

**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 SEPTEMBER 30, 2013

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
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

<u>Class</u>	<u>Outstanding at October 28, 2013</u>
Common Stock, par value \$0.01 per share	43,085,417

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2013	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,325	\$ 28,896
Inventories	260,437	211,981
Prepaid expenses	7,098	6,609
Deferred income taxes	—	991
Other current assets	3,207	2,310
Total Current Assets	284,067	250,787
Property and equipment, net	66,256	66,009
Deferred financing costs	1,863	2,011
Other assets	1,153	1,203
Deferred income tax — non current	3,545	1,870
Total Assets	<u>\$ 356,884</u>	<u>\$ 321,880</u>
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	\$ 116,104	\$ 72,958
Accrued liabilities	37,877	35,719
Deferred income taxes payable	684	—
Income taxes payable	2	85
Total Current Liabilities	154,667	108,762
Deferred rent	2,870	2,885
Other liabilities — non current	2,289	2,289
Income tax payable - non current	495	487
Total Liabilities	160,321	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; 44,818,114 shares issued and 43,084,686 shares outstanding at September 30, 2013 and 44,517,731 shares issued and 42,785,978	448	445

shares outstanding at June 30, 2013		
Additional paid-in capital	215,148	214,012
Retained deficit	(12,811)	(802)
Less: 1,733,428 common shares in treasury, at cost, at September 30, 2013 and 1,731,753 common shares in treasury, at cost, at June 30, 2013	(6,222)	(6,198)
Total Stockholders' Equity	196,563	207,457
Total Liabilities and Stockholders' Equity	\$ 356,884	\$ 321,880

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

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

	Three Months Ended September 30,	
	2013	2012
Net sales	\$ 183,678	\$ 172,795
Cost of sales	120,251	107,889
Gross profit	63,427	64,906
Selling, general and administrative expenses	75,894	75,790
Operating loss	(12,467)	(10,884)
Other income (expense):		
Interest expense	(375)	(422)
Other income, net	84	58
Other expense, net	(291)	(364)
Loss before income taxes	(12,758)	(11,248)
Income tax benefit	(749)	(4,287)
Net Loss	\$ (12,009)	\$ (6,961)
Loss Per Share		
Net loss per common share:		
Basic	\$ (0.28)	\$ (0.17)
Diluted	\$ (0.28)	\$ (0.17)
Weighted average number of common shares:		
Basic	42,618	41,764
Diluted	42,618	41,764
Dividends per common share	\$ —	\$ —

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

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

	Three Months Ended September 30,	
	2013	2012
Net loss	\$ (12,009)	\$ (6,961)
Other Comprehensive Income/(Loss):		
Foreign currency translation adjustments	—	50
Less: Reclassification adjustment for losses included in net loss	—	(1)
Other Comprehensive Income, before tax	—	49
Less: Income tax provision related to items of other comprehensive income	—	19
Comprehensive Loss	\$ (12,009)	\$ (6,931)

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

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

	Three Months Ended September 30,	
	2013	2012
Net cash flows from operating activities:		
Net loss	\$ (12,009)	\$ (6,961)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,870	3,608
Amortization of financing fees	148	151
Deferred income taxes	—	(671)
Loss on disposal of assets	55	85
Share-based compensation	294	196
Other non-cash items	—	50
Change in operating assets and liabilities:		
Inventories	(48,447)	(66,098)
Prepaid and other current assets	(1,336)	(5,438)
Accounts payable	43,146	23,989
Accrued liabilities	2,158	6,057
Deferred rent	(15)	(129)
Income taxes payable	(75)	33
Net cash used in operating activities	<u>(13,211)</u>	<u>(45,128)</u>
Net cash flows from investing activities:		
Proceeds from sale of assets	26	—
Capital expenditures	(3,198)	(3,614)
Net cash used in investing activities	<u>(3,172)</u>	<u>(3,614)</u>
Net cash flows from financing activities:		
Repayments under revolving credit facility	—	(35,515)
Proceeds under revolving credit facility	—	48,015
Change in cash overdraft	—	5,381
Excess tax benefit related to exercise of stock options	—	(275)
Purchase of treasury stock	(24)	(42)
Proceeds from the exercise of employee stock options	836	1,439
Net cash provided by financing activities	<u>812</u>	<u>19,003</u>
Net decrease in cash and cash equivalents	(15,571)	(29,739)
Cash and cash equivalents, beginning of period	28,896	39,740
Cash and cash equivalents, end of period	<u>\$ 13,325</u>	<u>\$ 10,001</u>

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

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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 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 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 months ended September 30, 2013 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; 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. No options with performance conditions were outstanding as of September 30, 2013. The exercise prices of stock options outstanding on September 30, 2013, range between \$1.24 per share and \$35.23 per share. There were 390,831 and 2.3 million shares available for grant under the 2004 Plan and the 2008 Plan at September 30, 2013, respectively.

Restricted Stock Awards. Under the terms of the 1997 Plan, 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. At December 31, 2007, all shares under the 1997 Plan had been granted and the 1997 Plan terminated pursuant to its terms as of December 29, 2007. Under the 2004 Plan and the 2008 Plan, as of September 30, 2013, there were 276,882 shares of restricted stock outstanding with award vesting periods of one to four years and a weighted average fair value of \$8.79 per share.

Performance Shares and Performance Units. All outstanding performance shares were forfeited or vested during the fourth quarter of fiscal 2013, and as a result, there were no performance shares or performance units outstanding as of September 30, 2013.

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

	Three Months Ended	
	September 30,	
	2013	2012
Amortization of share-based compensation during the period	\$ 303	\$ 190
Amounts capitalized in ending inventory	(118)	(100)
Amounts recognized and charged to cost of sales	109	106
Amounts charged against income for the period before tax	\$ 294	\$ 196

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 quarters ended September 30, 2013 and 2012 was \$12.0 million and \$6.9 million, respectively.

