UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2021

or

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

Commission File Number 001-40432

Tuesday Morning Corporation

(Exact name of registrant as specified in its charter)

Delaware	**75-2398532**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

6250 LBJ Freeway
Dallas, Texas 75240
(972) 387-3562
(Address, zip code and telephone number, including area code, of registrant's principal executive offices)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value per share	TUEM	The Nasdaq Capital Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☒	Emerging growth company ☐
Non-accelerated filer ☐	Smaller reporting company ☒	

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of shares of the registrant's common stock held by non-affiliates of the registrant at December 31, 2020 was approximately $78,942,980 based upon the closing sale price on the OTC Pink Market reported for such date.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

As of the close of business on September 7, 2021, there were 85,934,779 outstanding shares of the registrant's common stock.

Documents Incorporated By Reference:

Portions of the registrant's definitive proxy statement to be filed in connection with 2021 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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Cautionary Statement Regarding Forward-Looking Statements

This Form 10-K contains forward-looking statements within the meaning of the federal securities laws and the Private Securities Litigation Reform Act of 1995, which are based on management's current expectations, estimates and projections. These statements may be found throughout this Form 10-K, particularly under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," among others. Forward-looking statements typically are identified by the use of terms such as "may," "will," "should," "expect," "anticipate," "believe," "estimate," "intend" and similar words, although some forward-looking statements are expressed differently. You should consider statements that contain these words or words that state other "forward-looking" information carefully because they describe our current expectations, plans, strategies and goals and our beliefs concerning future business conditions, future results of operations, future financial positions, and our current business outlook. Forward looking statements also include statements regarding the Company's strategy, future operations, performance and prospects, sales and growth expectations, our liquidity, capital expenditure plans, future store openings and closings, our inventory management plans and merchandising and marketing strategies.

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

The factors listed below in Item 1A. under the heading "Risk Factors" and in other sections of this Form 10-K provide examples of risks, uncertainties and events that could cause our actual results to differ materially from the expectations expressed in our forward-looking statements. These risks, uncertainties and events also include, but are not limited to, the following:

- *the effects and length of the COVID-19 pandemic;*
- *changes in economic and political conditions which may adversely affect consumer spending;*
- *our ability to identify and respond to changes in consumer trends and preferences;*
- *our ability to mitigate reductions of customer traffic in shopping centers where our stores are located;*
- *our ability to continuously attract buying opportunities for off-price merchandise and anticipate consumer demand;*
- *our ability to obtain merchandise on varying payment terms;*
- *our ability to successfully manage our inventory balances profitably;*
- *our ability to effectively manage our supply chain operations;*
- *loss of, disruption in operations of, or increased costs in the operation of our distribution center facility;*
- *unplanned loss or departure of one or more members of our senior management or other key management;*
- *increased or new competition;*
- *our ability to maintain and protect our information technology systems and technologies and related improvements to support our growth;*
- *increases in fuel prices and changes in transportation industry regulations or conditions;*
- *increases in the cost or a disruption in the flow of our products, including the extent and duration of the ongoing impacts to domestic and international supply chains from the COVID-19 pandemic;*
- *changes in federal tax policy including tariffs;*
- *the success of our marketing, advertising and promotional efforts;*
- *our ability to attract, train and retain quality employees in appropriate numbers, including key employees and management;*
- *increased variability due to seasonal and quarterly fluctuations;*
- *our ability to protect the security of information about our business and our customers, suppliers, business partners and employees;*
- *our ability to comply with existing, changing and new government regulations;*
- *our ability to manage risk to our corporate reputation from our customers, employees and other third parties;*
- *our ability to manage litigation risks from our customers, employees and other third parties;*
- *our ability to manage risks associated with product liability claims and product recalls;*

- *the impact of adverse local conditions, natural disasters and other events;*
- *our ability to manage the negative effects of inventory shrinkage;*
- *our ability to manage exposure to unexpected costs related to our insurance programs;*
- *increased costs or exposure to fraud or theft resulting from payment card industry related risk and regulations; and*
- *our ability to maintain an effective system of internal controls over financial reporting.*

The forward-looking statements made in this Form 10-K relate only to events as of the date on which the statements are made. Except as may be required by law, we disclaim obligations to update any forward-looking statements to reflect events or circumstances after the date on which the statements were made or to reflect the occurrence of unanticipated events. Investors are cautioned not to place undue reliance on any forward-looking statements.

PART I

Item 1. Business

Business Overview

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

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

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

With 490 stores across the country as of June 30, 2021 (“fiscal 2021”), we are in the neighborhood in convenient, accessible locations. Our store layout is clean and simple, and the low-frills environment means we can pass even deeper savings on to our dedicated customer base. Our stores operate in both primary and secondary locations of major suburban markets, near our middle and upper-income customers. We are generally able to obtain favorable lease terms due to our flexibility regarding site selection and our straightforward format, allowing us to use a wide variety of space configurations.

We operate our business as a single operating segment.

COVID-19 Pandemic

The COVID-19 pandemic has had an adverse effect on our business operations, store traffic, employee availability, financial conditions, results of operations, liquidity and cash flow. On March 25, 2020, we temporarily closed all of our 687 stores nationwide, severely reducing revenues and resulting in significant operating losses and the elimination of substantially all operating cash flow. As allowed by state and local jurisdictions, 685 of our stores gradually reopened as of the end of June 2020. Two stores were permanently closed during the fourth quarter 2020. In accordance with our bankruptcy plan of reorganization, described below, we completed the permanent closure of 197 stores in the first quarter of 2021 and the closure of our Phoenix, Arizona distribution center (“Phoenix distribution center”) in second quarter of 2021. In addition, as part of our restructuring, we secured financing to pay creditors in accordance with the plan of reorganization and to fund planned operations and expenditures.

Future impacts from the COVID-19 pandemic will depend on the potential further geographic spread and duration of the ongoing pandemic, the timing and extent of recovery in traffic and consumer spending in our stores, the extent and duration of ongoing impacts to domestic and international supply chains and the related impacts on the flow, availability and cost of products, the production and administration of effective medical treatments and vaccines, and the actions that may be taken by various governmental authorities and other third parties in response to the pandemic.

Emergence from Chapter 11 Bankruptcy Proceedings

- In response to the impacts of the COVID-19 pandemic, on May 27, 2020, we filed voluntary petitions (the “Chapter 11 Cases”) under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (the “Bankruptcy Court”). During the pendency of the Chapter 11 Cases, we continued to operate our businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court.
- On June 9, 2020, the Bankruptcy Court issued an order approving procedures for the closure of up to 230 of our store locations. In early June 2020, in accordance with orders of the Bankruptcy Court, we commenced the process to close 132 store locations in a first wave of store closings. By the end of July 2020, all of these stores were permanently closed. In mid-July 2020, we began the process to close an additional 65 stores following negotiations with our landlords, and those store closures were completed in August 2020. In total, we permanently closed 197 stores during the first quarter of fiscal 2021. In addition, we closed our Phoenix distribution center in the second quarter of fiscal 2021.
- On November 16, 2020, the Company and its subsidiaries filed with the Bankruptcy Court a proposed Revised Second Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code (the “Amended Plan”). The Bankruptcy Court entered an

order on December 23, 2020 (the "Confirmation Order") confirming the Amended Plan, with certain modifications described in the Confirmation Order (as modified and confirmed, the "Plan of Reorganization"). On December 31, 2020, we legally emerged from bankruptcy, resolving all material conditions precedent listed in the Plan of Reorganization. However, the closing of the Rights Offering was considered a critical component to the execution of our confirmed Plan of Reorganization, therefore, we continued to apply the requirements of ASC 852 – Reorganizations until that transaction closed on February 9, 2021. In connection with our legal emergence from bankruptcy on December 31, 2020, the Company completed certain debt financings and sale-leaseback transactions of our corporate office and Dallas distribution center properties contemplated by the Plan of Reorganization. See Notes 1, 2, 3 and 8 of our Consolidated Financial Statements for further discussions on these matters.

- In February 2021, the Company completed the equity financing transaction contemplated by the Plan of Reorganization with a $40 million rights offering (the "Rights Offering") that expired in February 2021. Eligible holders of the Company's common stock subscribed to purchase approximately $19.8 million of shares, at $1.10 per share, with Osmium Partners (Larkspur SPV) LP (the "Backstop Party") purchasing the remaining $20.2 million of shares. The Company closed on the Rights Offering and in February 2021, recorded proceeds of $40.0 million and recognized a non-cash charge of approximately $14.5 million for a change in fair value of the company's common stock issued to the Backstop Party. See Note 7 of our Consolidated Financial Statements for further discussion.

Business Strategy

In fiscal 2021, we focused on resetting our merchandise strategy to our heritage of being an off-price retailer. We edited our assortment and drove our merchandising efforts to deliver our customers a treasure hunt and strong values that are representative of the off price marketplace. Additionally, we worked to improve working capital management and inventory turns, and continued to optimize our marketing effectiveness, cost controls and infrastructure.

Competition & Seasonality

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

Our business is subject to seasonality, with a higher level of our net sales and operating income generated during the quarter ending December 31, which includes the holiday shopping season. Net sales in the quarters ended December 31, 2020, 2019, and 2018 accounted for approximately 29%, 37% and 34% of our annual net sales for fiscal years 2021, 2020 and 2019, respectively. The rate for fiscal 2021 is impacted by store closures during the first quarter of fiscal 2021.

