses decreased to 34.9%, as a percent of net sales, compared to 35.5% for the same period last year.

Our operating loss was \$1.8 million for the first nine months of fiscal 2014 as compared to an operating loss of \$45.2 million for the first nine months of fiscal 2013. The Company's operating results for the first nine months of fiscal 2014 compared to the same period last year were impacted by the \$41.8 million inventory valuation charge recorded in fiscal 2013, along with a lower initial mark-up, partially offset by lower buying and distribution costs in fiscal 2014, along with decreased selling, general and administrative expenses in fiscal 2014 primarily resulting from our business turnaround.

Income tax benefit for the nine months ended March 31, 2014 was \$0.1 million compared to an income tax benefit of \$7.1 million for the same period last year. The effective tax rates for the nine months ended March 31, 2014 and March 31, 2013 were 2.8% and 14.8%, respectively. The effective tax rate was lower for the nine months ended March 31, 2014, as compared to the nine months ended March 31, 2013, due to the establishment of a deferred tax asset valuation allowance starting in the quarter ended December 31, 2012. The deferred tax asset valuation allowance as of March 31, 2014 and March 31, 2013 was \$18.9 million and \$10.8 million, respectively.

We had a net loss of \$2.8 million, or \$0.06 per share, for the first nine months of fiscal 2014 compared to a net loss of \$40.8 million, or \$0.97 per share, for the first nine months of fiscal 2013. Our results were impacted by the effects of the items described above and a reduced effective tax rate due to the establishment of a deferred tax asset valuation allowance beginning in the third quarter of fiscal 2013. Excluding the business turnaround charges, non-GAAP adjusted net income was \$3.7 million, or \$0.09 per share, for the nine months ended March 31, 2014 compared to non-GAAP adjusted net income of \$4.6 million, or \$0.11 per share, for the same period last year.

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Liquidity and Capital Resources

Cash Flows from Operating Activities

Net cash provided by operating activities for the nine months ended March 31, 2014 and 2013 was \$21.8 million and \$1.5 million, respectively. The \$21.8 million of cash provided by operating activities for the nine months ended March 31, 2014 was primarily due to depreciation of \$9.1 million, a decrease in inventory of \$6.2 million, deferred income taxes of \$3.3 million, an increase in accrued liabilities of \$2.3 million, a decrease in prepaid and other assets of \$1.3 million, and share based compensation of \$1.8 million, partially offset by a net loss of \$2.8 million. There were no significant changes to our vendor payment policy during the nine months ended March 31, 2014. The \$1.5 million of cash provided by operating activities for the nine months ended March 31, 2013 was primarily to depreciation of \$10.4 million, a decrease in inventory of \$28.8 million, an increase in accrued liabilities of \$8.2 million, and shared based compensation of \$2.4 million, partially offset by a net loss of \$40.8 million and increases in net tax assets of 7.1 million.

Cash Flows from Investing Activities

Net cash used in investing activities for the nine months ended March 31, 2014 and 2013 relates to capital expenditures. Capital expenditures are primarily associated with new store openings or relocations, capital improvements to existing stores, or enhancements to our distribution center facility, equipment, and systems along with improvements related to our corporate office and equipment. Cash used in investing activities totaled \$10.7 million and \$8.3 million for the nine months ended March 31, 2014 and 2013, respectively.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$1.6 million for the nine months ended March 31, 2014, flat with net cash provided by financing activities of \$1.6 million for the nine months ended March 31, 2013. The cash provided by financing activities in both the current and prior year periods was primarily due to stock option exercises and related tax impacts.

Revolving Credit Facility

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

At March 31, 2014, we had no amounts outstanding under the Revolving Credit Facility, \$6.9 million of outstanding letters of credit and availability of \$99.2 million under the Revolving Credit Facility. Letters of credit under the Revolving Credit Facility are primarily for self-insurance purposes. We incur commitment fees of up to 0.375% on the unused portion of the Revolving Credit Facility. Any borrowing under the Revolving Credit Facility incurs interest at LIBOR or the prime rate, plus an applicable margin, at our election (except with respect to swing loans, which incur interest solely at the prime rate plus the applicable margin). These rates are increased or reduced as our average daily availability changes. Interest expense of \$0.4 million for the three months ended March 31, 2014 was due to commitment fees of \$0.2 million and the amortization of financing fees of \$0.2 million.

Liquidity

We have financed our operations with funds generated from operating activities, available cash and cash equivalents and borrowings under our Revolving Credit Facility. Cash and cash equivalents were \$41.6 million as of March 31, 2014 and \$34.5 million at March 31, 2013. Our cash flows will continue to be utilized for the operation of our business and the use of any excess cash will be determined by the Board of Directors. Our borrowings have historically peaked during October as we build inventory levels prior to the holiday selling season. Given the seasonality of our business, the amount of borrowings under our Revolving Credit

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Facility may fluctuate materially depending on various factors, including the time of year, our 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.

Off-Balance Sheet Arrangements and Contractual Obligations

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

As of March 31, 2014, there have been no material changes outside the ordinary course of business from the disclosures relating to contractual obligations contained under “Contractual Obligations” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

Critical Accounting Policies

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

There were no changes to our critical accounting policies during the third quarter of fiscal 2014.

Under the retail inventory method, permanent markdowns result in cost reductions in inventory at the time the markdowns are taken. We also utilize promotional markdowns for specific marketing efforts used to drive higher sales volume and customer transactions for a specified period of time. Promotional markdowns do not impact the value of unsold inventory and thus do not impact cost of sales until the merchandise is sold. Markdowns during the third quarter of fiscal 2014 were 5.3% of sales compared to 4.2% of sales for the same period last year due to the establishment of a markdown reserve in the prior period. If our sales forecasts are not achieved, we may be required to record additional markdowns that could exceed historical levels. The effect of a 0.5% markdown in the value of our inventory at March 31, 2014 would result in a decline in gross profit and earnings per share for the third quarter of fiscal 2014 of \$1.0 million and \$0.02, respectively.

For a further discussion of the judgments we make in applying our accounting policies, see Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

Recent Accounting Pronouncements

There were no accounting pronouncements issued during the third quarter of fiscal 2014 that affected the Company.

Forward-Looking Statements

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

Readers are referred to Part 1, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013 for examples of risks, uncertainties and events that could cause our actual results to differ materially from the expectations expressed in our forward-looking statements. These risks, uncertainties and events also include, but are not limited to, the following:

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the Company's market risks as disclosed in our Annual Report on Form 10-K filed for the fiscal year ended June 30, 2013.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On May 13, 2013, the Company was named as a defendant in the following lawsuit, *Kathleen Mason v. Tuesday Morning Corporation d/b/a Delaware TMC Corporation*, filed in County Court in Dallas County, Texas, cause number CC-13-02863-E (subsequently refiled and issued cause number CC-13-03372-E). The plaintiff was the former President and Chief Executive Officer of the Company and her employment was terminated in June 2012. In the petition, the plaintiff alleged disability discrimination, deliberate indifference and retaliation in violation of the Texas Commission on Human Rights Act. Each claim stemmed from the plaintiff's allegation that the Company regarded the plaintiff as having a disability (cancer) and fired her because of her disability. The plaintiff sought more than \$1 million in monetary relief, including claims for compensatory damages, attorneys' fees, costs and interest. The Company denied the allegations. The Company filed a Special Exception and Answer to Plaintiff's Original Petition on July 12, 2013. On March 29, 2014, the Company and the plaintiff entered into a confidential settlement agreement and release. On April 17, 2014, the Court executed an Order to Dismiss with Prejudice thereby dismissing the litigation. The terms of the settlement did not have a material adverse effect on the Company's financial condition or results of operations.