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 is the former President and Chief Executive Officer of the Company and her employment was terminated in June 2012. In the petition, the plaintiff alleges disability discrimination, deliberate indifference and retaliation in violation of the Texas Commission on Human Rights Act. Each claim stems 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 seeks more than \$1 million in monetary relief, including claims for compensatory damages, attorneys’ fees, costs and interest. The Company denies the allegations. The Company filed a Special Exception and Answer to Plaintiff’s Original Petition on July 12, 2013. Discovery is continuing in this case. The Company believes this claim is without merit and intends to vigorously defend this matter.

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. Discovery is continuing and trial has been set for May 2014. The Company believes the claims are without merit and will continue to vigorously defend against them.

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

	Three Months Ended September 30,	
	2013	2012
Net loss	\$ (12,009)	\$ (6,961)
Less: Income to participating securities	—	—
Net loss attributable to common shares	\$ (12,009)	\$ (6,961)
Weighted average number of common shares outstanding - basic	42,618	41,764
Effect of dilutive stock equivalents	—	—
Weighted average number of common shares outstanding - dilutive	42,618	41,764
Net loss per common share - basic	\$ (0.28)	\$ (0.17)
Net loss per common share - diluted	\$ (0.28)	\$ (0.17)

Options representing rights to purchase 649,678 shares and 948,065 shares of common stock at September 30, 2013 and September 30, 2012, respectively, were not included in the diluted loss per share calculation because the assumed exercise of such options would have been anti-dilutive.

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. 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 secured 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 the restricted payment and must satisfy a fixed charge coverage ratio requirement. As of September 30, 2013, we were in compliance with all required covenants.

At September 30, 2013, we had no amounts outstanding under the Revolving Credit Facility, \$6.9 million of outstanding letters of credit and availability of \$144.5 million under the Revolving Credit Facility. Letters of credit under the Revolving Credit Facility are primarily for self-insurance purposes. We incur commitment fees of up to 0.375% on the unused portion of the Revolving Credit Facility. Any borrowing under the Revolving Credit Facility incurs interest at LIBOR or the prime rate, plus an applicable margin, at our election (except with respect to swing loans, which incur interest solely at the prime rate plus the applicable margin). These rates are increased or reduced as our average daily availability changes. Interest expense of \$0.4 million for the quarter ended September 30, 2013 was due to commitment fees of \$0.2 million and the amortization of financing fees of \$0.2 million.

7. Depreciation — Accumulated depreciation of owned equipment and property at September 30, 2013 and June 30, 2013 was \$114.5 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 September 30, 2013 and September 30, 2012 were 5.9% and 38.1%, respectively. The effective tax rate was lower in the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 due to the establishment of a deferred tax asset valuation allowance beginning in the second quarter of the fiscal year ended June 30, 2013.

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 September 30, 2013 and at June 30, 2013, credit card receivables from third party consumer credit card providers were \$4.6 million and \$7.4 million, respectively.

10. Recent accounting pronouncements — There were no recently issued accounting pronouncements during the first 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 upscale, name brand home furnishings, housewares, gifts, and seasonal goods and related items significantly below retail prices charged by department stores and specialty and on-line retailers in 820 stores in 42 states. We also have a unique event-based selling strategy 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 first quarter of fiscal 2014 increased \$10.9 million or 6.3%, to \$183.7 million from \$172.8 million in the same period last year. Comparable store sales for the quarter ended September 30, 2013 increased by 9.1%, compared to the same period last year, which was due to a 13.4% increase in transactions and a 4.3% decrease in average ticket.
- Cost of sales, as a percentage of net sales, for the first quarter of fiscal 2014 was 65.5% compared to 62.4% in the same period last year.
- Selling, general and administrative expenses were essentially flat at \$75.9 million for the first quarter of fiscal 2014, compared to \$75.8 million for the same quarter last year.
- We incurred a net loss of \$12.0 million and a net loss per share of \$0.28 for the quarter ended September 30, 2013, compared to a net loss of \$7.0 million and a net loss per share of \$0.17 for the same period last year.
- Inventory levels at September 30, 2013 increased \$48.4 million to \$260.4 million from \$ 212.0 million at June 30, 2013 due to normal seasonal buying patterns. Compared to the same date last year, inventories decreased \$71.3 million from \$331.7 million at September 30, 2012.
- Cash and cash equivalents at September 30, 2013 decreased \$15.6 million to \$13.3 million from \$28.9 million at June 30, 2013. Cash and cash equivalents were \$3.3 million higher than cash and cash equivalents of \$10.0 million at September 30, 2012, which was offset by \$17.9 million in borrowings and cash overdraft.

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Results of Operations

The following table sets forth certain financial information from our consolidated statements of operations. 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 two periods.

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

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)
Net sales	183,678	—	183,678	172,795	—	172,795
Percent increase from prior year	6.3%	—	6.3%	1.3%	—	1.3%
Comparable store sales increase (1)	9.1%	—	9.1%	1.7%	—	1.7%
Gross profit	63,427	—	63,427	64,906	—	64,906
Selling, general and administrative expenses (3)	75,894	(2,393)	73,501	75,790	(1,492)	74,298
Operating income/(loss) (2)	(12,467)	2,393	(10,074)	(10,884)	1,492	(9,392)
Interest expense	(375)	—	(375)	(422)	—	(422)
Other income, net	84	—	84	58	—	58
Income tax provision/(benefit)	(749)	341	(408)	(4,287)	569	(3,718)
Net income/(loss) (2)	(12,009)	2,052	(9,957)	(6,961)	923	(6,038)
Diluted income/(loss) per share (2)	(0.28)	0.05	(0.23)	(0.17)	0.03	(0.14)
Ratios as a percent of net sales:						
Gross profit	34.5%	—	34.5%	37.6%	—	37.6%
Selling, general and administrative expenses	41.3%	(1.3)%	40.0%	43.9%	(0.9)%	43.0%
Operating income/(loss)	(6.8)%	1.3%	(5.5)%	(6.3)%	0.9%	(5.4)%

(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 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.

(3) See “Non-GAAP Financial Measures” below for detail of these adjustments.

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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 first quarter of fiscal 2014 to the prior year period 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 our management and board transition charges (including compensation and severance, consulting, legal, search and recruiting costs related to the transition) and e-commerce discontinuation charges.