Working Capital Items

Because of the seasonal nature of our business, our working capital needs are greater in the months leading up to our peak sales period from Thanksgiving to the end of December. We expect to fund our operations with funds generated from operating activities, available cash and cash equivalents, and borrowings under our revolving credit facility. See Liquidity and Capital Resources section in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

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

Purchasing

We provide an outlet for manufacturers and other sources looking for effective ways to reduce excess inventory resulting from order cancellations by retailers, manufacturing overruns, bankruptcies and excess capacity. Since our inception, we have not experienced significant difficulty in obtaining first quality, brand-name off-price merchandise in adequate volumes and at competitive prices. We utilize a mix of both domestic and international suppliers. We generally pay our suppliers timely and generally do not request special consideration for markdowns, advertising or returns. During fiscal 2021, our top ten vendors accounted for approximately 10.3% of total purchases, with no single vendor accounting for more than 1.3% of total purchases. We continue to build strong vendor relationships following our emergence from Chapter 11 and have had no significant supplier issues as a result of the bankruptcy filing.

Low Cost Operations

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

Customer Shopping Experience

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

Distribution Network

In fiscal 2021, we primarily utilized our 1.2 million square feet of distribution center facilities in Dallas, Texas along with bypass facilities and a network of pool point facilities throughout the country which service all of our stores throughout the United States. During the fourth quarter of fiscal 2020, we reached the decision to close our 0.6 million square foot distribution center in the Phoenix distribution center and consolidate operations in our Dallas-based facility, which was completed in the second quarter of fiscal 2021. In June 2021, we leased an additional 100,000 square foot warehouse in Dallas, Texas (the “Stemmons DC Facility”) to supplement our distribution network.

Pricing

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

Human Capital Management

As of June 30, 2021, we employed 1,607 persons on a full-time basis and 4,692 persons on a part-time basis, which is a significant reduction from the prior year due to the impacts of COVID-19 resulting with a reduction in force we implemented in the fourth quarter of fiscal 2020. Our associates are not represented by any labor unions, and we have not experienced any work stoppage due to labor disagreements. We believe that our associate relationships are strong, in part, due to the following areas of commitment to a loyal and inclusive associate base:

Associate Engagement

We have an Engagement Committee of which the associate members are diverse from across the organization. The Committee focuses on communication and events to bring our associates together such as ongoing associate events, associate appreciation week, community volunteer opportunities, and charitable events. We conduct periodic associate opinion surveys to directly engage with and collect feedback from our associates, which we use to improve the experience of our teams. Our leadership and human resources department maintain an open-door policy for associates to report concerns, and we provide an anonymous reporting hotline, available in multiple languages. Also, we conduct town hall meetings so that associates can directly hear about the business from senior leaders. We strive to deliver a workplace experience where the quality of our engagement with fellow associates, business partners and customers aligns with our company values.

Talent Development

We utilize an online training and education platform for all associates to be compliant with federal, state, privacy and cybersecurity laws as applicable. We also invest in our store associates through structured training programs for our assistant store managers and store managers that enable our associates to be more effective leaders and helps them strive towards achieving the career they envision for themselves. All associates are given detailed feedback about their performance on at least an annual basis through formal performance appraisals. Based on the associate’s career goals, leaders may work to design individual development plans. Further, the company engages in succession planning to identify and develop talent within the organization.

Diversity, Equity and Inclusion

Associate engagement and retention require an understanding of the needs of a diverse, creative and purpose-driven workforce. We firmly believe that working in a culture focused on diversity, equity and inclusion spurs innovation, creates healthy and high-performing teams, and delivers superior customer experiences. We aim to provide equal opportunity for all employees. As of June 30, 2021, 74.5% of our total workforce identified as female and 43.8% were minorities. Additionally, 50% of our Vice-Presidents and above identified as female. Currently, we are building relationships with organizations, universities, colleges and other networks to expand our reach to potential diverse candidates including a summer internship program at the corporate office that we look to expand to other areas of the business in the near future.

We remain focused on increasing the representation of minority talent through hiring and career development by striving to have our stores reflect the diversity in their communities. Our core value of being welcoming to all celebrates our commitment to respect and diversity. Further, the stores offering a diverse range of products creates an inclusive shopping experience. Our passion for the deal extends to our commitment to providing our customers with a multicultural range of products at a variety of price points.

Safety/Health and Wellness

We are committed to providing a safe and healthy work environment for our associates and customers. Aligned with our values, we strive to continuously monitor our work environment to keep our associates and customers as safe as possible. We have an open door policy for all associates to report concerns or safety issues. If an associate does not feel comfortable reporting an incident to their immediate manager or the human resources department, then the associate may contact the company's ethics and compliance hotline via a toll free number or access it via the web. The hotline is available 24 hours a day, 7 days a week. Our commitment to associate safety also include ongoing safety communications with weekly safety topics, safety training and audits for review.

During fiscal 2020, to address the safety and public health of our workforce and customers due to the unprecedented COVID-19 pandemic, we implemented a number of protocols, including:

- Developing and distributing a playbook along with a video to guide the safe return to offices, stores, work sites and implementing temporary work-from home-policies as appropriate;
- Establishing strict safety protocols and procedures company-wide, including an in-depth training program, social distancing measures, enhanced sanitization, daily wellness checks including temperature verifications and supplying personal protective gear such as masks and gloves;

During the fourth quarter of fiscal 2021, we began offering a vaccination incentive program including offering vaccines onsite at the corporate office and distribution center.

Compensation and Benefits

We offer a benefits package designed to put our associates' health and well-being, and that of their families, at the forefront. Depending on position and location, associates may be eligible for: 401(k) plan and other investment opportunities; paid vacations, holidays and other time-off programs; health, dental and vision insurance; health and dependent care tax-free spending accounts; medical, family and bereavement leave; paid maternity/primary caregiver benefits; tax-free commuter benefits; wellness programs; time off to volunteer, and matching donations to qualifying nonprofit organizations.

In connection with the COVID-19 pandemic, we acted quickly to meet the needs of our team members, by providing certain enhanced benefits, such as:

- Created a dedicated associate hotline to provide real time support for any COVID-19-related issues;
- Reinforced social distancing through signage, floor markers, taped grid patterns on floors, and directional arrows;
- Continued telehealth support and employee assistance programs; and
- Provided special wellness resources and tools.

Intellectual Property

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

Corporate Information

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

We maintain a website at *www.tuesdaymorning.com*. Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports filed with, or furnished to, the Securities and Exchange Commission (the "SEC") are available free of charge on our website under the Investor Relations section as soon as reasonably practicable after we electronically file such reports and amendments with, or furnish them to, the SEC. In addition, the SEC maintains a website, www.sec.gov, which contains the reports, proxy and information statements and other information which we file with, or furnish to, the SEC.

Stores and Store Operations

Store Locations. As of June 30, 2021, we operated 490 stores in the following 40 states:

State	# of Stores	State	# of Stores
Alabama	16	Missouri	13
Arizona	19	Nebraska	1
Arkansas	10	Nevada	5
California	37	New Jersey	1
Colorado	16	New Mexico	5
Delaware	2	New York	3
Florida	43	North Carolina	26
Georgia	19	North Dakota	1
Idaho	3	Ohio	12
Illinois	8	Oklahoma	10
Indiana	8	Oregon	6
Iowa	3	Pennsylvania	10
Kansas	5	South Carolina	19
Kentucky	11	South Dakota	1
Louisiana	14	Tennessee	17
Maryland	9	Texas	86
Massachusetts	1	Utah	5
Michigan	4	Virginia	18
Minnesota	4	Washington	4
Mississippi	13	Wisconsin	2

In fiscal 2022, we plan to open approximately eight new stores. We also plan to close approximately eight stores.

Site Selection. We continue to evaluate our current store base for potential enhancement or relocation of our store locations. As a result of this ongoing evaluation, we intend to pursue attractive relocation opportunities in our existing store base, close certain stores by allowing leases to expire for underperforming stores or where alternative locations in similar trade areas are not available at acceptable lease rates, and, when appropriate, open new stores. For both new stores and relocations, we negotiate for upgraded sites. Additionally, we have reviewed all of our leases and renegotiated the terms, with favorable outcomes for many of our leases. We believe that this strategy will better position us for long-term profitable growth.

Store Leases. We conduct substantially all operations from leased facilities, including our corporate offices in Dallas and the Dallas warehouse, distribution and retail complex, which were leased on December 31, 2020, subsequent to the sale and leaseback of those facilities on that date. Our retail store locations, our corporate office and our distribution center are under operating leases that will expire over the next 1 to 10 years. Many of our leases include options to renew at our discretion. We include the lease renewal option periods in the calculation of our operating lease assets and liabilities when it is reasonably certain that we will renew the lease. We also lease certain equipment under finance leases that generally expire within 5 years.

Store Layout. Our site selection process and "no frills" approach to presenting merchandise allow us to use a wide variety of space configurations. The size of our stores ranges from approximately 6,000 to 30,000 square feet, averaging on a per store basis approximately 12,400 square feet as of June 30, 2021. Historically, we have designed our stores to be functional, with less emphasis placed upon fixtures and leasehold aesthetics. With our current real estate strategy, we continue to be focused on designing a very functional, easy to shop environment that also highlights the quality of the merchandise. We display all merchandise on counters, shelves, or racks while maintaining minimum inventory in our stockrooms.

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

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

Item 1A. Risk Factors

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

Risks Related to Our Business

Outbreaks of communicable disease, or other public health emergencies, such as the current COVID-19 pandemic, could substantially harm our business.