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

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Item 1A. Risk Factors

We believe there have been no material changes from our risk factors previously disclosed in Part 1, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

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

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

Period	Total Number of Shares Repurchased(1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (2) (3)
January 1 through January 31	4,052	\$ 14.48	4,052	\$ 3,657,753
February 1 through February 28	11,633	\$ 14.00	11,633	\$ 3,494,891
March 1 through March 31	816	\$ 15.76	816	\$ 3,482,030
Total	16,501	\$ 14.21	16,501	\$ 3,482,030

(1) Shares of Common Stock withheld by the Company in connection with the vesting of equity awards under the Company’s equity incentive plans.

(2) Excludes commissions.

(3) On August 22, 2011, the Company’s Board of Directors adopted a share Repurchase Program pursuant to which the Company is authorized to repurchase from time to time shares of Common Stock, up to a maximum of \$5.0 million in aggregate purchase price for all such shares (the “Repurchase Program”). On January 20, 2012, the Company’s Board of Directors increased the authorization for stock repurchases under the Repurchase Program from \$5.0 million to a maximum of \$10.0 million. The Repurchase Program does not have an expiration date and may be amended, suspended or discontinued at any time. The Board will periodically evaluate the Repurchase Program and there can be no assurances as to the number of shares of Common Stock the Company will repurchase. For the three months ended March 31, 2014, 16,501 shares have been repurchased under the Repurchase Program for a total cost (excluding commissions) of approximately \$234,000. All shares were withheld by the Company in connection with the vesting of equity awards under the Company’s equity incentive plans.

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Item 6. Exhibits

Exhibit Number	Description
3.1.1	Certificate of Incorporation of Tuesday Morning Corporation (the “Company”) (incorporated by reference to Exhibit 3.1 to the Company’s Registration Statement on Form S-4 (File No. 333-46017) as filed with the Securities and Exchange Commission (the “Commission”) on February 10, 1998)
3.1.2	Certificate of Amendment to the Certificate of Incorporation of the Company dated March 25, 1999 (incorporated by reference to Exhibit 3.3 to the Company’s Registration Statement on Form S-1/A (File No. 333-74365) as filed with the Commission on March 29, 1999)
3.1.3	Certificate of Amendment to the Certificate of Incorporation of the Company dated May 7, 1999 (incorporated by reference to Exhibit 3.1.3 to the Company’s Form 10-Q as filed with the Commission on May 2, 2005)
3.2	Amended and Restated By-laws of the Company dated February 6, 2013 (incorporated by reference to Exhibit 3.1 to the Company’s Form 8-K as filed with the Commission on February 12, 2013)
10.1	Form of Nonqualified Stock Option Agreement for Employees under the Tuesday Morning Corporation 2004 Long-Term Equity Incentive Plan†
10.2	Form of Nonqualified Stock Option Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan†
10.3	Form of Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2004 Long-Term Equity Incentive Plan†
10.4	Form of Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan†
10.5	Form of Performance Based Nonqualified Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term-Equity Incentive Plan †
10.6	Form of Performance Based Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2004 Long-Term-Equity Incentive Plan †
31.1	Certification by the Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer of the Company pursuant to 18 U.S.C §1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
32.2	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 *
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

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

† Management contract or compensatory plan or arrangement

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SIGNATURE

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

TUESDAY MORNING CORPORATION
(Registrant)

DATE: May 8, 2014

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

EXHIBIT INDEX

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

† Management contract or compensatory plan or arrangement

**FORM OF NONQUALIFIED STOCK OPTION AWARD AGREEMENT
FOR EMPLOYEES**

*Tuesday Morning Corporation
2004 Long-Term Equity Incentive Plan*

This **NONQUALIFIED STOCK OPTION AWARD AGREEMENT** (this "Agreement") is entered into between Tuesday Morning Corporation, a Delaware corporation (the "Company"), and _____ ("Optionee"). The Board of Directors of the Company has adopted, and the stockholders of the Company have approved, the Tuesday Morning Corporation 2004 Long-Term Equity Incentive Plan, as amended (the "Plan"), the terms of which are incorporated by reference herein in their entirety. The Company considers that its interests will be served by granting Optionee an option to purchase shares of common stock of the Company as an inducement for his 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, this Agreement and the Notice of Grant of Stock Options and Option Agreement to which this Agreement is attached (the "Option Notice"), on _____ (the "Grant Date"), the Company granted to Optionee an option (the "Option") to purchase _____ shares of the common stock of the Company, \$.01 par value per share (the "Common Stock"), at a price of \$ _____ per share (the "Exercise 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. **Optionee's Agreement.** In accepting the Option, Optionee 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 of the Plan and the provision of this Agreement, 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:

(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;

(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;

(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 Optionee's service as an employee of the Company is terminated due to the death or Disability of Optionee 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 death or Disability.

5. ***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 Optionee 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 Exercise Price for the shares to be acquired in accordance with the terms and conditions of this Agreement and the Plan.

(b) If Optionee is entitled to exercise the vested and exercisable portion of the Option, and wishes to do so, in whole or part, Optionee 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 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 Exercise Price for the shares 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 10 of the Plan.

(c) The Company's obligation to deliver shares of the Common Stock to Optionee under this Agreement is subject to and conditioned upon Optionee satisfying all tax obligations associated with Optionee'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 10 of the Plan.

(d) The Company and its Subsidiaries, as applicable, shall be entitled to deduct from any compensation otherwise due to Optionee the amount necessary to satisfy all such taxes.

(e) Upon full payment of the Exercise 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 cause certificates for the shares purchased hereunder to be delivered to Optionee or cause an uncertificated book-entry representing such shares to be made.

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 Grant Date (the "Option General Expiration Date"). Except as otherwise provided in Section 4 of this Agreement, if Optionee ceases to be an employee of the Company for any reason the Option shall not continue to vest after such cessation of service as an employee of the Company.

(a) If Optionee ceases to be an employee of the Company and any Subsidiary due to death or 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 Disability, but in no event after the Option General Expiration Date.