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

(in thousands, except for ratios)

	Three Months Ended September 30,	
	2013	2012
Operating loss (GAAP)	\$ (12,467)	\$ (10,884)
As a percent of net sales	-6.8%	-6.3%
Non-GAAP adjustments:		
Compensation	1,554	144
Legal, consulting, and recruiting	839	1,348
Adjusted operating loss (Non-GAAP)	\$ (10,074)	\$ (9,392)
As a percent of net sales	-5.5%	-5.4%

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

(in thousands)

	Three Months Ended September 30,	
	2013	2012
Net loss from continuing operations (GAAP)	\$ (12,009)	\$ (6,961)
Non-GAAP adjustments:		
Add compensation, net of tax of (\$364) and \$55(1)	1,918	89
Add legal, consulting, and recruiting, net of tax of (\$190), and \$514(1)	1,029	834
Add deferred tax asset valuation allowance	(895)	—
Adjusted net loss from continuing operations (non-GAAP)	\$ (9,957)	\$ (6,038)

(1) The effective tax rate utilized in this non-GAAP adjusted net loss reconciliation is (23.2%) for the three months ended September 30, 2013 and 38.1% for the three months ended September 30, 2012. This rate is inclusive of a deferred tax asset valuation allowance of \$15.0 million recorded at September 30, 2013.

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

	Three Months Ended September 30,	
	2013	2012
Diluted EPS from continuing operations (GAAP)	\$ (0.28)	\$ (0.17)
Non-GAAP adjustments:		
Add compensation, net of tax(1)	0.05	—
Add legal, consulting, and recruiting, net of tax(1)	0.02	0.03
Add deferred tax asset valuation allowance	(0.02)	—
Adjusted diluted EPS from continuing operations (non-GAAP)	\$ (0.23)	\$ (0.14)

(1) The effective tax rate utilized in this non-GAAP adjusted net loss reconciliation is (23.2%) for the three months ended September 30, 2013 and 38.1% for the three months ended September 30, 2012. This rate is inclusive of a deferred tax asset valuation allowance of \$15.0 million recorded at September 30, 2013.

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**Three Months Ended September 30, 2013
Compared to the Three Months Ended September 30, 2012**

Net sales increased \$10.9 million, or 6.3%, to \$183.7 million during the first quarter of fiscal 2014 from \$172.8 million in the same quarter in fiscal 2013. The increase for the first quarter of fiscal 2014 was primarily due to a 9.1% increase in sales from comparable stores. 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 first quarter of fiscal 2014 was comprised of a 13.4% increase in transactions offset by a 4.3% decrease in average ticket. Our comparable store sales increase was partially offset

by our non-comparable store sales and e-commerce sales, which decreased \$4.3 million or 2.4% of net sales for the prior year quarter. The non-comparable store sales decrease is driven by 27 store closures since the end of the first quarter of fiscal 2013, and only seven openings in that time.

(in thousands)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Increase/ (Decrease)	% Increase/ (Decrease)
Comparable Store Sales	180,581	165,443	15,138	9.1%
Non-comparable Store Sales	2,740	4,726	(1,986)	-42.0%
Total Store Sales	183,321	170,169	13,152	7.7%
e-commerce	357	2,626	(2,269)	-86.4%
Total Company Sales	183,678	172,795	10,883	6.3%

We opened one new store and closed nine existing stores during the first quarter of fiscal 2014. In addition, we relocated two existing stores during the first quarter of fiscal 2014. Our store base decreased by eight stores in the first quarter of fiscal 2014, while the store base decreased by 12 stores in the same period in fiscal 2013.

Store Openings/Closings

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Fiscal Year Ended June 30, 2013
Stores open at beginning of period	828	852	852
Stores opened during the period	1	4	10
Stores closed during the period	(9)	(16)	(34)
Stores open at end of period	820	840	828

Gross profit for the first quarter of fiscal 2014 was \$63.4 million, a decrease of 2.3% compared to \$64.9 million in gross profit for the same quarter in fiscal 2013. The decrease in gross profit as a percentage of net sales, from 37.6% in the first quarter of fiscal 2013 to 34.5% in the first quarter of fiscal 2014, was primarily due to a lower initial mark-up and higher markdowns. 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 were essentially flat for the first quarter of fiscal 2014 at \$75.9 million, compared to \$75.8 million for the same quarter last year. As a percent of net sales, selling, general and administrative expenses decreased to 41.3% in the first quarter of fiscal 2014 from 43.9% in the same quarter of fiscal 2013. We incurred selling, general and administrative expenses of \$2.4 million in the first quarter of fiscal 2014 and \$1.5 million in the first 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 decreased to 40.0%, as a percent of net sales, compared to 43.0% in the same quarter last year.

Operating loss was \$12.5 million as compared to operating loss of \$10.9 million in the first quarter of fiscal 2013. The Company's operating results in the first quarter of fiscal 2014 versus the same quarter last year were impacted by the decline in gross margin and the incremental \$0.9 million in business turnaround charges, which related primarily to legal and severance expenses.

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Income tax benefit for the quarter ended September 30, 2013 was \$0.8 million compared to \$4.3 million for the same period last year. The effective tax rates for the quarters ended September 30, 2013 and September 30, 2012 were 5.9% and 38.1%, respectively. The effective tax rate was lower in the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 due to the establishment of a deferred tax asset valuation allowance beginning in the second quarter of the fiscal year ended June 30, 2013. The deferred tax asset valuation allowance as of September 30, 2013 was \$15.0 million.

Net loss was \$12.0 million or \$0.28 per share compared to net loss of \$7.0 million or \$0.17 per share in the first quarter of fiscal 2013. The Company's results were impacted by the effects of the items described above and a reduced effective tax rate due to the establishment of a deferred tax asset valuation allowance beginning in the second quarter of fiscal 2013. Excluding the business turnaround charges, non-GAAP adjusted net loss was \$10.0 million or \$0.23 per share for the first quarter ended September 30, 2013 compared to a non-GAAP adjusted net loss of \$6.0 million or \$0.14 per share in the same period last year.