The COVID-19 pandemic has had, and could continue to have, an adverse effect on our business operations, store traffic, employee availability, financial condition, results of operations, liquidity and cash flow.

As of March 25, 2020, we had temporarily closed all of our stores nationwide, severely reducing revenues and resulting in significant operating losses and the elimination of substantially all operating cash flow. Stores gradually reopened as allowed by state and local jurisdictions, and all but two of our stores had reopened as of the end of June 2020. In the first quarter of fiscal 2021, we completed the permanent closure of 197 stores in connection with our Chapter 11 bankruptcy proceedings. The pandemic also has significantly impacted the global supply chain, with restrictions and limitations on business activities causing disruption and delay. These disruptions and delays have strained certain domestic and international supply chains, which have affected and could continue to negatively affect the flow or availability of certain products.

Our customers may also be negatively affected by the consequences of COVID-19, which could negatively impact demand for our products as customers delay, reduce or eliminate discretionary purchases at our stores. Any significant reduction in customer visits to, and spending at, our stores caused directly or indirectly by COVID-19 would result in a further loss of revenue and cash flows and negatively impact profitability and could result in other material adverse effects.

The extent to which the ongoing COVID-19 pandemic will continue to impact our business, results of operations, financial condition and liquidity is uncertain considering the rapidly evolving environment and will depend on future developments, including the potential further geographic spread and duration of the ongoing pandemic, the timing and extent of recovery in traffic and consumer spending in our stores, the extent and duration of ongoing impacts to domestic and international supply chains and the related impacts on the flow, availability and cost of products, the production and administration of effective medical treatments and vaccines, and the actions that may be taken by various governmental authorities and other third parties in response to the pandemic.

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

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

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

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

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

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

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

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

With few exceptions, all inventory is shipped directly from suppliers to our distribution network, primarily through our Dallas distribution center, where the inventory is then processed, sorted and shipped to our stores. We also use bypass and pool point facilities to distribute inventory to our stores. We depend in large part on the orderly operation of this receiving and distribution process, which depends, in turn, on adherence to shipping schedules and effective management of our distribution centers. External factors, such significant supply chain dislocation caused by COVID-19 pandemic and excessive market demand, can negatively impact our supply chain operations resulting in increased costs and delay. We may not anticipate all of the changing demands which our operations will impose on our receiving and distribution system.

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

Events beyond our control, such as disruptions in operations due to fire or other catastrophic events, labor disagreements or shipping problems, may result in delays in the delivery of merchandise to our stores. In the event our distribution center is shut down for any reason, we cannot assure that our insurance will be sufficient, or that insurance proceeds will be paid to us in a timely manner. As a result of the COVID-19 pandemic and impact to our business, we decided to close our Phoenix distribution center in fourth quarter fiscal 2020 with the closure completed in the second quarter of fiscal 2021. The level of costs of our distributions center operations, and our related profitability, will be negatively impacted by increased wages as a result of competition to attract qualified employees. In addition, any inefficiencies in the operation of our distribution center facilities as well as delays in the delivery of merchandise to our stores will also negatively impact our profitability.

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

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

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

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

Failure to identify and respond to changes in consumer trends and preferences could significantly harm our business.

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

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

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

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

By their nature, specific off-price merchandise items are available from manufacturers or vendors generally on a non-recurring basis. As a result, we do not have long-term contracts with our vendors for supply, pricing or access to products, but make individual purchase decisions, which may be for large quantities. Due to economic uncertainties, some of our manufacturers and suppliers may cease operations or may otherwise become unable to continue supplying off-price merchandise on terms acceptable to us. We cannot assure that manufacturers or vendors will continue to make off-price merchandise available to us in quantities acceptable to us, which is especially true at present with the inherent supply chain issues caused by the COVID-19 pandemic, or that our buyers will continue to identify and take advantage of appropriate buying opportunities. In addition, if we misjudge consumer demand for products, we may significantly overstock unpopular products and be forced to take significant markdowns and miss opportunities to sell more popular products. An inability to acquire suitable off-price merchandise in the future or to accurately anticipate consumer demand for such merchandise would have an adverse effect on our business, results of operations, cash flows and financial condition.

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

Inventory is one of the largest assets on our balance sheet and represented approximately 35% of our total assets at June 30, 2021 and 23% at June 30, 2020. Our inventory balance at June 30, 2021 is higher than during fiscal 2020 due to the COVID-19 disruption to our sales and store closures during the third and fourth quarter of fiscal 2020. Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels to meet our customers' demands without allowing those levels to increase to such an extent that the costs to store and hold the goods unduly impact our financial results. If our buying decisions do not accurately predict customer trends or purchasing actions, we may have to take unanticipated markdowns to dispose of the excess inventory, which also can adversely impact our financial results. We continue to focus on ways to reduce these risks, but we cannot assure that we will be successful in our inventory management. If we are not successful in managing our inventory balances, our results of operations may be negatively affected. We have recorded significant inventory write-downs from time to time in the past and there can be no assurances that we will not record additional inventory charges in the future.

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

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

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

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

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

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

We cannot assure that we will be able to continue to compete successfully with our existing or new competitors, or that prolonged periods of deep discount pricing by our competitors will not materially harm our business. We compete for customers, employees, locations, merchandise, services and other important aspects of our business with many other local, regional, national and international retailers. We also face competition from alternative retail distribution channels such as catalogs and, increasingly, e-commerce websites and mobile device applications. Changes in the merchandising, pricing and promotional activities of those competitors, and in the retail industry, in general, may adversely affect our performance.

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

The operation of our business is heavily dependent upon the implementation, integrity, security, and successful functioning of our computer networks and information systems, including the point-of-sale systems in our stores, data centers that process transactions, and various software applications used in our operations. Our systems are subject to damage or interruption from weather events, power outages, telecommunications or computer failures, computer viruses, security breaches, employee errors and similar occurrences. A failure of our systems to operate effectively as a result of damage to, interruption, or failure of any of these systems could result in data loss, a failure to meet our reporting obligations, or material misstatements in our consolidated financial statements, or cause losses due to disruption of our business operations and loss of customer confidence. These adverse situations could also lead to loss of sales or profits or cause us to incur additional repair, replacement and development costs. Our inability to improve our information technology systems and technologies may continue to result in inefficiencies, fail to support growth and limit opportunities.

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

Changes in U.S. tax or trade policy regarding merchandise produced in other countries could adversely affect our business. Changes in U.S. tariffs, quotas, trade relationships or tax provisions that reduce the supply or increase the relative cost of goods produced in other countries could increase our cost of goods and/or increase our effective tax rate. Although such changes would have implications across the entire industry, we may fail to effectively adapt and to manage the adjustments in strategy that would be necessary in response to those changes. In addition to the general uncertainty and overall risk from potential changes in U.S. laws and policies, as we make business decisions in the face of uncertainty as to potential changes, we may incorrectly anticipate the outcomes, miss out on business opportunities, or fail to effectively adapt our business strategies and manage the adjustments that are necessary in response to those changes. These risks could adversely affect our revenues, increase our effective tax rates, and reduce our profitability.

Our success depends partly upon our marketing, advertising and promotional efforts. If our marketing spend is inadequate, if we fail to implement programs successfully, or if our competitors are more effective than we are, our results of operations may be adversely affected.

Historically, we have used marketing and promotional programs to attract customers to our stores and to encourage purchases by our customers. We use various media for our marketing efforts, including email, direct mail, digital video, digital display, search and social networks. If we fail to choose the appropriate medium for our efforts, or fail to implement and execute new marketing opportunities, our competitors may be able to attract some of our customers and cause them to decrease purchases from us and increase purchases elsewhere, which would negatively impact our net sales. Changes in the amount and degree of promotional intensity or merchandising strategy by our competitors could cause us to have some difficulties in retaining existing customers and attracting new customers.

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

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

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

Our business is subject to seasonality with a higher level of net sales and operating income generated during the quarter ended December 31, which includes the holiday shopping season. Net sales in the quarters ended December 31, 2020, 2019, and 2018 accounted for approximately 29%, 37% and 34% of our annual net sales for fiscal years 2021, 2020 and 2019, respectively. For more information about our seasonality, please read Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quarterly Results and Seasonality.”

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

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

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

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

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

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

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

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

We face risks to our corporate reputation from our customers, employees and other third parties.

Damage to our corporate reputation could adversely affect our sales results and profitability. Our reputation is partially based on perception. Any incident that erodes the trust or confidence of our customers or the general public could adversely affect our reputation and operating performance, particularly if the incident results in significant adverse publicity or governmental inquiry. An incident could include alleged acts, or omissions by, or situations involving our vendors, our landlords, or our employees outside of work, and may pertain to social or political issues or protests largely unrelated to our business. The use of social media platforms, including blogs, social media websites, and other forms of internet-based communications, which allow individuals access to a broad audience, continues to increase. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning our Company may be posted on such platforms at any time. Information posted may be adverse to our interests or may be inaccurate, which could negatively affect our sales and profitability, diminish customer trust, reduce employee morale and productivity, and lead to difficulties in recruiting and retaining qualified employees. The harm may be immediate, without affording us an opportunity for redress or correction.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Trading Restrictions in our Common Stock

Our common stock is subject to ownership and transfer restrictions intended to preserve our ability to use our net operating loss carryforwards and other tax attributes.