(b) If Optionee ceases to be an employee of the Company and any Subsidiary upon the occurrence of Optionee's Retirement (as that term is defined in Section 21), (A) 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 Optionee begins engaging in Competition (as that term is defined in Section 21) during such three-year period unless he or she receives written consent to do so from the Board or the Committee, and (B) 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 Optionee ceases to be an employee of the Company or a Subsidiary due to Cause, all of the Option shall be forfeited and become null and void immediately upon such cessation, whether or not then exercisable. For purposes of this Section 6(c) the term "Cause" means the occurrence of one of the following events: (i) the commission of a felony or a crime involving moral turpitude or the commission of any other act or omission involving dishonesty, disloyalty or fraud with respect to the Company or any of its Subsidiaries; (ii) conduct tending to bring the Company or any of its Subsidiaries into substantial public disgrace or disrepute; (iii) substantial and repeated failure to perform duties properly assigned or as reasonably directed, as determined by the Company; (iv) gross negligence or willful misconduct with respect to the Company or any of its Subsidiaries; or (v) breach of duty of loyalty to the Company or any of its Subsidiaries or other act of fraud or dishonesty with respect to the Company or any of its Subsidiaries.

(d) If Optionee ceases to be an employee of the Company or a Subsidiary for any reason other than death, Disability, Retirement or Cause, (i) the portion of the Option that was exercisable on the date of such cessation 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 cessation, but in no event after (x) the Option General Expiration Date or (y) the day before the date Optionee 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 cessation shall be forfeited and become null and void immediately upon such cessation. In the event Optionee 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 Optionee prior to the expiration of the Option, Optionee'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 that Optionee would have been entitled to exercise if he or she were still alive.

7. **Tax Withholding.** To the extent that the receipt of the Option, this Agreement, the vesting of the Option or the exercise of the Option results in income to Optionee for federal, state or local income, employment or other tax purposes with respect to which the Company or its Subsidiaries or any Affiliate has a withholding obligation, Optionee shall deliver to the Company at the time of such receipt, vesting or exercise, as the case may be, such amount of money as the Company or its Subsidiaries or any Affiliate may require to meet its obligation under applicable tax laws or regulations, and, if Optionee fails to do so, the Company or its Subsidiaries or any Affiliate is authorized to withhold from the shares subject to the Option (based on the Fair Market Value of such shares as of the date the amount of tax to be withheld is determined) or from any cash or stock remuneration then or thereafter payable to Optionee any tax required to be withheld by reason of such taxable income, sufficient to satisfy the withholding obligation.

8. **Capital Adjustments and Reorganizations.** The existence of the Option shall not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to this Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its 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, Optionee shall be considered to be in the employment of the Company as long as Optionee has an employment relationship with the Company. The Committee shall determine any questions as to whether and when there has been a termination of such employment relationship, and the cause of such termination, under the Plan and the Committee's determination shall be final and binding on all persons.

10. **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 Optionee 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.

11. **No Rights As Stockholder.** Optionee shall not have any rights as a stockholder with respect to any shares covered by the Option until the date of the issuance of such shares following Optionee's exercise of the Option pursuant to its terms and conditions and payment of all amounts for and with respect to the shares. 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.

12. **Legend.** Optionee 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.

13. **Notices.** Any notice, instruction, authorization, request, demand or other communications required hereunder shall be in writing, and shall be delivered either by personal delivery, by telegram, telex, teletype 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 Optionee at Optionee'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.

14. **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 by the Company and Optionee. Only a written instrument executed and delivered 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 Optionee. 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.

15. **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.

16. **Governing Law and Severability.** The validity, construction and performance of this Agreement shall be governed by the laws of the State of Delaware without regard to its conflicts of law provisions. 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.

17. **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. Optionee 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.

18. **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.

19. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original for all purposes but all of which taken together shall constitute but one and the same instrument.

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

21. **Definitions.** The words and phrases defined in this Section 21 shall have the respective meanings set forth below throughout this Agreement, unless the context in which any such word or phrase appears reasonably requires a broader, narrower or different meaning.

(a) **"Competition"** means Optionee 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 Optionee'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 Optionee was employed by or affiliated with the Company.

(b) **"Retirement"** means "retirement" as defined under any Company pension plan or qualified retirement program.

(c) **"Subsidiary"** means a corporation or other entity of which outstanding shares or ownership interests representing 50% or more of the combined voting power of such corporation or other entity entitled to elect the management thereof are owned directly or indirectly by the Company.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered to be effective as of the Grant Date.

TUESDAY MORNING CORPORATION

By: _____
Name: _____
Title: EVP, Chief Administrator Officer and
Chief Financial Officer

Accepted:

Name of Optionee:

Date: _____

**FORM OF NONQUALIFIED STOCK OPTION AWARD AGREEMENT
FOR EMPLOYEES**

*Tuesday Morning Corporation
2008 Long-Term Equity Incentive Plan*

This **NONQUALIFIED STOCK OPTION AWARD AGREEMENT** (this “Agreement”) is entered into between Tuesday Morning Corporation, a Delaware corporation (the “Company”), and (“Optionee”). The Board of Directors of the Company has adopted, and the stockholders of the Company have approved, the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan, as amended (the “Plan”), the terms of which are incorporated by reference herein in their entirety. The Company has agreed to grant Optionee this option to purchase shares of common stock of the Company as an inducement for Optionee’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 “Grant Date”), the Company granted to Optionee an option (the “Option”) to purchase shares of the common stock of the Company, \$.01 par value per share (the “Common Stock”), at a price of \$ per share (the “Exercise 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. **Optionee’s Agreement.** In accepting the Option, Optionee 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:

(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;

(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;

(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 Optionee's service as an employee of the Company is terminated due to the death or Disability of Optionee 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 death or Disability.

5. ***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 Optionee 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 Exercise Price for the shares to be acquired in accordance with the terms and conditions of this Agreement and the Plan.

(b) If Optionee is entitled to exercise the vested and exercisable portion of the Option, and wishes to do so, in whole or part, Optionee 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 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 Exercise Price for the shares 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 Sections 5.7 and 15.3 of the Plan.

(c) The Company's obligation to deliver shares of the Common Stock to Optionee under this Agreement is subject to and conditioned upon Optionee satisfying all tax obligations associated with Optionee'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 5.7 of the Plan. The Company and its Subsidiaries, as applicable, shall be entitled to deduct from any compensation otherwise due to Optionee the amount necessary to satisfy all such taxes.

(d) Upon full payment of the Exercise 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 cause certificates for the shares purchased hereunder to be delivered to Optionee or cause an uncertificated book-entry representing the such shares to be made.

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 Grant Date (the "Option

General Expiration Date"). Except as otherwise provided in Section 4 of this Agreement, if Optionee ceases to be an employee of the Company for any reason the Option shall not continue to vest after such cessation of service as an employee of the Company.

(a) If Optionee ceases to be an employee of the Company and any Subsidiary due to death or 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 Disability, but in no event after the Option General Expiration Date.