Liquidity and Capital Resources

Cash Flows from Operating Activities

Net cash used in operating activities for the three months ended September 30, 2013 and 2012 was \$13.2 million and \$45.1 million, respectively. The \$13.2 million of cash used in operating activities for the three months ended September 30, 2013 was primarily due to an increase in inventory of \$48.4 million, an increase in other assets of \$1.3 million, and a net loss of \$9.1 million excluding depreciation, largely offset by an increase in accounts payable and accrued liabilities of \$43.1 million and \$2.2 million, respectively. The increase in inventory was due to an increase in purchases in preparation for the holiday selling season and the timing of payments to vendors. There were no significant changes to our vendor payment policy during the three months ended September 30, 2013. The \$45.1 million of cash used in operating activities for the three months ended September 30, 2012 was primarily due to an increase in inventory of \$66.1 million, an increase in other assets of \$5.4 million, and a net loss of \$3.4 million excluding depreciation, largely offset by an increase in accounts payable and accrued liabilities of \$24.0 million and \$6.1 million, respectively.

Cash Flows from Investing Activities

Net cash used in investing activities for the three months ended September 30, 2013 and 2012 relates to capital expenditures. Capital expenditures are primarily associated with new store openings or relocations, capital improvements to existing stores, or enhancements to warehouse and office equipment and systems, and totaled \$3.2 million and \$3.6 million for the three months ended September 30, 2013 and 2012, respectively

Cash Flows from Financing Activities

Net cash provided by financing activities was \$0.8 million for the three months ended September 30, 2013, compared to net cash provided by financing activities of \$19.0 million for the three months ended September 30, 2012. The changes relate primarily to proceeds in the prior year quarter, net of repayment, on the revolving credit facility of \$12.5 million and none in the current fiscal year quarter and a favorable change in cash overdraft of \$5.4 million in the prior year quarter.

Secured 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. 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 secured 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 the restricted payment and must satisfy a fixed charge coverage ratio requirement. As of September 30, 2013, we were in compliance with all required covenants.

At September 30, 2013, we had no amounts outstanding under the Revolving Credit Facility, \$6.9 million of outstanding letters of credit and availability of \$144.5 million under the Revolving Credit Facility. Letters of credit under the Revolving Credit Facility are primarily for self-insurance purposes. We incur commitment fees of up to 0.375% on the unused portion of the Revolving Credit Facility. Any borrowing under the Revolving Credit Facility incurs interest at LIBOR or the prime rate, plus an applicable margin, at our election (except with respect to swing loans, which incur interest solely at the prime rate plus the applicable margin). These rates are increased or reduced as our average daily availability changes. Interest expense of \$0.4 million for the three months ended September 30, 2013 was due to commitment fees of \$0.2 million and the amortization of financing fees of \$0.2 million.

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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 \$13.3 million as of September 30, 2013 and \$10.0 million at September 30, 2012. 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 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 September 30, 2013.

As of September 30, 2013, 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 first 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 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 first quarter of fiscal 2014 were 6.4% of sales versus 5.1% of sales for the same period last year. 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 September 30, 2013 would result in a decline in gross profit and earnings per share for the first quarter of fiscal 2014 of \$1.3 million and \$0.03, 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.

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

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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:

- 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.

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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 (the "Exchange Act")) were effective as of September 30, 2013 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 September 30, 2013 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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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 is the former President and Chief Executive Officer of the Company and her employment was terminated in June 2012. In the petition, the plaintiff alleges disability discrimination, deliberate indifference and retaliation in violation of the Texas Commission on Human Rights Act. Each claim stems 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 seeks more than \$1 million in monetary relief, including claims for compensatory damages, attorneys' fees, costs and interest. The Company denies the allegations. The Company filed a Special Exception and Answer to Plaintiff's Original Petition on July 12, 2013. Discovery is continuing in this case. The Company believes this claim is without merit and intends to vigorously defend this matter.

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. Discovery is continuing and trial has been set for May 2014. The Company believes the claims are without merit and will continue to vigorously defend against them.

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.

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

Repurchases of equity securities during the three months ended September 30, 2013 are listed 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)
July 1 through July 31	—	\$ —	—	\$ 3,802,484
August 1 through August 31	—	\$ —	—	\$ 3,802,484
September 1 through September 30	1,675	\$ 14.35	1,675	\$ 3,778,450
Total	1,675	\$ 14.35	1,675	\$ 3,778,450

(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 September 30, 2013, 1,675 shares have been repurchased under the Repurchase Program for a total cost (excluding commissions) of approximately \$24,000. 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	Consulting Agreement dated August 6, 2013 by and between Tuesday Morning, Inc. and William Montalto †
10.2	Employment Agreement dated August 19, 2013 by and between the Company and R. Michael Rouleau (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K as filed with the Commission on August 20, 2013) †
10.3	Severance Agreement and Release dated August 29, 2013 by and between John Rossler and Tuesday Morning, Inc. †
10.4	Consulting Agreement dated September 7, 2013 by and between Stephanie Bowman and Tuesday Morning, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K as filed with the Commission on September 9, 2013) †
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

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: October 30, 2013

By: /s/ JEFFREY N. BOYER
Jeffrey N. Boyer, Executive Vice President,

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EXHIBIT INDEX

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† Management contract or compensatory plan or arrangement

CONSULTING AGREEMENT

This Consulting Agreement (“**Agreement**”) is entered into on August 6, 2013 and effective as of August 1, 2013 (“**Effective Date**”), by and between Tuesday Morning, Inc., a Texas corporation (the “**Company**”), and William Montalto, an individual (“**Consultant**”).

RECITALS

The Company wishes to utilize certain services which can be performed by Consultant, and Consultant can provide and desires to render to the Company such services, and the parties agree that it would be to their mutual advantage to execute this Agreement and thereby define the terms and conditions which shall control the rendering of services provided to the Company by Consultant.

In consideration of the promises and mutual covenants in this Agreement, the Company and Consultant agree as follows:

I. SERVICES TO BE PROVIDED BY CONSULTANT

A. Description of Consulting Services. Subject to the terms of this Agreement, the Company retains Consultant, and Consultant agrees with the Company, to serve as a consultant to the Company, subject to and in accordance with the authority and direction of Michael Rouleau or such other person designated by the Company, for the purpose of providing IT consulting services (collectively, the “**Consulting Services**”). It is agreed that Consultant shall direct all communications with the Company through Michael Rouleau. It is further agreed that other consulting services may be undertaken that are outside the foregoing scope of services by mutual consent.