We have incurred significant net operating loss carryforwards and other tax attributes, the amount and availability of which are subject to certain qualifications, limitations and uncertainties. Our Amended and Restated Certificate of Incorporation imposes certain restrictions on the transferability and ownership of our common stock in order to reduce the possibility of an equity ownership shift that could result in limitations on our ability to utilize net operating loss carryforwards and other tax attributes from prior years for federal income tax purposes. Any acquisition or sale of our common stock that results in a stockholder being in violation of these restrictions may not be valid.

Subject to certain exceptions, these ownership restrictions restrict (i) any transfer that would result in any person acquiring 4.5% or more of our common stock, (ii) any transfer that would result in an increase of the ownership percentage of any person already owning 4.5% or more of our common stock, or (iii) any transfer during the five-year period following December 31, 2020 that would result in a decrease of the ownership percentage of any person already owning 4.5% or more of our common stock. These restrictions will remain in effect until the earliest of (i) the repeal of Section 382 of the Internal Revenue Code or any successor statute if the board of directors determines these restrictions are no longer necessary for preservation of the Company's tax benefits, (ii) the beginning of a taxable year in which the board of directors determines no tax benefits may be carried forward, or (iii) such other date as shall be established by the board of directors.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Stores.

We lease all of our stores from unaffiliated third parties. A description of the location of our stores is provided in Item 1, "Business—Stores and Store Operations." At June 30, 2021, the remaining terms of the majority of our store leases range from one month to five years. The average initial term of store leases executed under our real estate strategy is approximately ten years, typically with options available for renewal. We intend to continue to lease all of our new stores from unaffiliated third parties. Our store leases typically include "kick clauses," which allow us, at our option, to exit the lease with no penalty approximately 5 years after entering into the lease if store sales do not reach a stipulated amount stated in the lease.

Distribution Facilities and Corporate Headquarters.

We previously owned a 104,675 square foot building which houses our corporate office in Dallas, Texas and a Dallas distribution center, of which we utilize approximately 1.2 million square feet. On December 31, 2020, we sold our corporate office and Dallas distribution center properties and leased back those facilities. The lease of the corporate office is for a term of 10 years, and the lease of the distribution center is for an initial term of two and one-half years, with an option to extend the distribution center lease for one additional year. We believe it is reasonably certain the option to extend will be exercised.

During fiscal 2015, we executed a lease for approximately 0.6 million square feet related to our additional distribution center in Phoenix, Arizona which started operations in the fourth quarter of fiscal 2016. We reached the decision in the fourth quarter of fiscal 2020 to close our Phoenix distribution center and consolidate operations in our Dallas-based facility, which was completed in the second quarter of fiscal 2021.

We also lease from unaffiliated third parties four parcels of land of approximately 538,250 square feet, for trailer parking and a 100,000 square foot warehouse in Dallas, Texas to supplement our distribution network.

Item 3. Legal Proceedings

Information related to the Chapter 11 Cases that were filed on May 27, 2020 is included in Notes 1 and 2 in the Notes to Consolidated Financial Statements.

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

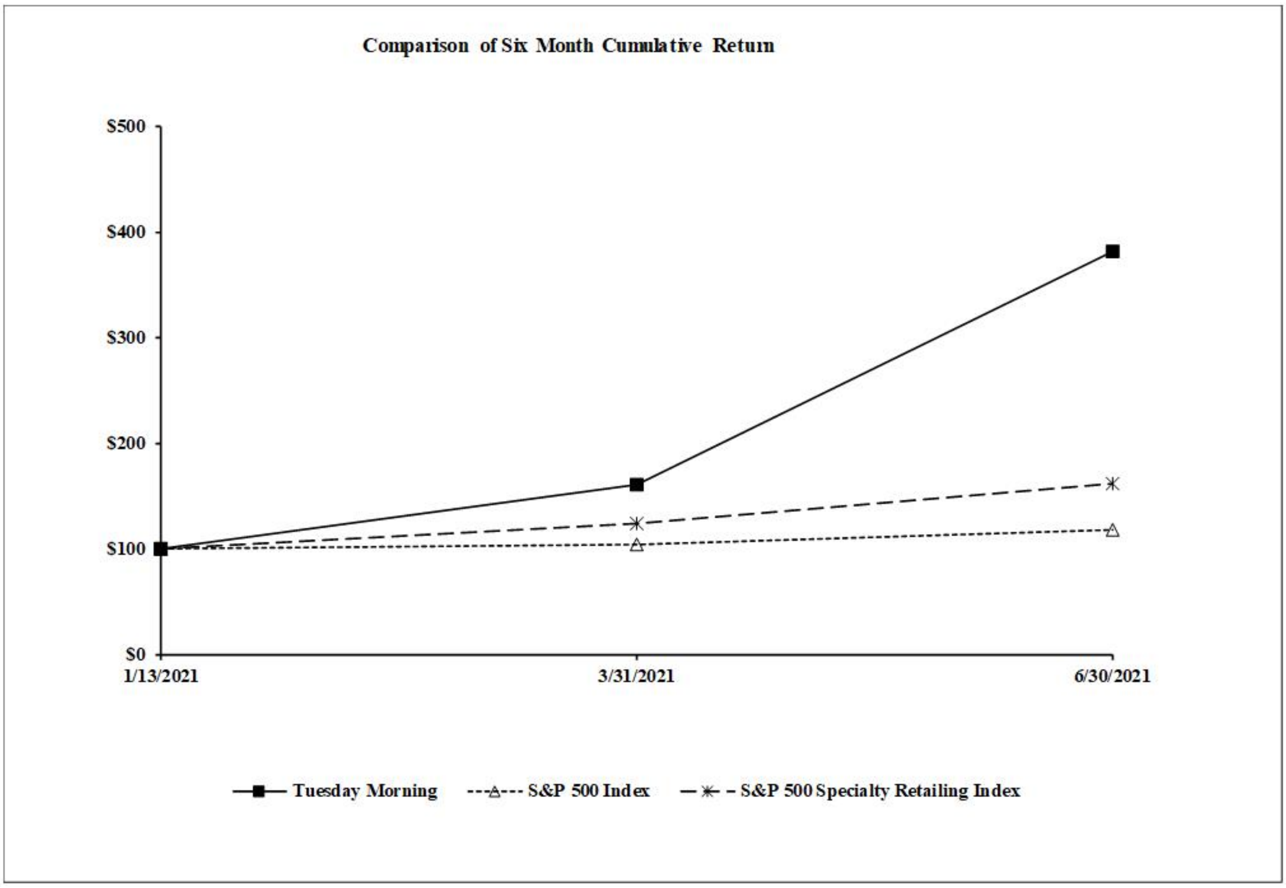
During the pendency of our bankruptcy proceedings, the Company's common stock was delisted by the Nasdaq Stock Market, LLC ("Nasdaq") and began trading on the OTC Pink marketplace under the symbol "TUESQ". In January 2021, following our emergence from bankruptcy, the Company's common stock began trading on the OTCQX market under the ticker symbol "TUEM."

On May 24, 2021, Nasdaq approved our application for the relisting of the Company's common stock on the Nasdaq Capital Market. The Company's common stock was relisted and commenced trading on the Nasdaq Capital Market at the opening of the market on Tuesday, May 25, 2021, under the ticker symbol "TUEM."

As of September 7, 2021, there were approximately 149 holders of record of our common stock.

Performance Graph

The following performance graph compares the cumulative total return to holders of our common stock, since January 13, 2021, with the cumulative total returns of the S&P 500 index and the S&P Specialty Retail index. The graph assumes that the value of the investment in the Company's common stock, S&P 500 index and S&P Specialty Retail index on January 13, 2021 and is calculated assuming the quarterly reinvestment of dividends as applicable. Due to our legal emergence from bankruptcy on December 31, 2020, information for our common stock is only available from January 13, 2021 (the date shares of our common stock began trading following our legal emergence from bankruptcy). The information is included for historical comparative purposes only, reflects a time period of very limited duration, and should not be considered indicative of future share performance.



INDEXED RETURNS

Company / Index	Periods Ending 1/13/2021	3/31/2021	6/30/2021
Tuesday Morning	$ 100	$ 161.05	$ 381.44
S&P 500 Index	100	104.62	118.81
S&P 500 Specialty Retailing Index	100	124.75	161.84

The information under the heading performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

Dividend Policy

During the fiscal years ended June 30, 2021, 2020, and 2019, we did not declare or pay any cash dividends on our common stock. We do not presently have plans to pay dividends on our common stock. The agreements relating to our outstanding indebtedness restrict our ability to pay dividends or repurchase our common stock. Additional details are provided in Item 7, “Management’s Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources.”

Item 6. Reserved

Not Required

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

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

Background

We are one of the original off-price retailers and a leading destination for unique home and lifestyle goods, selling high-quality products at prices generally below those found in boutique, specialty and department stores, catalogs and on-line retailers. Our customers come to us for an ever-changing, exceptional assortment of brand names at great prices. Our strong value proposition has established a loyal customer base, who we engage regularly with social media, email, direct mail and digital media.

The COVID-19 pandemic has had an adverse effect on our business operations, store traffic, employee availability, financial conditions, results of operations, liquidity and cash flow. On March 25, 2020, we temporarily closed all of our 687 stores nationwide, severely reducing revenues and resulting in significant operating losses and the elimination of substantially all operating cash flow. As allowed by state and local jurisdictions, 685 of our stores gradually reopened as of the end of June 2020. Two stores were permanently closed during the fourth quarter 2020. In accordance with our bankruptcy plan of reorganization, described below, we completed the permanent closure of 197 stores in the first quarter of 2021 and the closure of our Phoenix distribution center in second quarter of 2021. In addition, as part of our restructuring, we secured financing to pay creditors in accordance with the plan of reorganization and to fund planned operations and expenditures.