(b) If Optionee ceases to be an employee of the Company and any Subsidiary upon the occurrence of Optionee's Retirement (as that term is defined in Section 21), (A) 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 Optionee begins engaging in Competition (as that term is defined in Section 21) during such three-year period unless he or she receives written consent to do so from the Board or the Committee, and (B) 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 Optionee ceases to be an employee of the Company or a Subsidiary due to Cause, all of the Option shall be forfeited and become null and void immediately upon such cessation, whether or not then exercisable. For purposes of this Section 6(c) the term "Cause" means the occurrence of one of the following events: (i) commission of fraud, embezzlement, theft, felony or an act of dishonesty in the course of his 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 Optionee is a party,

(d) If Optionee ceases to be an employee of the Company or a Subsidiary for any reason other than death, Disability, Retirement or Cause, (i) the portion of the Option that was exercisable on the date of such cessation 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 cessation, but in no event after (x) the Option General Expiration Date or (y) the day before the date Optionee 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 cessation shall be forfeited and become null and void immediately upon such cessation. In the event Optionee 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 Optionee prior to the expiration of the Option, Optionee'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 that Optionee would have been entitled to exercise if he or she were still alive.

7. **Tax Withholding.** To the extent that the receipt of the Option, this Agreement, the vesting of the Option or the exercise of the Option results in income to Optionee for federal, state or local income, employment or other tax purposes with respect to which the Company or its Subsidiaries or any Affiliate has a withholding obligation, Optionee shall deliver to the Company at the time of such receipt, vesting or exercise, as the case may be, such amount of money as the Company or its Subsidiaries or any Affiliate may require to meet its obligation under applicable tax laws or regulations, and, if Optionee fails to do so, the Company or its Subsidiaries or any Affiliate is authorized to withhold from the shares subject to the Option (based on the Fair Market Value of such shares as of the date the amount of tax to be withheld is determined) or from any cash or stock remuneration then or thereafter payable to Optionee any tax required to be withheld by reason of such taxable income, sufficient to satisfy the withholding obligation.

8. **Capital Adjustments and Reorganizations.** The existence of the Option shall not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to this Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its 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, Optionee shall be considered to be in the employment of the Company as long as Optionee has an employment relationship with the Company. The Committee shall determine any questions as to whether and when there has been a termination of such employment relationship, and the cause of such termination, under the Plan and the Committee's determination shall be final and binding on all persons.

10. **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 Optionee 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.

11. **No Rights As Stockholder.** Optionee shall not have any rights as a stockholder with respect to any shares covered by the Option until the date of the issuance of such shares following Optionee's exercise of the Option pursuant to its terms and conditions and payment of all amounts for and with respect to the shares. 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.

12. **Legend.** Optionee 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.

13. **Notices.** Any notice, instruction, authorization, request, demand or other communications required hereunder shall be in writing, and shall be delivered either by personal

delivery, by 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 Optionee at Optionee'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.

14. **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 by the Company and Optionee. Only a written instrument executed and delivered 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 Optionee. 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.

15. **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.

16. **Governing Law and Severability.** The validity, construction and performance of this Agreement shall be governed by the laws of the State of Delaware without regard to its conflicts of law provisions. 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.

17. **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. Optionee 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.

18. **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.

19. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original for all purposes but all of which taken together shall constitute but one and the same instrument.

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

21. **Definitions.** The words and phrases defined in this Section 21 shall have the respective meanings set forth below throughout this Agreement, unless the context in which any such word or phrase appears reasonably requires a broader, narrower or different meaning.

(a) "**Competition**" means Optionee 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 Optionee'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 Optionee was employed by or affiliated with the Company.

(b) "**Retirement**" means retirement as defined under any Company pension plan or retirement program.

(c) "**Subsidiary**" means a corporation or other entity of which outstanding shares or ownership interests representing 50% or more of the combined voting power of such corporation or other entity entitled to elect the management thereof are owned directly or indirectly by the Company.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered to be effective as of the Grant Date.

TUESDAY MORNING CORPORATION

By: _____
Name: _____
Title: EVP, Chief Administrator Officer and
Chief Financial Officer

Accepted:

Name of Optionee:

Date: _____

FORM OF RESTRICTED STOCK AWARD AGREEMENT

Tuesday Morning Corporation
2004 Long-Term Equity Incentive Plan

This **RESTRICTED STOCK AWARD AGREEMENT** (this "*Agreement*") is made by Tuesday Morning Corporation, a Delaware corporation (the "*Company*"), as of _____ (the "*Grant Date*"), pursuant to the Tuesday Morning Corporation 2004 Long-Term Equity 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 «**Name**» (the "*Awardee*") the shares of equity securities specified herein ("*Restricted Shares*"), 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 Company agrees as follows:

1. **Grant of Restricted Shares.** Effective as of the Grant Date, the Company shall cause to be issued in the Awardee's name the following Restricted Shares: «**Shares**» shares of the Company's common stock, \$.01 par value. The Company shall cause certificates evidencing the Restricted Shares, and any Retained Distributions issued with respect to the Restricted Shares, to be issued in the Awardee's name. During the Restricted Period such certificates shall bear a restrictive legend to the effect that ownership of such Restricted Shares (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 Awardee shall have the right to vote the Restricted Shares awarded to the Awardee 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 Shares, with the exception that (a) the Awardee shall not be entitled to delivery of the stock certificate or certificates representing such Restricted Shares until the Forfeiture Restrictions applicable thereto shall have expired, (b) the Company shall retain custody of all Retained Distributions made or declared with respect to the Restricted Shares (and such Retained Distributions shall be subject to the same restrictions, terms and conditions as are applicable to the Restricted Shares) until such time, if ever, as the Restricted Shares 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 Awardee may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the Restricted Shares or any Retained Distributions during the Restricted Period. Upon issuance the certificates for the Restricted Shares 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 Shares occurs or the Forfeiture Restrictions lapse, together with stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or

any portion of the Restricted Shares and any securities constituting Retained Distributions which shall be forfeited in accordance with the Plan and this Agreement. In accepting the award of Restricted Shares set forth in this Agreement the Awardee 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) “*Forfeiture Restrictions*” shall mean any prohibitions and restrictions set forth herein with respect to the sale or other disposition of Restricted Shares issued to the Awardee hereunder and the obligation to forfeit and surrender such Restricted Shares to the Company.
- (b) “*Restricted Period*” shall mean the period designated by the Committee during which Restricted Shares may not be sold, assigned, transferred, pledged, or otherwise encumbered.
- (c) “*Restricted Shares*” shall mean Shares that are subject to the Forfeiture Restrictions under this Agreement.
- (d) “*Retained Distributions*” shall mean any securities or other property (other than regular cash dividends) distributed by the Company in respect of Restricted Shares 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 Shares 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 Shares granted hereby that are 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 Awardee also agrees (a) that the Company may refuse to cause the transfer of the Restricted Shares 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 Shares.