B. Company’s Reliance. The Company is entering into this Agreement in reliance on Consultant’s special and unique abilities in rendering the Consulting Services and Consultant will use Consultant’s best effort, skill, judgment, and ability in rendering the Consulting Services.

C. Representations by Consultant. Consultant represents to the Company that Consultant is under no contractual, legal or fiduciary obligation or burden that reasonably may be expected to interfere with Consultant’s ability to perform the Consulting Services in accordance with the Agreement’s terms, including without limitation any agreement or obligation to or with any other company, and that Consultant is not bound by the terms of any agreement with any previous employer or other party to refrain from using or disclosing any trade secret or confidential or proprietary information in the course of Consultant’s engagement by the Company or to refrain from competing, directly or indirectly, with the business of any other party. Consultant agrees that Consultant will not use, distribute or provide to anyone at the Company any confidential or proprietary information belonging to any other company or entity, at any time during Consultant’s performance under this Agreement. Consultant further represents that Consultant’s performance of the Consulting Services will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by Consultant in confidence or in trust prior to this Agreement, and Consultant will not disclose to

the Company or induce the Company to use any confidential or proprietary information or material belonging to any other party.

D. Nature of Relationship Between Parties. Consultant will render the Consulting Services in this Agreement as an independent contractor. Except as otherwise specifically agreed to by the Company in writing, Consultant will have no authority or power to bind the Company with respect to third parties and Consultant shall not represent to third parties that Consultant has authority or power to bind the Company. It is not the intention of the parties to this Agreement to create, by virtue of this Agreement, any employment relationship, trust, partnership, or joint venture between Consultant and the Company or any of its affiliates, except as specifically provided in this Agreement, to make them legal representatives or agents of each other or to create any fiduciary relationship or additional contractual relationship among them.

II. COMPENSATION FOR CONSULTING SERVICES

A. Compensation. As full compensation for the Consulting Services rendered pursuant to this Agreement, the Company shall pay Consultant the following fee (the “**Consulting Fee**”): \$15,000.00 per month. The Consulting Fee shall be paid on a monthly basis at the end of each month.

B. Expense Reimbursement. Consultant shall present a statement for the expenses, including accompanying vouchers, receipts, or other supporting documentation, on a monthly basis. Such statement shall include reasonable documentation that the amount involved was expended and related to the Consulting Services provided under this Agreement. The Company will provide reimbursement for all reasonable expenses within twenty (20) calendar days from the receipt of each statement. Expense reimbursements to Consultant shall not include any compensation for overhead or profit.

C. Benefits. Consultant shall at all times be an independent contractor (and not an employee or agent of the Company); therefore, Consultant shall not be entitled to participate in any benefit plans or programs that the Company provides or may provide to its employees, including, but not limited to, pension, profit-sharing, medical, dental, workers’ compensation, occupational injury, life insurance and vacation or sick benefits.

D. Workers’ Compensation. Consultant understands and acknowledges that the Company shall not obtain workers’ compensation insurance covering the Consultant.

III. PAYMENT OF TAXES

A. Federal, State, and Local Taxes. Neither federal, state, or local income tax nor payroll tax of any kind shall be withheld or paid by the Company on behalf of Consultant. Consultant shall not be an employee of the Company with respect to services performed under the Agreement for federal, state, or local tax purposes.

B. Notices to Contractor About Tax Duties And Liabilities. Consultant understands that Consultant is responsible for paying, according to the applicable law, Consultant’s income taxes. The parties agree that any tax consequences or liability arising from

the Company's payments to Consultant shall be the sole responsibility of Consultant. Should any state or federal taxing authority determine that any of the payments under Section II constitute income subject to withholding under any federal or state law, then Consultant agrees to indemnify and hold the Company harmless for any and all tax liability, including, but not limited to, taxes, levies, assessments, fines, interest, costs, expenses, penalties, and attorneys' fees.

IV. WARRANTY, INDEMNIFICATION AND COVENANTS

A. Warranty. Consultant warrants that the Consulting Services shall be performed and completed in accordance with commercially reasonable industry standards, practices and principles for similar types of engagements utilizing the Consultant's best efforts, and in compliance with all applicable laws. Consultant agrees to indemnify and hold the Company harmless against any claim against the Company arising from, as a result of, in connection with, or relating to Consultant's dishonesty, willful misconduct, or gross negligence in performing this Agreement or for Consultant's breach of this Agreement. This indemnity obligation shall survive the termination of this Agreement. Consultant hereby grants, assigns and transfers to the Company all rights, title and interest in and to any work product produced by Consultant in connection with performing the Consulting Services.

B. Indemnification. Except as otherwise provided in this Agreement, the Company shall indemnify, defend and hold Consultant harmless from and against any claims, suits or proceedings arising from the Consulting Services provided by Consultant under this Agreement.

C. Consultant's Standard of Care. Subject to the other Agreement provisions, Consultant will provide Consultant's services under this Agreement with the same degree of care, skill, and prudence that would be customarily exercised in the Company's best interest. In addition, from time to time, Consultant will interface with various members of the Company's staff or be on the Company's premises. On all such occasions, Consultant shall act appropriately and professionally, including, without limitation, refraining from any offensive or harassing behavior whether based on an individual's sex, race, religion, sexual orientation, age, sexual orientation, disability, or other characteristic protected by federal, state or local law. Failure to comply with this expectation may result in immediate termination of this Agreement.