Future impacts from the COVID-19 pandemic will depend on the potential further geographic spread and duration of the ongoing pandemic, the timing and extent of recovery in traffic and consumer spending in our stores, the extent and duration of ongoing impacts to domestic and international supply chains and the related impacts on the flow, availability and cost of products, the production and administration of effective medical treatments and vaccines, and the actions that may be taken by various governmental authorities and other third parties in response to the pandemic.

Emergence from Chapter 11 Bankruptcy Proceedings

- In May 2020, we filed voluntary petitions under Chapter 11 of the Bankruptcy Code. During the pendency of the Chapter 11 Cases, we continued to operate our businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court.
- In early June 2020, in accordance with the orders of the Bankruptcy Court, we commenced the process to close 132 store locations in a first wave of store closings. By the end of July 2020 all of these stores were permanently closed. In mid-July, 2020, we closed an additional 65 stores following negotiations with our landlords and those store closures were completed in August 2020. In total, we closed 197 stores during fiscal 2021. In addition, we also closed our Phoenix distribution center in the second quarter of fiscal 2021.
- On December 23, 2020, the Bankruptcy Court entered an order confirming our Plan of Reorganization. On December 31, 2020, all of the conditions precedent to the Plan of Reorganization were satisfied and we legally emerged from bankruptcy, resolving all material conditions precedent listed in the Plan of Reorganization. However, the closing of the Rights Offering was considered a critical component to the execution of our confirmed Plan of Reorganization, therefore, we continued to apply the requirements of ASC 852 – Reorganizations until that transaction closed on February 9, 2021. In connection with our legal emergence from bankruptcy on December 31, 2020, we completed the debt financing and sale-leaseback transactions contemplated by the Plan of Reorganization. See Notes 1, 2, 3, 7 and 8 to the consolidated financial statements.
- In February 2021, the Company completed the equity financing transaction contemplated by the Plan of Reorganization with a $40 million Rights Offering that expired in February, 2021. Eligible holders of our common stock subscribed to purchase approximately $19.8 million of shares, at $1.10 per share, with the Backstop Party purchasing the remaining $20.2 million of shares. The Company closed on the Rights Offering and in February, 2021, recorded proceeds of $40.0 million and recognized a non-cash charge of approximately $14.5 million for a change in fair value of the company's common stock issued to the Backstop Party. See Notes 7 and 11 to the consolidated financial statements.

Key Metrics for Fiscal 2021

Key operating metrics for continuing operations for the year ended June 30, 2021 include:

- Net sales for fiscal 2021 were $690.8 million, a decrease of $184.1 million or 21.0%, compared to $874.9 million for the same period last year, primarily due to the permanent closure of 197 stores, partially offset by an increase in comparable store sales of 0.7%.

- Gross margin for fiscal 2021 was 29.8%, compared to 32.6% for fiscal 2020.
- Selling, general and administrative expenses for fiscal 2021 decreased $86.4 million to $244.2 million, from $330.6 million for fiscal 2020.
- Restructuring, impairment and abandonment charges were $10.8 million during fiscal 2021, compared to $113.5 million during fiscal 2020, related to the executive severance and employee retention cost of $3.6 million, and intangible impairment charge of $1.6 million, as well as abandonment costs of $5.6 million related to the permanent closure of our stores and the Phoenix distribution center.
- Reorganization items, were a net benefit of $60.0 million during fiscal 2021 related primarily to a $66.2 million net gain from store lease terminations and the termination of Phoenix distribution center lease under our permanent closure plan and a $49.6 million gain on the sale-leaseback transactions under the Plan of Reorganization. These gains were partially offset by $34.6 million in professional and legal fees related to our reorganization as well as $20.0 million in non-cash charges related to execution of the Rights Offering.
- Our net earnings for fiscal 2021 were $3.0 million, or diluted net earnings per share of $0.05 compared to a net loss for fiscal 2020 of $166.3 million, or diluted net loss per share of $3.68
- As shown under the heading "Non-GAAP Financials Measures" below, EBITDA was $26.9 million for fiscal 2021 compared to a negative $135.3 million for fiscal 2020. Adjusted EBITDA was negative $20.3 million for fiscal 2021 compared to a negative $15.4 million for fiscal 2020.

Key balance sheet and liquidity metrics for the year ended June 30, 2021 include:

- Cash and cash equivalents at June 30, 2021 decreased $40.2 million to $6.5 million from $46.7 million at June 30, 2020. Cash and cash equivalents, including restricted cash, at June 30, 2021 decreased $17.8 million to $28.9 million from $46.7 million at June 30, 2020. The decrease in cash and cash equivalents including restricted cash were primarily driven by payments for bankruptcy court approved petition claims, legal and professional fees and payments to the Company vendors for inventory. See Note 2 to our consolidated financial statements for additional information.
- As of June 30, 2021, total liquidity, defined as cash and cash equivalents plus $38.9 million availability for borrowing under the New ABL Facility, was $45.4 million. In addition, as of June 30, 2021, we had $12.0 million of borrowings outstanding under the New ABL Facility and, $12.1 million of letters of credit outstanding. Taking into account $10.0 million of borrowing capacity that is unavailable until December 31, 2021, we have borrowing availability of $38.9 million under the New ABL Facility, as of June 30, 2021.
- Inventory levels at June 30, 2021 increased $30.1 million to $145.1 million from $114.9 million at June 30, 2020. Inventory levels at June 30, 2020 were low driven primarily by the disruption to our business caused by the COVID-19 pandemic in the back half of fiscal 2020. Inventory turnover for the trailing five quarters as of June 30, 2021 was 3.9 turns, an increase from the trailing five quarter turnover as of June 30, 2020 of 2.8 turns, and was favorably impacted by lower than optimal current inventory levels and higher merchandise sell-through rates.

Store Data

The following table presents information with respect to our stores in operation during each of the fiscal periods:

	Fiscal Year Ended June 30,		
	2021	2020	2019
Open at beginning of period	685	714	726
Opened	2	1	11
Closed	(197)	(30)	(23)
Open at end of the period	490	685	714

Results of Operations

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

	Fiscal Year Ended June 30,		
	2021	2020	2019
Net sales	100.0%	100.0%	100.0%
Cost of sales	70.2	67.4	65.0
Gross margin	29.8%	32.6%	35.0%
Selling, general and administrative expenses	35.3	37.8	36.0
Restructuring, impairment, and abandonment charges	1.6	13.0	0.0
Operating loss	(7.1%)	(18.2%)	(1.0%)
Interest expense	(1.2)	(0.4)	(0.2)
Reorganization items, net	8.7	(0.4)	0.0
Other income	0.0	0.0	0.1
Income tax provision	0.0	0.0	0.0
Net earnings/(loss)	0.4%	(19.0%)	(1.2%)

See Note 2 in the Notes to Consolidated Financial Statements herein for a discussion of restructuring, impairment, and abandonment charges, as well as reorganization items.

2021 Compared with 2020

Net sales for fiscal 2021 were $690.8 million, a decrease of 21.0%, compared to $874.9 million for the same period last year, primarily due to the completion of our permanent store closing plans approved through bankruptcy proceedings of 197 stores, partially offset by an increase in comparable store sales of 0.7%. New stores are included in the same store sales calculation starting with the sixteenth month following the date of the store opening. A store that relocates within the same geographic market or modifies its available retail space is generally considered the same store for purposes of this computation. Stores that are closed are included in the computation of comparable store sales until the month of closure. The slight increase in comparable store sales was due to an 8.7% increase in average ticket and by the temporary closure of all stores on March 25, 2020 related to COVID-19, largely offset by a 7.4% decrease in customer transactions. As of June 30, 2021, store inventory levels on a comparable store basis, were approximately 41.1% higher than last year. Store level inventory challenges were due in part to the closure of much of our merchant and supply chain operations during the third quarter of fiscal 2020, at the height of the spring 2020 COVID outbreak as well as pandemic-related disruptions to the supply chain. Non-comparable store sales decreased by a total of $187.3 million primarily due to the permanent closure of 199 stores since the third quarter of fiscal 2020. Non-comparable store sales include the net effect of sales from new stores and sales from stores that have closed. We expect inventory levels to increase throughout the fall and expect supply chain costs to remain elevated due to higher freight costs and other supply chain conditions.

Gross margin for fiscal 2021 was $206.0 million, a decrease of 27.7% compared to $284.9 million for fiscal 2020. As a percentage of net sales, gross margin decreased to 29.8% in fiscal 2021 compared with 32.6% in fiscal 2020. The decrease in gross margin as a percentage of net sales was primarily a result of higher supply chain and transportation costs recognized in the current year, partially offset by lower markdowns.

Selling, general and administrative expenses (‘SG&A”) decreased $86.4 million to $244.2 million in fiscal 2021, compared to $330.6 million in fiscal 2020. The decrease was due to lower store expenses on a smaller store base, including a significant decrease in store rents for both closed stores and renegotiated rents for the ongoing store base. Subsequent to the filing of the Chapter 11 proceedings, we commenced negotiations with our landlords on substantially all of our ongoing leases, resulting in significant modifications and reduced lease costs. Labor costs and depreciation were also lower on the smaller base. Also contributing to the favorable comparison were reduced advertising costs and lower corporate expenses. As a percentage of net sales, SG&A decreased 250 basis points to 35.3% for fiscal 2021, compared to 37.8% in fiscal year 2020.