4. **Vesting.** The Restricted Shares that are granted hereby shall be subject to Forfeiture Restrictions. The Forfeiture Restrictions shall lapse as to the Restricted Shares that are 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 Shares that are granted hereby as provided in subsections (b), provided that the Awardee's service as an employee has not terminated prior to the applicable date provided in subsection (b). If the Awardee's service as an employee terminates before a date provided in subsections (b) then except as otherwise specified in subsections (c) or (d) below the Forfeiture Restrictions then applicable to any of the Restricted Shares shall not lapse and all of the Restricted Shares with respect to which Forfeiture Restrictions have not then lapsed shall be forfeited to the Company upon such cessation of service.
- (b) *Vesting Date.* The Restricted Shares will vest (subject to the provisions of subsection (a)) in accordance with the following schedule:
- (i) on _____, the Forfeiture Restrictions shall lapse, and the Restricted Shares will vest, with respect to one-quarter (25%) of the Restricted Shares;
 - (ii) on _____, the Forfeiture Restrictions shall lapse, and the Restricted Shares will vest, with respect to an additional one-quarter (25%) of the Restricted Shares;
 - (iii) on _____, the Forfeiture Restrictions shall lapse, and the Restricted Shares will vest, with respect to an additional one-quarter (25%) of the Restricted Shares; and
 - (iv) on _____, the Forfeiture Restrictions shall lapse, and the Restricted Shares will vest, with respect to the remaining one-quarter (25%) of the Restricted Shares, so that on _____, the Restricted Shares will vest in full.
- (c) *Death or Disability.* Notwithstanding any provisions of Section 4 to the contrary, in the event the Awardee's service as an employee is terminated due to the death or Disability of the Awardee prior to a date provided in subsections (b), the Forfeiture Restrictions for all of the Restricted Shares with respect to which Forfeiture Restrictions have not then lapsed shall lapse on the date of such cessation of service due to death or Disability.
- (d) *Change in Control.* Notwithstanding any provisions of Section 4 to the contrary, in the event a Change in Control occurs prior to the date the Awardee's service with the Company is terminated the Forfeiture Restrictions for all of the Restricted Shares with respect to which Forfeiture Restrictions have not then lapsed shall lapse on the date of such Change in Control.
5. *Effect of Lapse of Restrictions.* Upon the lapse of the Forfeiture Restrictions with respect to a Restricted Share granted hereby the Company shall cause to be delivered to the Awardee a stock certificate representing such Restricted Share, and such Restricted Share shall be transferable by the Awardee (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 Shares shall not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to this Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its 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 Awardee shall not exercise the election permitted under section 83(b) of the Code with respect to the Restricted Shares without the written approval of the Chief Financial Officer of the Company.
8. **Legend.** The Awardee consents to the placing on the certificate for the Restricted Shares of an appropriate legend restricting resale or other transfer of the Restricted Shares except in accordance with the Securities Act of 1933 and all applicable rules thereunder.
9. **Notices.** Any notice, instruction, authorization, request or demand required hereunder shall be in writing, and shall be delivered either by personal delivery, by telegram, telex, teletype 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 Awardee at the Awardee's residential address, 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.
10. **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 by the Company and the Awardee. Only a written instrument executed and delivered 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 Awardee. 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.
11. **Governing Law and Severability.** This Agreement shall be governed by the laws of the State of Delaware without regard to its conflicts of law provisions. 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.

- 12. **Successors and Assigns.** Subject to the limitations which this Agreement imposes upon the transferability of the Restricted Shares 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 Awardee, the Awardee's permitted assigns and upon the Awardee's death, the Awardee's estate and beneficiaries thereof (whether by will or the laws of descent and distribution), executors, administrators, agents, legal and personal representatives.
- 13. **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be an original for all purposes but all of which taken together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by an officer thereunto duly authorized as of the date first above written.

TUESDAY MORNING CORPORATION

By: _____
Name: _____
Title: EVP, Chief Administrative Officer and
Chief Financial Officer

FORM OF RESTRICTED STOCK AWARD AGREEMENT

Tuesday Morning Corporation
2008 Long-Term Equity Incentive Plan

This **RESTRICTED STOCK AWARD AGREEMENT** (this "*Agreement*") is entered into between Tuesday Morning Corporation, a Delaware corporation (the "*Company*"), and (the "*Awardee*") as of (the "*Grant Date*"), pursuant to the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan, as amended (the "*Plan*"), the terms of which are incorporated by reference herein in their entirety.

WHEREAS, the Company desires to grant the Awardee the shares of equity securities specified herein ("*Restricted Shares*"), subject to the terms and conditions of this Agreement. Any term used in this Agreement that is not specifically defined herein shall have the meaning specified in the Plan;

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 Company agrees as follows:

1. ***Grant of Restricted Shares.*** Effective as of the Grant Date, the Company shall cause to be issued in the Awardee's name the following Restricted Shares: shares of the Company's common stock, \$.01 par value. The Company shall cause certificates evidencing the Restricted Shares, and any Retained Distributions issued with respect to the Restricted Shares, to be issued in the Awardee's name. During the Restricted Period such certificates shall bear a restrictive legend to the effect that ownership of such Restricted Shares (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 Awardee shall have the right to vote the Restricted Shares awarded to the Awardee 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 Shares, with the exception that (a) the Awardee shall not be entitled to delivery of the stock certificate or certificates representing such Restricted Shares until the Forfeiture Restrictions applicable thereto shall have expired, (b) the Company shall retain custody of all Retained Distributions made or declared with respect to the Restricted Shares (and such Retained Distributions shall be subject to the same restrictions, terms and conditions as are applicable to the Restricted Shares) until such time, if ever, as the Restricted Shares 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 Awardee may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the Restricted Shares or any Retained Distributions during the Restricted Period. Upon issuance the certificates for the Restricted Shares 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 Shares occurs or the Forfeiture Restrictions lapse, together with stock powers or other instruments of

assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Shares and any securities constituting Retained Distributions which shall be forfeited in accordance with the Plan and this Agreement. In accepting the award of Restricted Shares set forth in this Agreement the Awardee 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) “*Forfeiture Restrictions*” shall mean any prohibitions and restrictions set forth herein with respect to the sale or other disposition of Restricted Shares issued to the Awardee hereunder and the obligation to forfeit and surrender such Restricted Shares to the Company.
- (b) “*Restricted Period*” shall mean the period designated by the Committee during which Restricted Shares may not be sold, assigned, transferred, pledged, or otherwise encumbered.
- (c) “*Restricted Shares*” shall mean Shares that are subject to the Forfeiture Restrictions under this Agreement.
- (d) “*Retained Distributions*” shall mean any securities or other property (other than regular cash dividends) distributed by the Company in respect of Restricted Shares 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 Shares 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 Shares granted hereby that are 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 Awardee also agrees (a) that the Company may refuse to cause the transfer of the Restricted Shares 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 Shares.