D. Confidentiality.

i. Confidential Information. The Company shall provide Consultant Confidential Information (defined below). Consultant acknowledges that during Consultant's engagement with the Company, the Company shall grant Consultant otherwise prohibited access to its trade secrets and other confidential information which is not known to the Company's competitors or within the Company's industry generally, which was developed by the Company over a long period of time and/or at its substantial expense, and which is of great competitive value to the Company. For purposes of this Agreement, "**Confidential Information**" includes, all trade secrets and confidential and proprietary information of the Company, including, but not limited to, the following: software, technical, and business information relating to the Company's inventions and products (including product construction and product specifications), research, development, production processes, manufacturing and engineering processes,

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finances, services, know-how, technical data, policies, strategies, designs, formulas, programming standards, developmental or experimental work, improvements, discoveries, plans for research or future products, database schemas or tables, infrastructure, development tools or techniques, training manuals, marketing and sales plans and strategies, business plans, budgets, financial information and data, customer and client information, prices and pricing strategies, costs, customer and client lists and profiles, employee, customer and client nonpublic personal information, supplier lists, business records, audit processes, management methods and information, reports, recommendations and conclusions, information regarding the names, contact information, skills and compensation of employees and contractors of the Company, and other business information disclosed or made available to Consultant by the Company, either directly or indirectly, in writing, orally, or by drawings or observation.

ii. Non-Disclosure.

a. In exchange for the Company's agreement to provide Consultant with Confidential Information and to protect the Company's legitimate business interests, Consultant shall hold all Confidential Information in strict confidence. Consultant shall not, during the Term of this Agreement or at any time thereafter, disclose to anyone, or publish, use for any purpose, exploit, or allow or assist another person to use, disclose or exploit, except for the benefit of the Company, without prior written authorization, any Confidential Information or part thereof, except as: (1) necessary for the performance of the Consulting Services; or (2) permitted by law. Consultant shall use all reasonable precautions to assure that all Confidential Information is properly protected and kept from unauthorized persons. Consultant acknowledges and agrees that all Confidential Information that will be provided to Consultant during the Term of this Agreement is and will continue to be the exclusive property of the Company. Consultant further agrees that it will obtain from any such third party to whom it discloses (as permitted above) any Confidential Information, a written undertaking (in form and substance satisfactory to the Company in its sole discretion) of the third party to keep the information confidential.

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

E. Agreement to Return Company Property/Documents. Following the termination of the Agreement for any reason, Consultant agrees that: (i) Consultant will not take, copy, alter, destroy, or delete any files, documents or other materials whether or not embodying or recording any Confidential Information, including copies, without obtaining in advance the explicit written consent of an authorized Company representative; and (ii) Consultant will promptly return to the Company all Confidential Information, documents, files, records and tapes (written or electronically stored) that have been in its possession or control regarding the Company, and Consultant will not use or disclose such materials in any way or in any format, including written information in any form, information stored by electronic means,

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and any and all copies of these materials. Consultant further agrees to return to the Company immediately all Company property issued at any time during the Term of this Agreement, including, without limitation, keys, equipment, computer(s) and computer equipment, devices, data, lists, information, correspondence, notes, memos, reports, or other writings prepared by the Company or Consultant on behalf of the Company.

V. PERIOD OF AGREEMENT; TERMINATION

A. **Period.** This Agreement is effective from the Effective Date and shall continue until December 31, 2013, or such earlier date on which it is terminated by either party ("**Term**"). This Agreement governs all Consulting Services performed by Consultant for the Company during the Term of this Agreement. The Company may terminate this Agreement for any reason, at any time, upon 15 calendar days prior written notice to the Consultant. The Consultant may terminate this Agreement for any reason, at any time, upon 15 calendar days prior written notice to the Company. If this Agreement is terminated, and the parties fail to execute a new Agreement, all services will be discontinued as of the date of such termination; provided, however, the Company shall pay Consultant a prorated portion of the Consulting Fee for the month in which the early termination occurs.

B. **Survival.** The provisions set forth in Section IV shall survive termination or expiration of this Agreement. In addition, all provisions of this Agreement, which expressly continue to operate after the termination of this Agreement, shall survive the Agreement's termination or expiration.

VI. OTHER PROVISIONS

A. **Notices.** Any notice or other communication required, permitted or desired to be given under this Agreement shall be deemed delivered when personally delivered; the next business day, if delivered by overnight courier; the same day, if transmitted by facsimile or electronic mail on a business day before noon, CST; the next business day, if otherwise transmitted by facsimile; and the third business day after mailing, if mailed by prepaid certified mail, return receipt requested, based on the most recent contact information provided by the party.

B. **Choice of Law and Waiver of Jury Trial.** This Agreement has been executed and delivered in, and shall be interpreted, construed, and enforced under the laws of, the State of Texas, without giving effect to its conflicts of law principles. Consultant knowingly and intentionally consents to jurisdiction in Dallas County, Texas. With respect to any dispute between Consultant and the Company arising out of or in any way related to this Agreement, Consultant agreed to resolve such dispute(s) before a judge without a jury. **CONSULTANT HAS KNOWLEDGE OF THIS POLICY, AND CONTINUES TO WORK FOR THE COMPANY THEREAFTER, HEREBY WAIVING CONSULTANT'S RIGHT TO TRIAL BY JURY AND AGREES TO HAVE ANY DISPUTE(S) ARISING BETWEEN THE COMPANY AND CONSULTANT ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT RESOLVED BY A JUDGE OF A COMPETENT COURT IN DALLAS COUNTY, TEXAS, SITTING WITHOUT A JURY.**

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C. **Limitations on Assignment.** By entering into this Agreement, the Company is relying on the unique services of Consultant; services from another company or contractor will not be an acceptable substitute. Except as provided in this Agreement, Consultant may not assign this Agreement or any of the rights or obligations set forth in this Agreement without the explicit written consent of the Company. Any attempted assignment by Consultant in violation of this paragraph shall be void. Except as provided in this Agreement, nothing in this Agreement entitles any person other than the parties to the Agreement to any claim, cause of action, remedy, or right of any kind, including, without limitation, the right of continued employment.

D. **Waiver.** A party's waiver of any breach or violation of any Agreement provision shall not operate as, or be construed to be, a waiver of any subsequent breach of the same or other Agreement provision.

E. **Severability.** If any provision(s) of this Agreement is held to be invalid, illegal, or unenforceable for any reason whatsoever, (i) the validity, legality, and unenforceability of the remaining provisions of this Agreement (including, without limitation, all portions of any paragraphs of this Agreement containing any provision held to be invalid, illegal, or unenforceable, that are not themselves invalid, illegal, or unenforceable), will not in any way be affected or impaired thereby, and (ii) the provision(s) held to be invalid, illegal, or unenforceable will be limited or modified in its or their application to the minimum extent necessary to avoid the invalidity, illegality or unenforceability, and, as so limited or modified, the provision(s) and the balance of this Agreement will be enforceable in accordance with their terms.