Restructuring, impairment and abandonment charges were $10.8 million during fiscal 2021, compared to $113.5 million during fiscal 2020, related to the executive severance and employee retention cost of $3.6 million, and intangible impairment charge of $1.6 million, as well as abandonment costs of $5.6 million related to the permanent closure of our stores and the Phoenix distribution center. These costs during fiscal 2020, were charges primarily related to (i) $80.1 million in impairment cost and $25.1 million in abandonment cost relating to our permanent store closing plan along with our decision to close the Phoenix distribution center; (ii) $5.2 million in pre-filing incremental professional fees; and (iii) $3.1 million in compensation costs related to a reorganization reduction in force completed prior to the filing of the Chapter 11 Cases. Decisions regarding store closures and the Phoenix distribution center were made in the fourth quarter of fiscal 2020, prior to filing the Chapter 11 Cases; however, the closure of the Phoenix distribution center was not completed until the second quarter of fiscal 2021.

Our operating loss was $49.0 million during fiscal 2021 as compared to an operating loss of $159.2 million for fiscal 2020, a decrease of $110.2 million. The operating loss in the current year was primarily the result of the lower net sales which were significantly driven by the impact of the COVID-19 pandemic, together with an increased cost of sales, significant impairment and abandonment charges recognized for the approved permanent store and Phoenix distribution center closures.

Interest expense increased $4.4 million to $8.2 million in fiscal 2021 compared to $3.8 million in the prior year. The increase in fiscal 2021 primarily due to the amortization of financing fees incurred on our new revolving credit facility our debtor-in-possession financing agreements, and accrued interest on our term loan. See Note 3 to our consolidated financial statements for additional information.

Reorganization items were a net benefit of $60.0 million for fiscal 2021 compared to a net expense of $3.6 million in fiscal 2020. The net benefit during fiscal 2021 related primarily to a $66.2 million net gain from store lease terminations and the termination of our Phoenix distribution center lease under our permanent closure plan and a $49.6 million gain due from the sale-leaseback transactions pursuant to the Plan of Reorganization. These benefits were partially offset by $34.6 million in professional and legal fees related to our reorganization as well as $20.0 million in non-cash charges related to execution of our Rights Offering. For fiscal 2020, reorganization items, net represent professional fees of $3.6 million incurred during our Chapter 11 proceedings.

Income tax expense for fiscal 2021 was $0.3 million compared to $0.2 million in fiscal 2020. The effective tax rates for fiscal 2021 and 2020 were 8.9% and (0.1%), respectively. We currently believe the expected effects on future year effective tax rates to continue to be nominal until the cumulative losses and valuation allowance are fully utilized. A full valuation allowance is currently recorded against substantially all of our net deferred tax assets at June 30, 2021. The total valuation allowance at the end of fiscal years 2021, 2020, and 2019 was $53.7 million, $67.6 million and $27.5 million, respectively. A deviation from the customary relationship between income tax benefit and pretax income results from utilization of the valuation allowance.

Our net earnings/(loss) for fiscal 2021 was $3.0 million, or diluted net earnings per share of $0.05 compared to a net loss for fiscal 2020 of $166.3 million, or diluted net loss per share of $3.68

Fiscal Year Ended June 30, 2020 Compared to Fiscal Year Ended June 30, 2019

For a discussion of fiscal 2020 results of operations as compared to fiscal 2019 results of operations, please refer to Part II, Item 7, Management's Discussion of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended June 30, 2020, filed with the SEC on September 14, 2020.

Non-GAAP Financial Measures

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

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

	Year Ended June 30,	
	2021	2020
Net earnings/(loss) (GAAP)	$ 2,982	$ (166,328)
Depreciation and amortization	15,412	27,019
Interest expense, net	8,169	3,823
Income tax provision	291	221
EBITDA (non-GAAP)	26,854	(135,265)
Share-based compensation expense (1)	2,054	2,720
Restructuring, impairment and abandonment charges (2)	10,834	113,492
Reorganization items, net (3)	(60,015)	3,619
Adjusted EBITDA (non-GAAP)	$ (20,273)	$ (15,434)

1) Adjustment includes charges related to share-based compensation programs, which vary from period to period depending on volume, timing and vesting of awards. We adjust for these charges to facilitate comparisons from period to period.
2) For the year-ended June 30, 2021, adjustments include restructuring and abandonment costs primarily related to $3.6 million to executive severance and employee retention cost, intangible impairment charge of a $1.6 million as well as abandonment cost of $5.6 million related to the permanent closure of our stores and the Phoenix distribution center. For the year-ended June 30 2020, adjustments include restructuring, impairment and abandonment charges primarily related to: $80.1 million in impairment cost and $25.1 million in abandonment cost relating to our permanent store closing plan along with our decision to close the Phoenix distribution center; $5.2 million in pre-filing incremental professional fees; and $3.1 million in compensation costs related to a reorganization reduction in force completed prior to the filing of the Chapter 11 Cases. Decisions regarding store closures and the Phoenix distribution center were made in the fourth quarter of fiscal 2020, prior to filing the Chapter 11 Cases; however, the closure of the Phoenix distribution center was not completed until the second quarter of fiscal 2021.
3) For the year-ended June 30, 2021, adjustments include a net $66.2 million gain due to the leases for store locations related to our permanent closure plan, as well as the lease for our Phoenix distribution center, which were rejected and the related lease liabilities were reduced to the amount of estimated claims allowable by the Bankruptcy Court (See note 1) as well as a $49.6 million gain due to the execution of a sale-leaseback agreement during the second quarter of 2021 on our owned real estate as part of our Plan of Reorganization (see note 1 and note 8). These were partially offset by reorganization costs primarily related to $34.6 million in professional & legal fees related to our reorganization as well as $20.0 million in non-cash charges related to the execution of our Rights Offering (see Note 1 and 7).

Liquidity and Capital Resources

Cash Flows from Operating Activities

In fiscal 2021, cash used in operating activities was $158.1 million, compared to cash provided by operating activities of $93.9 million in the prior fiscal year. Net cash used in operations in fiscal 2021 was primarily driven by payments for bankruptcy court approved pre-petition claims, legal and professional fees and payments to the Company's vendors for inventory. In fiscal 2020, cash provided by operating activities of $93.9 million related to primarily to a $126.4 million larger decrease in inventory. This increase was partially offset by our higher net loss in fiscal 2020, adjusted for the non-cash impacts of asset impairment and abandonment charges, totaling $105.2 million, as well as a $9.6 million cash outlay for July 2020 rents, which were paid at the end of June 2020, and a $4.5 million higher cash usage in accounts payable and accrued liabilities.

Cash flows from Investing Activities

Net cash provided by investing activities for fiscal 2021 of $66.7 million related primarily to $68.6 million of proceeds from the sale of our corporate office and Dallas distribution center properties in a sale-leaseback transaction under our Plan of Reorganization, along with $1.9 million of property and equipment at the 197 stores that we permanently closed, and was partially offset by $3.8 million of capital expenditures. For additional information regarding the sale-leaseback transaction, see Note 8 to our consolidated financial statements. Net cash used in investing activities for fiscal 2020 of $13.9 million related primarily to $15.8 million of capital expenditures offset by $1.9 million in proceeds received from the sale of assets.

Cash Flows from Financing Activities

Net cash provided by financing activities of $73.6 million for fiscal 2021 related primarily to the proceeds of $12.0 million from borrowings of $386.0 million and repayments of $376.0 million on our new revolving credit facility, $25.0 million from a term loan and

$40.0 million from the Rights Offering, partially offset by the payment of financing fees of $3.2 million. For additional information regarding our new revolving credit facility, the term loan and the Rights Offering, see Notes 2, 3 and 7 to our consolidated financial statements. The proceeds of these financings were used primarily to pay pre-petition claims of general unsecured in our bankruptcy proceedings and for purchases of inventory. Net cash used in financing activities of $44.7 million in fiscal 2020 related to $34.6 million in net repayments on our revolving credit facility, a $5.0 million lower cash overdraft provision, and the payment of $4.9 million in financing costs related to obtaining debtor-in-possession financing.

Capital Resources

Historically, we have financed our operations with funds generated from operating activities, available cash and cash equivalents, and borrowings under an asset-based, senior secured revolving credit facility. During the pendency of our bankruptcy proceedings, we financed our operations with funds generated from operating activities and available cash and cash equivalents, and also had in place debtor-in-possession financing arrangements. We made no borrowings under the DIP ABL Credit Agreement (defined below) and the DIP DDTL Agreement (defined below) and both were terminated on December 31, 2020 in connection with our legal emergence from bankruptcy.

On December 31, 2020, as contemplated by our Plan of Reorganization, the Company and its subsidiaries entered into a Credit Agreement (the "New ABL Credit Agreement") with JPMorgan Chase Bank, N.A., Wells Fargo Bank, N.A. and Bank of America, N.A. that provides for a revolving credit facility in an aggregate amount of $110.0 million (the "New ABL Facility"). The New ABL Credit Agreement includes conditions to borrowings, representations and warranties, affirmative and negative covenants, and events of default customary for financings of this type and size. The New ABL Credit Agreement requires the Company to maintain a minimum fixed charge coverage ratio if borrowing availability falls below certain minimum levels, after the first anniversary of the agreement. For additional information regarding the New ABL Facility, see Note 3 to our consolidated financial statements.