4. **Vesting.** The Restricted Shares that are granted hereby shall be subject to Forfeiture Restrictions. The Forfeiture Restrictions shall lapse as to the Restricted Shares that are 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 Shares that are granted hereby as provided in subsections (b), provided that the Awardee's service as an employee has not terminated prior to the applicable date provided in subsection (b). If the Awardee's service as an employee terminates before a date provided in subsections (b) then except as otherwise specified in subsections (c) or (d) below the Forfeiture Restrictions then applicable to any of the Restricted Shares shall not lapse and all of the Restricted Shares with respect to which Forfeiture Restrictions have not then lapsed shall be forfeited to the Company upon such cessation of service.
- (b) *Vesting Date.* The Restricted Shares will vest (subject to the provisions of subsection (a)) in accordance with the following schedule:
- (i) on _____, the Forfeiture Restrictions shall lapse, and the Restricted Shares will vest, with respect to one-quarter (25%) of the Restricted Shares;
 - (ii) on _____, the Forfeiture Restrictions shall lapse, and the Restricted Shares will vest, with respect to an additional one-quarter (25%) of the Restricted Shares;
 - (iii) on _____, the Forfeiture Restrictions shall lapse, and the Restricted Shares will vest, with respect to an additional one-quarter (25%) of the Restricted Shares; and
 - (iv) on _____, the Forfeiture Restrictions shall lapse, and the Restricted Shares will vest, with respect to the remaining one-quarter (25%) of the Restricted Shares, so that on _____, the Restricted Shares will vest in full.
- (c) *Death or Disability.* Notwithstanding any provisions of Section 4 to the contrary, in the event the Awardee's service as an employee is terminated due to the death or Disability of the Awardee prior to a date provided in subsections (b), the Forfeiture Restrictions for all of the Restricted Shares with respect to which Forfeiture Restrictions have not then lapsed shall lapse on the date of such cessation of service due to death or Disability.
- (d) *Change in Control.* Notwithstanding any provisions of Section 4 to the contrary, in the event a Change in Control occurs prior to the date the Awardee's service with the Company is terminated the Forfeiture Restrictions for all of the Restricted Shares with respect to which Forfeiture Restrictions have not then lapsed shall lapse on the date of such Change in Control.
5. *Effect of Lapse of Restrictions.* Upon the lapse of the Forfeiture Restrictions with respect to a Restricted Share granted hereby the Company shall cause to be delivered to the Awardee a stock certificate representing such Restricted Share, and such Restricted Share shall be transferable by the Awardee (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 Shares shall not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to this Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its 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 Awardee shall not exercise the election permitted under section 83(b) of the Code with respect to the Restricted Shares without the written approval of the Chief Financial Officer of the Company.
8. **Legend.** The Awardee consents to the placing on the certificate for the Restricted Shares of an appropriate legend restricting resale or other transfer of the Restricted Shares except in accordance with the Securities Act of 1933 and all applicable rules thereunder.
9. **Notices.** Any notice, instruction, authorization, request or demand required hereunder shall be in writing, and shall be delivered either by personal delivery, by telegram, telex, teletype 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 Awardee at the Awardee's residential address, 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.
10. **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 by the Company and the Awardee. Only a written instrument executed and delivered 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 Awardee. 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.
11. **Governing Law and Severability.** This Agreement shall be governed by the laws of the State of Delaware without regard to its conflicts of law provisions. 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.

- 12. **Successors and Assigns.** Subject to the limitations which this Agreement imposes upon the transferability of the Restricted Shares 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 Awardee, the Awardee's permitted assigns and upon the Awardee's death, the Awardee's estate and beneficiaries thereof (whether by will or the laws of descent and distribution), executors, administrators, agents, legal and personal representatives.
- 13. **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be an original for all purposes but all of which taken together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by an officer thereunto duly authorized as of the date first above written.

TUESDAY MORNING CORPORATION

By: _____
Name: _____
Title: EVP, Chief Administrative Officer and
Chief Financial Officer

**FORM OF NONQUALIFIED STOCK OPTION AWARD AGREEMENT
FOR EMPLOYEES**

*Tuesday Morning Corporation
2008 Long-Term Equity Incentive Plan*

This **NONQUALIFIED STOCK OPTION AWARD AGREEMENT** (this "*Agreement*") is entered into between Tuesday Morning Corporation, a Delaware corporation (the "*Company*"), and (the "*Optionee*"). The Board of Directors of the Company (the "*Board*") has adopted, and the stockholders of the Company have approved, the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan, as amended (the "*Plan*"), the terms of which are incorporated by reference herein in their entirety. The Company has agreed to grant Optionee this option to purchase shares of common stock of the Company as an inducement for Optionee'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 "*Grant Date*"), the Company granted to Optionee an option (the "*Option*") to purchase () shares of the common stock of the Company, \$.01 par value per share (the "*Common Stock*"), at a price of \$ per share (the "*Exercise 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. **Optionee's Agreement.** In accepting the Option, Optionee 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) The Option will vest and become exercisable in accordance with the provisions of Schedule A attached hereto and made a part hereof, provided the Optionee's employment with the Company has not terminated prior to the applicable vesting date as provided in Schedule A. If Optionee ceases to be an employee of the Company before the last vesting date for the Option as provided in Schedule A, then, except as otherwise specified in subsection (c), (d) or (e), and in accordance with subsection (f) below all of the shares of Common Stock subject to the Option which have not yet vested will not continue to vest after such cessation of service as an employee. When the last vesting date for the Option as provided in Schedule A occurs, any of the shares of Common Stock subject to the Option which have not yet vested will not continue to vest after such last vesting date.
 - (b) To the extent not exercised, vested portions of the Option pursuant

to Schedule A shall be cumulative and may be exercised in whole or in part. No portion of the Option shall be exercisable in any event on or after the Option General Expiration Date (as hereinafter defined). An option may not be exercised for a fraction of a share of Common Stock.

(c) Notwithstanding any provision of this Section 4 to the contrary, in the event Optionee's service as an employee of the Company is terminated due to the death or Disability of Optionee before the last vesting date for shares of Common Stock subject to the Option as provided in Schedule 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 death or Disability.

(d) Notwithstanding any provisions of this Section 4 to the contrary, in the event the Company terminates Optionee's service as an employee without Cause (as defined in (the " ")) or Optionee terminates Optionee's service as an employee with Good Reason (as defined in) prior to, on or after a Change in Control (as defined in the Plan) and before the last vesting date for shares of Common Stock subject to the Option as provided in Schedule A, so long as Optionee executes and timely returns the release and otherwise complies with the restrictive covenants, all as provided for in , 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 termination of service.

(e) Notwithstanding any provisions of this Section 4 to the contrary, if, Optionee voluntarily terminates Optionee's service as an employee on account of Retirement before the last vesting date for shares of Common Stock subject to the Option as provided in Schedule A and the Board approves such Retirement, and at the time of such Retirement Optionee remains a member of the Board, then all of the shares of Common Stock subject to the Option which have not yet vested will continue to vest in accordance with the provisions of Schedule A, so long as Optionee remains a member of the Board. Should Optionee cease to be a member of the Board at any time on or following such Retirement with Board approval and before the last vesting date for shares of Common Stock subject to the Option as provided in Schedule A, then:

(i) If Optionee's membership on the Board is voluntarily terminated by Optionee, all of the shares of Common Stock subject to the Option which have not yet vested will not continue to vest after termination.

(ii) If Optionee's membership on the Board is terminated because the Board fails to nominate Optionee for reelection to the Board, or if following nomination, the shareholders fail to reelect Optionee, 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 failure to nominate or reelect, as applicable.