F. **Headings.** The headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement.

G. **Counterparts.** This Agreement and amendments to it will be in writing and may be executed in counterparts. Each counterpart will be deemed an original, but both counterparts together will constitute one and the same instrument.

H. **Entire Agreement, Amendment, Binding Effect.** This Agreement constitutes the entire agreement between the parties concerning the subject matter in this Agreement. No oral statements or prior written material not specifically incorporated in this Agreement shall be of any force and effect, and no changes in or additions to this Agreement shall be recognized, unless incorporated in this Agreement by written amendment, such amendment to become effective on the date stipulated in it. Any amendment to this Agreement must be signed by all parties to this Agreement. Consultant acknowledges and represents that in executing this Agreement, Consultant did not rely on, has not relied on, and specifically disavows any reliance on any communications, promises, statements, inducements, or representation(s), oral or written, by the Company, except as expressly contained in this Agreement. The parties represent that they relied on their own judgment in entering into this Agreement. This Agreement will be binding upon and inure to the benefit of the parties hereto and their respective successors, heirs, legal representatives, and permitted assigns (if any).

I. **Ambiguities.** Any rule of construction to the effect that ambiguities shall be resolved against the drafting party shall not apply to the interpretation of this Agreement.

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J. **Voluntary Agreement.** Consultant acknowledges that Consultant has had an opportunity to consult with an attorney or other counselor (at Consultant's own cost) concerning the meaning, import, and legal significance of this Agreement, and Consultant has read this Agreement, as signified by Consultant's signature hereto, and Consultant is voluntarily executing the same after, if sought, advice of counsel for the purposes and consideration herein expressed.

* * * * *

By their signatures below, the parties certify that they have read the above Agreement and agree to its terms:

TUESDAY MORNING, INC.

WILLIAM MONTALTO

By: /s/ Michael Rouleau

By: /s/ William Montalto

Printed Name: Michael Rouleau

Date: 8/6/13

Title: Interim Chief Executive Officer

Date: August 6, 2013

Tuesday Morning

new day new deal

SEVERANCE AGREEMENT AND RELEASE

THIS SEVERANCE AGREEMENT AND RELEASE ("Agreement") is entered into between Tuesday Morning, Inc., its related and affiliated entities (collectively, "Tuesday Morning"), and John Rossler ("Employee"), and is intended to be a full and final resolution of all matters involving Employee's employment with Tuesday Morning. Specifically, the parties to this Agreement agree to the following:

1. Termination of Employment. Employee's employment with Tuesday Morning terminated effective as of August 28, 2013 (the "Termination Date").

2. Payments. In consideration for Employee's signing this Agreement, in lieu of notice regarding the termination of employment, and for complying with the terms of this Agreement, Tuesday Morning will pay to Employee \$325,000, less applicable deductions (the "Separation Payment"). The Separation Payment will be made in 24 equal installments on Tuesday Morning's consecutive regularly scheduled paydays with the first payment to be made on the first regularly scheduled payday following the expiration of the revocation period provided for in Section 8(e) of this Agreement, but in no event later than sixty (60) days following the Termination Date. Tuesday Morning is not offering any tax advice to Employee regarding the Separation Payment.

Tuesday Morning also will pay to Employee the cash value of Employee's earned but unused and accrued days of vacation time within the time required by applicable law. This payment will be subject to applicable deductions. Employee understands and agrees that upon his receipt of the payments described above he will have been fully compensated for all work he has performed for Tuesday Morning and that he will not make any other claims to Tuesday Morning for any type of compensation.

The parties agree that Tuesday Morning does not have a legal obligation to make the Separation Payment, but that it chooses to do so in consideration for Employee's promises in this Agreement. Employee agrees and understands that the Separation Payment is conditioned upon Employee's continuing compliance with the terms of this Agreement, including Employee's execution within 45 days, without revocation, of the waiver as provided for in Section 8 of this Agreement. A breach by Employee of any term of this Agreement will result in the termination of Tuesday Morning's obligation to make any further installment payments under this Agreement and Employee will repay to Tuesday Morning any part of the Separation Payment Employee has received under the terms of this Agreement.

3. Benefits. All of Employee's employment benefits from Tuesday Morning will terminate as of the Termination Date except where provided for by a specific Tuesday Morning benefit plan, by an applicable statute, or by this Agreement. Pursuant to the Comprehensive Omnibus Budget Reconciliation Act ("COBRA"), Employee and his

Initials /s/JR /s/RMR

eligible family members have the right to continue their coverage under Tuesday Morning's health insurance plan. If Employee elects under COBRA to continue his coverage under Tuesday Morning's health insurance plan as of September 1, 2013 then for each month from September 1, 2013, to February 28, 2014. Employee will pay the employee portion of the premium and Tuesday Morning will pay the difference between the premium amount Employee pays and the total monthly premium due for Employee's coverage. If Employee elects to continue his coverage under Tuesday Morning's health insurance plan after February 28, 2014, he will be responsible for paying the full premium for the coverage.

4. Career Transition Services. Tuesday Morning will provide Employee with career transition services from RiseSmart that will assist the Employee in his search for a new position. Tuesday Morning will pay up to \$2,500 to RiseSmart for a services package to the extent used by Employee by March 1, 2014.

5. Return of Tuesday Morning Property. As of the date Employee signs this Agreement, he represents that he has returned to Tuesday Morning all Company-owned or leased property or documents in his possession or under his control, except for documents related to his compensation and benefits.