On December 31, 2020, the Company, Alter Domus (US), LLC, as administrative agent, and the lenders named therein including Tensile Capital Partners Master Fund LP and affiliates of Osmium Partners, LLC, entered into a Credit Agreement (the "Term Loan Credit Agreement") providing for a term loan of $25.0 million to the Company (the "Term Loan").

Pursuant to the terms of the Term Loan Credit Agreement, the Term Loan has a maturity date of December 31, 2024 and bears interest at a rate of 14% per annum, with interest payable in-kind. Under the terms of the Term Loan Credit Agreement, the Term Loan is secured by a second lien on the collateral securing the New ABL Facility and a first lien on certain other assets of the Company as described in the Term Loan Credit Agreement. The Term Loan is subject to optional prepayment after the first anniversary of the date of issuance at prepayment price equal to the greater of (1) the original principal amount of the Term Loan plus accrued interest thereon, and (2) 125% of the original principal amount of the Term Loan. The Term Loan is subject to mandatory prepayment in connection with a change of control of the Company as described in the Term Loan Credit Agreement. The Term Loan Credit Agreement also includes customary covenants and events of default. As of June 30, 2021, the outstanding principal balance of the Term Loan was $26.4 million, net of debt issuance costs. For additional information regarding the Term Loan, see Note 3 to our consolidated financial statements.

In addition, in February 2021, we completed the Rights Offering and recorded proceeds of $40.0 million and recognized a non-cash charge of approximately $14.5 million for a change in fair value of the company's common stock issued to the Backstop Party.

Going forward, we expect to fund our operations with funds generated from operating activities, available cash and cash equivalents, and borrowings under the New ABL Facility.

As of June 30, 2021, cash and cash equivalents, excluding restricted cash, were $6.5 million and total liquidity, defined as cash and cash equivalents plus the $38.9 million availability for borrowing under the New ABL Facility, was $45.5 million as of June 30, 2021.

We incurred capital expenditures, net of construction allowances received from landlords, of approximately $3.8 million in fiscal year 2021, which reflects reduced capital spending as one of the liquidity preservation measures we have taken due to the financial impact of COVID-19. Capital expenditures are anticipated to be $9.1 million for fiscal year 2022. The amounts include the expected costs to open approximately eight stores, costs of enhancements to our store fleet, investment in technology as well as our Dallas distribution center.

We do not presently have any plans to pay dividends or repurchase shares of our common stock. Under the terms of the New ABL Credit Agreement and the Term Loan, we are subject to restrictions on our ability to pay dividends or repurchase shares of our common stock. Under the terms of the New ABL Credit Agreement, we must maintain certain minimum levels of borrowing availability, and under the Term Loan any amounts paid for these purposes may not exceed $2 million.

Critical Accounting Policies and Estimates

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our audited year end 2021 consolidated financial statements, which have been prepared pursuant to the rules and regulations of the SEC. 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 materially from these estimates.

Impairment of Long-Lived Assets—We evaluate long-lived assets, principally property and equipment, and intangible assets, as well as lease right-of-use assets, for indicators of impairment whenever events or changes in circumstances indicate their carrying values may not be recoverable. Management's judgments regarding the existence of impairment indicators are based on market conditions and financial performance. Indicators of impairment may also include the planned closure of a store or facility, among others.

Impairment is indicated when the sum of the estimated future cash flows, on an undiscounted basis, is less than the asset's (asset group's) carrying amount. Then, when the fair value of the estimated future cash flows, on a discounted basis, is less than carrying amount, an impairment charge is recorded. The testing of an asset group for recoverability involves assumptions regarding the future cash flows of the asset group, the growth rate of those cash flows, and the remaining useful life over which an asset group is expected to generate cash flows. In the event we determine an asset group is not recoverable, the measurement of an estimated impairment loss involves a number of management judgments, including the selection of an appropriate discount rate, as well as various unobservable inputs incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions. Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors. Key market participant assumptions used for purposes of determining the fair value of our long-lived assets, including lease right-of-use assets, in connection with the fiscal 2020 impairment discussed above included market rent assumptions and the discount rate.

If actual results are not consistent with our estimates and assumptions used to calculate estimated future cash flows, we may be exposed to impairment losses that could be material. Additionally, we can provide no assurance that we will not have additional impairment charges in future periods as a result of changes in our operating results or assumptions.

Asset impairment and abandonment charges totaled $5.6 million and $80.1 million for Fiscal 2021 and Fiscal 2020, respectively, which were the result of our closing plans for stores and the Phoenix distribution center.

Our property and equipment, combined with our operating lease right-of-use assets totaled $231.0 million as of June 30, 2021, or approximately 55% of total assets, compared to $327.1 million as of June 30, 2020 or approximately 65% of total assets.

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

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

Markdowns—We utilize markdowns to promote the effective and timely sale of merchandise which allows us to consistently provide new merchandise to our customers. We also utilize markdowns coupled with promotional events to drive traffic and stimulate sales. Markdowns may be temporary or permanent. Temporary markdowns are for a designated period of time with markdowns recorded to cost of sales based on quantities sold during the period. Permanent markdowns are charged to cost of sales immediately based on the total quantities on hand at the time of the markdown. Markdowns and damages were 4.3% in fiscal 2021 and were 5.9% in fiscal 2020. Markdowns may vary throughout the quarter or year in timing.

The effect of a 0.5% markdown in the value of our inventory at June 30, 2021 would result in a decline in Gross margin and a reduction in our diluted earnings per share for fiscal 2021, of $0.7 million and $0.01 respectively.

Leases— Prior to fiscal 2020, rent expense on operating leases, including rent holidays and scheduled rent increases, was recorded on a straight-line basis over the term of the lease, commencing on the date we take possession of the leased property. Rent expense is recorded in selling, general and administrative expenses. The net excess of rent expense over the actual cash paid has been recorded as deferred rent in our consolidated balance sheets. Tenant improvement allowances are also included in the accompanying consolidated balance sheets as deferred rent liabilities and are amortized as a reduction of rent expense over the term of the lease from the possession date. Contingent rental payments, typically based on a percentage of sales, are recognized in rent expense when payment of the contingent rent is probable.

Starting in fiscal 2020, upon the adoption of Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)" ("ASU 842"), we determine whether an agreement contains a lease at inception based on our right to obtain substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset. Lease liabilities represent the present value of future lease payments and the right-of-use ("ROU") assets represent our right to use the underlying assets for the respective lease terms.

The operating lease liability is measured as the present value of the unpaid lease payments and the ROU asset is derived from the calculation of the operating lease liability. As our leases do not generally provide an implicit rate, we use our incremental borrowing rate as the discount rate to calculate the present value of lease payments. The incremental borrowing rate represents an estimate of the interest rate that would be required to borrow over a similar term, on a collateralized basis in a similar economic environment.

Rent escalations occurring during the term of the leases are included in the calculation of the future minimum lease payments and the rent expense related to these leases is recognized on a straight-line basis over the lease term. In addition to minimum lease payments, certain leases require payment of a proportionate share of real estate taxes and certain building operating expenses allocated on a percentage of sales in excess of a specified base. These variable lease costs are not included in the measurement of the ROU asset or lease liability due to unpredictability of the payment amount and are recorded as lease expense in the period incurred. We include the lease renewal option periods in the calculation of our operating lease assets and liabilities when it is reasonably certain that we will renew the lease.

*Insurance and Self-Insurance Reserv*es—We use a combination of insurance and self-insurance plans to provide for the potential liabilities associated with workers' compensation, general liability, property insurance, director and officers' liability insurance, vehicle liability and employee health care benefits. Our stop loss limits per claim are $0.5 million for workers' compensation, $0.3 million for general liability, and $0.2 million for medical. Liabilities associated with the risks that are retained by us are estimated, in part, by historical claims experience, severity factors and the use of loss development factors by third-party actuaries.

The insurance liabilities we record are primarily influenced by the frequency and severity of claims and include a reserve for claims incurred but not yet reported. Our estimated reserves may be materially different from our future actual claim costs, and, when required adjustments to our estimated reserves are identified, the liability will be adjusted accordingly in that period. Our self-insurance reserves for workers' compensation, general liability and medical were $7.3 million, $1.2 million, and $1.0 million, respectively, at June 30, 2021 and $8.4 million, $1.3 million, and $0.9 million, respectively, at June 30, 2020.

We recognize insurance expenses based on the date of an occurrence of a loss including the actual and estimated ultimate costs of our claims. Claims paid reduce our reserves and our current period insurance expense is adjusted for the difference in prior period recorded reserves and actual payments. Current period insurance expenses also include the amortization of our premiums paid to our insurance carriers. Expenses for workers' compensation, general liability and medical insurance were $1.4 million, $3.7 million and $7.8 million, respectively, for the fiscal year ended June 30, 2021; $2.7 million, $3.3 million and $8.7 million, respectively, for the fiscal year ended June 30, 2020; and $2.1 million, $2.3 million and $7.9 million, respectively, for the fiscal year ended June 30, 2019.

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

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as of June 30, 2021.

Contractual Obligations

We have 490 stores with total rent expense for fiscal 2021 of $73.5 million compared to rent expense of $118.3 million in fiscal 2020. The decrease is due to the closure of 197 stores and our negotiations with our landlords on substantially all of our ongoing leases, resulting in significant modifications and remeasurement recorded in fiscal 2021. See Notes 1, 2 and 8 to our consolidated financial statements for further discussion. Our distribution center rent for fiscal 2021 was $9.6 million compared to $7.3 million in fiscal 2020. The increase is due to our having sold our corporate office and Dallas distribution center properties and land, in a sale-leaseback transaction and the additional rent incurred by that change and partially offset by a decrease in rent associated with Phoenix distribution center.