(f) Notwithstanding any provisions of this Section 4 to the contrary, upon Optionee's Retirement without Board approval for such Retirement, all of the shares of Common Stock subject to the Option which have not yet vested will not continue to vest

after such Retirement.

5. ***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 Optionee 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 Exercise Price for the shares to be acquired in accordance with the terms and conditions of this Agreement and the Plan.

(b) If Optionee is entitled to exercise the vested and exercisable portion of the Option, and wishes to do so, in whole or part, Optionee 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 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 Exercise Price for the shares 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 Sections 5.7 and 15.3 of the Plan.

(c) The Company's obligation to deliver shares of the Common Stock to Optionee under this Agreement is subject to and conditioned upon Optionee satisfying all tax obligations associated with Optionee'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 5.7 of the Plan. The Company and its Subsidiaries, as applicable, shall be entitled to deduct from any compensation otherwise due to Optionee the amount necessary to satisfy all such taxes.

(d) Upon full payment of the Exercise 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 cause certificates for the shares purchased hereunder to be delivered to Optionee or cause an uncertificated book-entry representing such shares to be made.

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 Grant Date (the "Option General Expiration Date"). Except as otherwise provided in Section 4 of this Agreement, if Optionee ceases to be an employee of the Company for any reason the Option shall not continue to vest after such cessation of service as an employee of the Company.

(a) If Optionee ceases to be an employee of the Company and any Subsidiary due to death or Disability as provided for in Section 4(c), or as provided for in Section 4(d), the unexercised portion of the Option that was previously exercisable or

became exercisable on the date of such death or Disability or employment cessation shall remain exercisable for, and shall otherwise terminate and become null and void at the end of, a period of two years from the date of such death or Disability or date of such employment cessation as provided for in Section 4(d), but in no event after the Option General Expiration Date.

(b) If Optionee voluntarily ceases to be an employee of the Company on account of Retirement, with or without Board approval, as provided for in Sections 4(e) and (f), the unexercised portion of the Option that was previously exercisable or became exercisable on the later of the date of Optionee's Retirement or the date Optionee's membership on the Board terminated shall remain exercisable for, and shall otherwise terminate and become null and void at the end of, a period of three years from the later of such Retirement or Board termination, but in no event after the Option General Expiration Date.

(c) Upon the death of Optionee prior to the expiration of the Option, Optionee'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 that Optionee would have been entitled to exercise as if he were still alive.

7. **Tax Withholding.** To the extent that the receipt of the Option, this Agreement, the vesting of the Option or the exercise of the Option results in income to Optionee for federal, state or local income, employment or other tax purposes with respect to which the Company or its Subsidiaries or any Affiliate has a withholding obligation, Optionee shall deliver to the Company at the time of such receipt, vesting or exercise, as the case may be, such amount of money as the Company or its Subsidiaries or any Affiliate may require to meet its obligation under applicable tax laws or regulations, and, if Optionee fails to do so, the Company or its Subsidiaries or any Affiliate is authorized to withhold from the shares subject to the Option (based on the Fair Market Value of such shares as of the date the amount of tax to be withheld is determined) or from any cash or stock remuneration then or thereafter payable to Optionee any tax required to be withheld by reason of such taxable income, sufficient to satisfy the withholding obligation.

8. **Capital Adjustments and Reorganizations.** The existence of the Option shall not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to this Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its 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, Optionee shall be considered to be in the employment of the Company as long as Optionee has an employment relationship with the Company. The Committee shall determine any questions as to whether and when there has been a termination of such employment

relationship, and the cause of such termination, under the Plan and the Committee's determination shall be final and binding on all persons.

10. ***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 Optionee 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.

11. ***No Rights as Stockholder.*** Optionee shall not have any rights as a stockholder with respect to any shares covered by the Option until the date of the issuance of such shares following Optionee's exercise of the Option pursuant to its terms and conditions and payment of all amounts for and with respect to the shares. 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.

12. ***Legend.*** Optionee 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.

13. ***Notices.*** Any notice, instruction, authorization, request, demand or other communications required hereunder shall be in writing, and shall be delivered either by personal delivery, by 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 Optionee at Optionee'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.

14. ***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 by the Company and Optionee. Only a written instrument executed and delivered 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 Optionee. 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.

15. **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.

16. **Governing Law and Severability.** The validity, construction and performance of this Agreement shall be governed by the laws of the State of Delaware without regard to its conflicts of law provisions. 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.

17. **Transfer Restrictions.** The Option may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of, except as provided in Section 20 upon the Optionee's death, and except that the Option may be assigned or transferred to a trust or trusts for the exclusive benefit of the spouse or lineal descendants of the Optionee or the Optionee's spouse's siblings or their respective lineal descendants, provided that (a) there shall be no consideration for any such transfer, and (b) subsequent transfers of such a transferred Option shall be prohibited except those by will or the applicable laws of descent and distribution. Any 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 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. Optionee 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.

18. **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.

19. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original for all purposes but all of which taken together shall constitute but one and the same instrument.

20. **Option Transfer Prohibitions.** The Option granted to Optionee under this Agreement shall not be transferable or assignable by Optionee other than pursuant to Section 17 or by will or the laws of descent and distribution, and shall be exercisable during Optionee's lifetime only by him.

21. **Definitions.** The words and phrases defined in this Section 21 shall have the respective meanings set forth below throughout this Agreement, unless the context in

which any such word or phrase appears reasonably requires a broader, narrower or different meaning.

(a) "Retirement" shall mean "retirement" as defined under any Company pension or retirement program (i.e., voluntary termination of employment at or after age 65).

(b) "Subsidiary" means a corporation or other entity of which outstanding shares or ownership interests representing 50% or more of the combined voting power of such corporation or other entity entitled to elect the management thereof are owned directly or indirectly by the Company.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered to be effective as of the Grant Date.

TUESDAY MORNING CORPORATION

By: _____

Name: _____

Title: Executive Vice President, Chief Administrative Officer and Chief Financial Officer

Accepted:

Name of Optionee: _____

Date: _____

SCHEDULE A

Performance Based Criteria

FORM OF RESTRICTED STOCK AWARD AGREEMENT

Tuesday Morning Corporation
2004 Long-Term Equity Incentive Plan

This **RESTRICTED STOCK AWARD AGREEMENT** (this "*Agreement*") is made by Tuesday Morning Corporation, a Delaware corporation (the "*Company*"), as of _____ (the "*Grant Date*"), pursuant to the Tuesday Morning Corporation 2004 Long-Term Equity 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 "*Awardee*") the shares of equity securities specified herein ("*Restricted Shares*"), 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 Company agrees as follows:

1. ***Grant of Restricted Shares.*** Effective as of the Grant Date, the Company shall cause to be issued in the Awardee's name the following Restricted Shares: _____ shares of the Company's common stock, \$.01 par value. The Company shall cause certificates evidencing the Restricted Shares, and any Retained Distributions issued with respect to the Restricted Shares, to be issued in the Awardee's name. During the Restricted Period such certificates shall bear a restrictive legend to the effect that ownership of such Restricted Shares (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 Awardee shall have the right to vote the Restricted Shares awarded to the Awardee 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 Shares, with the exception that (a) the Awardee shall not be entitled to delivery of the stock certificate or certificates representing such Restricted Shares until the Forfeiture Restrictions applicable thereto shall have expired, (b) the Company shall retain custody of all Retained Distributions made or declared with respect to the Restricted Shares (and such Retained Distributions shall be subject to the same restrictions, terms and conditions as are applicable to the Restricted Shares) until such time, if ever, as the Restricted Shares 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 Awardee may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the Restricted Shares or any Retained Distributions during the Restricted Period. Upon issuance the certificates for the Restricted Shares 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 Shares occurs or the Forfeiture Restrictions lapse, together with stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to

the Company of all or any portion of the Restricted Shares and any securities constituting Retained Distributions which shall be forfeited in accordance with the Plan and this Agreement. In accepting the award of Restricted Shares set forth in this Agreement the Awardee 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) “*Forfeiture Restrictions*” shall mean any prohibitions and restrictions set forth herein with respect to the sale or other disposition of Restricted Shares issued to the Awardee hereunder and the obligation to forfeit and surrender such Restricted Shares to the Company.
- (b) “*Restricted Period*” shall mean the period designated by the Committee during which Restricted Shares may not be sold, assigned, transferred, pledged, or otherwise encumbered.
- (c) “*Restricted Shares*” shall mean Shares that are subject to the Forfeiture Restrictions under this Agreement.
- (d) “*Retained Distributions*” shall mean any securities or other property (other than regular cash dividends) distributed by the Company in respect of Restricted Shares 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 Shares 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 Shares granted hereby that are 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 Awardee also agrees (a) that the Company may refuse to cause the transfer of the Restricted Shares 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 Shares.

4. **Vesting.** The Restricted Shares that are granted hereby shall be subject to Forfeiture Restrictions. The Forfeiture Restrictions shall lapse as to the Restricted Shares that are 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 Shares that are granted hereby as provided in subsections (b)(i) and (b)(ii), provided that (i) the Awardee's service as an employee has not terminated prior to _____, 20____; and (ii) the performance goals provided in subsections (b)(i) and b(ii) required for lapse of the Forfeiture Restrictions have been achieved on or before _____, 20____. If the Awardee's service as an employee terminates before _____, 20____ then, except as otherwise specified in subsections (c) or (d) below, the Forfeiture Restrictions then applicable to any of the Restricted Shares shall not lapse and all of the Restricted Shares with respect to which Forfeiture Restrictions have not then lapsed shall be forfeited to the Company upon such cessation of service. Further, to the extent the performance goals required for lapse of the Forfeiture Restrictions set forth in subsections (b)(i) and (b)(ii) of this Section 4 are not achieved by _____, 20____, then, except as otherwise specified in subsections (c) and (d) below, the Forfeiture Restrictions then applicable to any of the Restricted Shares relating to such unachieved performance goals shall not lapse, and all of the Restricted Shares with respect to which Forfeiture Restrictions have not then lapsed shall be forfeited to the Company on _____, 20____.
- (b) *Vesting Date.* The Restricted Shares will vest (subject to the provisions of subsection (a)) in accordance with the following schedule:
- (i) on _____, 20____, the Forfeiture Restrictions shall lapse, and the Restricted Shares will vest, with respect to _____ (____%) of the Restricted Shares, if by such date _____; and
- (ii) on _____, 20____, the Forfeiture Restrictions shall lapse, and the Restricted Shares will vest, with respect to the remaining _____ (____%) of the Restricted Shares, if by such date _____.
- (c) *Death or Disability.* Notwithstanding any provisions of Section 4 to the contrary, in the event the Awardee's service as an employee is terminated due to the death or Disability of the Awardee prior to a date provided in subsections (b), the Forfeiture Restrictions for all of the Restricted Shares with respect to which Forfeiture Restrictions have not then lapsed shall lapse on the date of such cessation of service due to death or Disability.
- (d) *Change in Control.* Notwithstanding any provisions of Section 4 to the contrary, in the event a Change in Control occurs prior to the date the Awardee's service with the Company is terminated the Forfeiture Restrictions for all of the Restricted Shares with respect to which Forfeiture Restrictions have not then lapsed shall lapse on the date of such Change in Control.
5. *Effect of Lapse of Restrictions.* Upon the lapse of the Forfeiture Restrictions with respect to a Restricted Share granted hereby the Company shall cause to be delivered to the Awardee a stock certificate representing such Restricted Share, and such Restricted Share shall be transferable by the Awardee (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 Shares shall not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to this Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its 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 Awardee shall not exercise the election permitted under section 83(b) of the Code with respect to the Restricted Shares without the written approval of the Chief Financial Officer of the Company.
8. **Legend.** The Awardee consents to the placing on the certificate for the Restricted Shares of an appropriate legend restricting resale or other transfer of the Restricted Shares except in accordance with the Securities Act of 1933 and all applicable rules thereunder.
9. **Notices.** Any notice, instruction, authorization, request or demand required hereunder shall be in writing, and shall be delivered either by personal delivery, by telegram, telex, teletype 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 Awardee at the Awardee's residential address, 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.
10. **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 by the Company and the Awardee. Only a written instrument executed and delivered 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 Awardee. 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.
11. **Governing Law and Severability.** This Agreement shall be governed by the laws of the State of Delaware without regard to its conflicts of law provisions. 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.

- 12. **Successors and Assigns.** Subject to the limitations which this Agreement imposes upon the transferability of the Restricted Shares 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 Awardee, the Awardee's permitted assigns and upon the Awardee's death, the Awardee's estate and beneficiaries thereof (whether by will or the laws of descent and distribution), executors, administrators, agents, legal and personal representatives.
- 13. **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be an original for all purposes but all of which taken together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by an officer thereunto duly authorized as of the date first above written.

TUESDAY MORNING CORPORATION

By: _____
Name: _____
Title: EVP, Chief Administrative Officer and
Chief Financial Officer

IRREVOCABLE STOCK POWER

KNOW ALL MEN BY THESE PRESENTS, That The Undersigned, For Value Received, 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 Shares transferred pursuant to the **RESTRICTED STOCK AWARD AGREEMENT** dated _____, by the Company granting Restricted Shares to the undersigned (the “*Award Agreement*”); **and** subject to and in accordance with the Award Agreement the undersigned does hereby constitute and appoint the Secretary of the Company the undersigned’s true and lawful attorney, IRREVOCABLY, to sell, assign, transfer, hypothecate, pledge and make over all or any part of such Restricted Shares 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 substitutes shall lawfully do by virtue hereof.

In Witness Whereof, the undersigned has executed this Irrevocable Stock Power on this _____ day of _____, 20____.

Name of Awardee: _____

CERTIFICATION

I, R. Michael Rouleau, certify that:

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

Date: May 8, 2014

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

CERTIFICATION

I, Jeffrey N. Boyer, certify that:

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

Date: May 8, 2014

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

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

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

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

Date: May 8, 2014

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

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

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

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

Date: May 8, 2014

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