6. Nondisclosure and Nonuse. Employee, during his employment by Tuesday Morning, has had access to and has become familiar with Tuesday Morning's operations, procedures, computer systems, customer information, pricing techniques, methods of doing business, merchandise, marketing plans, financial and accounting information, employee salary and benefit information and other confidential information which is regularly used in the operation of Tuesday Morning's business, but is not within the public domain. For the purposes of this Agreement all such information is collectively referred to as the "Confidential Information." Employee acknowledges and agrees that the Confidential Information is a valuable, special and unique asset of Tuesday Morning, the disclosure or use of which could cause substantial injury and loss of profits and goodwill to Tuesday Morning. Accordingly, Employee shall not directly or indirectly in any way use or disclose any of the Confidential Information. Employee also agrees that he will not access Tuesday Morning's computer systems, download files or information from Tuesday Morning's computer systems or in any way interfere, disrupt, modify or change any computer program used by Tuesday Morning or any data stored on Tuesday Morning's computer systems.

7. Release. Employee, on behalf of himself and his heirs, executors or administrators, hereby releases, discharges and agrees not to sue or file any charges or claims against Tuesday Morning, its predecessors, successors and assigns, parent, subsidiaries, affiliates, current and former directors, officers, shareholders, employees, representatives, agents, and employee benefit plans under any local, state, or federal law, for any type of claim, demand or action whatsoever. Employee understands and agrees that he is waiving and releasing any and all claims he may have against Tuesday Morning, its predecessors, successors and assigns, parent, subsidiaries, affiliates, current and former

Initials /s/JR /s/RMR

directors, officers, shareholders, employees, representatives, agents, and employee benefit plans, including, but not limited to, claims for unpaid wages, employment discrimination, breach of contract, fraud, emotional distress, wrongful discharge, negligence, personal injury and retaliation, whether or not such claims arise under common-law, contract or tort theories or under any federal, state or local law, including without limitation Title VII of the Civil Rights Act of 1964; Sections 1981 through 1988 of Title 42 of the United States Code; the Equal Pay Act; the National Labor Relations Act; the Employee Retirement Income Security Act of 1974; the Americans With Disabilities Act of 1990; the Family and Medical Leave Act of 1993, as amended; the Fair Labor Standards Act of 1938, as amended; and the Genetic Information Nondiscrimination Act of 2008. This release does not affect Employee's right to benefits under the terms of any employee benefit plan in which he participated while employed by Tuesday Morning, his right to enforce the terms of this Agreement, or any right which as a matter of law may not be waived.

8. Waiver of Age Discrimination Claim. Pursuant to the Age Discrimination in Employment Act of 1967 (29 U.S.C. §626), Employee acknowledges:

(a) He is encouraged to have this Agreement reviewed by an attorney;

(b) He is releasing all claims relating to his employment and separation from employment under the Age Discrimination in Employment Act of 1967;

(c) He is not waiving any rights or claims that may arise after the date this Agreement is signed;

(d) He has forty-five (45) days from the date he receives this Agreement to consider this Agreement;

(e) For a period of seven (7) days following the date Employee signs this Agreement, Employee may revoke this Agreement and this Agreement shall not become effective or enforceable until the revocation period expires. In order for the revocation to be effective it must be in writing and delivered to the Company's Human Resources Department in Dallas, Texas;

(f) By executing this Agreement, Employee represents that he fully understands all provisions of the Agreement and understands the consequences of executing this Agreement.

9. Waiver of Future Employment. Employee agrees that in the future he will not apply for employment with Tuesday Morning and will not accept any offer of employment made by any employee of Tuesday Morning or anyone purporting to represent Tuesday Morning.

10. No Harm. Employee will not engage in any conduct or take any action, written or oral, that will reflect negatively on or harm the reputation or business interest of

Initials /s/JR /s/RMR

Tuesday Morning. Employee agrees not to interfere with Tuesday Morning's operations or its relationships with its employees, vendors and customers.

11. References. In response to requests by prospective employers for information about Employee's employment by Tuesday Morning, Tuesday Morning will disclose only Employee's dates of employment and position and will verify his salary.

12. Confidentiality of this Agreement. It is the express intent of the parties that the terms and conditions of this Agreement shall not be disclosed except in response to a validly issued subpoena, a request from a government agency or as set out below. The parties agree that Tuesday Morning may disclose the terms of this Agreement to its officers, directors, managers, attorneys and to those employees who are necessary to carry out the terms of the Agreement. The parties agree that Employee may disclose the terms of this Agreement to his spouse, his attorney and to his financial advisor.

13. Non-Solicitation or Hiring. Employee agrees that he will not hire or solicit for employment any employees, officers or senior management of Tuesday Morning for a period of twelve (12) months after the date of this Agreement.

14. Attorney Advice/Voluntary Agreement. Employee acknowledges that Tuesday Morning has advised Employee by this writing that Employee should consult an attorney before executing this Agreement. Employee understands it is Employee's choice whether or not to enter into this Agreement and that Employee's decision to do so is voluntary and is made knowingly.

15. No Admission of Wrongdoing. This Agreement shall not in any way be construed as an admission by Tuesday Morning that it has violated any law or acted wrongfully with respect to Employee or any other person.

16. Entire Agreement/Modification. This Agreement sets forth the entire agreement between the parties and fully supersedes any and all prior agreements or understandings between the parties regarding the subjects in this Agreement. No change or modification of this Agreement shall be valid or binding upon the parties unless such change or modification is in writing and signed by the parties.

17. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas.

18. Miscellaneous. This Agreement shall be construed as a whole in accordance with its fair meaning and not strictly for or against any of the parties. If any court determines that any provision of this Agreement is unenforceable for any reason, the parties agree that such determination shall not bar or affect the parties' right to enforce the remaining provisions of this Agreement. A waiver of a breach of any term of this Agreement by any party shall not be construed as a waiver of any subsequent breach of the

same term or of any other breach of a different term. This Agreement may be executed by each party in separate counterparts, each of which shall be deemed an original and constitute one document.

19. Acknowledgment. By signing below, the parties represent that they have carefully read and considered this Agreement and fully understand the extent and impact of its provisions. The parties acknowledge they have signed this Agreement voluntarily.

EMPLOYEE

TUESDAY MORNING, INC.

By: /s/ John Rossler
John Rossler

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

8/29/13
Date signed

8-29-13
Date signed

Initials /s/JR /s/RMR

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: October 30, 2013

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: October 30, 2013

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 September 30, 2013 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: October 30, 2013

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 September 30, 2013 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: October 30, 2013

By: /s/ JEFFREY N. BOYER

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