Contractually required payments for maintenance, insurance and taxes on our leased properties are estimated as a percentage of rent based on historical trends. These amounts can vary based on multiple factors including inflation, macroeconomic conditions, various local tax rates and appraised values of our rental properties. The operating lease obligations include the lease obligations of our corporate office and Dallas distribution center properties. See Note 8 to our consolidated financial statements for further discussion.

We do not consider most merchandise purchase orders to be contractual obligations due to designated cancellation dates on the face of the purchase order.

On December 31, 2020, the Company and its subsidiaries entered into the New ABL Credit Agreement. Outstanding principal as of June 30, 2021 was approximately $12.0 million. The New ABL Facility matures on December 31, 2023.

On December 31, 2020, the Company, Alter Domus (US), LLC, as administrative agent, and the lenders named therein including Tensile Capital Partners Master Fund LP and affiliates of Osmium Partners, LLC, entered into the Term Loan Credit Agreement, which provided for a Term Loan of $25.0 million to the Company.

Pursuant to the terms of the Term Loan Credit Agreement, the Term Loan has a maturity date of December 31, 2024 and bears interest at a rate of 14% per annum, with interest payable in-kind. The Term Loan is subject to optional prepayment after the first anniversary of the date of issuance at prepayment price equal to the greater of (1) the original principal amount of the Term Loan plus accrued interest thereon, and (2) 125% of the original principal amount of the Term Loan. The Term Loan is subject to mandatory prepayment in connection with a change of control of the Company as described in the Term Loan Credit Agreement. The Term Loan Credit Agreement also includes customary covenants and events of default. As of June 30, 2021, the outstanding principal balance of the Term Loan was $26.4 million, net of debt issuance costs. For additional information regarding the New ABL Facility and the Term Loan, see Note 3 to our consolidated financial statements.

Though our self-insurance reserves represent an estimate of our future obligation and not a contractual payment obligation, we have disclosed our self-insurance reserves under "Critical Accounting Policies and Estimates - Insurance and Self-Insurance Reserves."

Seasonality

Our business is subject to seasonality, with a higher level of our net sales and operating income generated during the quarter ending December 31, which includes the holiday shopping season. Net sales in the quarters ended December 31, 2020, 2019, and 2018 accounted for approximately 29%, 37% and 34% of our annual net sales for fiscal years 2021, 2020 and 2019, respectively. The rate for fiscal 2021 is impacted by store closures during the first quarter of fiscal 2021.

Recent Accounting Pronouncements

Refer to Note 1 to the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, including changes in interest rates. Market risk is the potential loss arising from adverse changes in market prices and rates, such as interest rates. Based on our market risk sensitive instruments outstanding as of June 30, 2019, as described below, we have determined that there was no material market risk exposure to our consolidated financial position, results of operations or cash flows as of such date. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

Borrowings under our New ABL facility bear a floating rate of interest. As of June 30, 2021, the outstanding borrowings under the New ABL facility were $12.0 million. At June 30, 2021, The effect of a one percentage point change in interest rate would result in an approximate $0.1 million change in annual interest expense on our ABL borrowings.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Tuesday Morning Corporation (the Company) as of June 30, 2021 and 2020, the related consolidated statements of operations**,** stockholders' equity and cash flows for each of the three years in the period ended June 30, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated June 30, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

	Valuation of operating lease right-of-use assets and operating lease liabilities
Description of the Matter	As discussed in Note 1 and Note 8 in the consolidated financial statements, the Company recorded noncurrent operating lease right-of-use assets, current operating lease liabilities and noncurrent operating lease liabilities of $193.2 million, $54.6 million and $156.2 million, respectively, as of June 30, 2021. The Company's reported operating lease liabilities utilize discount rates to calculate the estimated present value of future lease payments. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate ("IBR") based on the information available at the lease commencement date in determining the present value of future lease payments. The computation of the IBR required significant management judgment based on the selection of inputs, including the determination of the appropriate credit rating, credit spread and adjustments for the impacts of collateralization used to determine the rate. Evaluating the appropriateness of the selection by management of the key inputs involved a high degree of auditor judgment and an increased extent of effort, including the involvement of our valuation specialists.

How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over management's review of the methodology, inputs and assumptions used to determine the Company's selection of the IBR. With the assistance of our valuation specialists, we evaluated (i) the reasonableness of the methodology used to estimate the IBR; (ii) the significant inputs used to derive the IBR; and (iii) the mathematical accuracy of the computation of the IBR. Additionally, with the assistance of our valuation specialists, we created independent estimates of the IBR and compared the results to the Company's IBR.
	Liquidity and going concern
Description of the Matter	As described in Note 1 to the consolidated financial statements, the COVID-19 pandemic had an adverse impact on the Company's business operations and liquidity. During the current fiscal year, management took action to improve liquidity by (i) closing underperforming stores; (ii) closing a distribution center; (iii) renegotiating store leases; (iv) executing a sale-leaseback transaction; and (v) executing capital markets transactions, including debt issuances and equity sales. Based on these actions and considering the Company's available liquidity, management concluded there was sufficient liquidity to meet minimum liquidity requirements, fund operations, and satisfy the Company's obligations for the twelve-month period following the issuance date of the consolidated financial statements. Auditing the evaluation and disclosure of liquidity and going concern was challenging because of the subjectivity used by management when evaluating whether the Company will meet its obligations as they come due and be in compliance with debt covenants for at least twelve months from the issuance date of these financial statements. A high degree of auditor judgment was required when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to the forecasted future financial results.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design, and tested controls over the Company's going concern assessment process. We tested controls over management's process to forecast financial results and liquidity for one year after the date the financial statements are issued, including management's review of significant assumptions and the completeness and accuracy of underlying data used in the forecast. We evaluated the sensitivity and impact of reasonably possible changes in the key assumptions and estimates included in management's cash flow forecasts and liquidity position and compared those results to the sensitivity analyses performed by management. We also evaluated management's liquidity disclosure in the consolidated financial statements.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002

Dallas, Texas
September 13, 2021

Tuesday Morning Corporation

Consolidated Balance Sheets

(In thousands, except share and per share data)

	June 30, 2021	June 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,534	$ 46,676
Restricted cash	22,321	—
Inventories	145,075	114,905
Prepaid expenses	5,486	6,353
Other current assets	3,385	7,210
Total Current Assets	182,801	175,144
Property and equipment, net	37,784	68,635
Operating lease right of-use assets	193,244	258,433
Deferred financing costs	2,459	—
Other assets	1,596	3,178
Total Assets	$ 417,884	$ 505,390
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Debtor-in-possession financing	$ -	$ 100
Accounts payable	45,930	5,514
Accrued liabilities	46,454	33,942
Operating lease liabilities	54,632	—
Total Current Liabilities	147,016	39,556
Operating lease liabilities — non-current	156,240	—
Borrowings under revolving credit facility	12,000	—
Long term debt (see Note 3 for amounts due to related parties)	26,374	—
Asset retirement obligation — non-current	1,021	1,213
Other liabilities — non-current	3,432	1,347
Total Non-Current Liabilities	346,083	42,116
Liabilities subject to compromise	—	456,339
Total Liabilities	346,083	498,455
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 200,000,000 shares at June 30, 2021 and authorized 100,000,000 shares at June 30, 2020; 87,988,233 shares issued and 86,204,572 shares outstanding at June 30, 2021 and 49,124,313 shares issued and 47,340,652 shares outstanding at June 30, 2020	862	455
Additional paid-in capital	305,498	244,021
Retained deficit	(227,747)	(230,729)
Less: 1,783,661 common shares in treasury, at cost, at June 30, 2021 and at June 30, 2020, respectively	(6,812)	(6,812)
Total Stockholders' Equity	71,801	6,935
Total Liabilities and Stockholders' Equity	$ 417,884	$ 505,390

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

Tuesday Morning Corporation

Consolidated Statements of Operations

(In thousands, except per share data)

	Fiscal Years Ended June 30, 2021	Fiscal Years Ended June 30, 2020	Fiscal Years Ended June 30, 2019
Net sales	$ 690,790	$ 874,895	$ 1,007,246
Cost of sales	484,788	590,025	654,931
Gross margin	206,002	284,870	352,315
Selling, general and administrative expenses	244,155	330,572	362,840
Restructuring, impairment, and abandonment charges	10,834	113,492	—
Operating loss before interest, reorganization and other income/(expense)	(48,987)	(159,194)	(10,525)
Other income/(expense):			
Interest expense	(8,169)	(3,845)	(2,461)
Reorganization items, net	60,015	(3,619)	—
Other income, net	414	551	792
Earnings/(loss) before income taxes	3,273	(166,107)	(12,194)
Income tax provision	291	221	246
Net earnings/ (loss)	$ 2,982	$ (166,328)	$ (12,440)
Earnings Per Share			
Net earnings/(loss) per common share:			
Basic	$ 0.05	$ (3.68)	$ (0.28)
Diluted	$ 0.05	$ (3.68)	$ (0.28)
Weighted average number of common shares:			
Basic	60,584	45,208	44,719
Diluted	61,689	45,208	44,719

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

Tuesday Morning Corporation

Consolidated Statements of Stockholders' Equity

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock	Total Stockholders' Equity
Balance at June 30, 2018	45,865	$ 469	$ 237,957	$ (51,360)	$ (6,812)	$ 180,254
Net loss	—	—	—	(12,440)	—	(12,440)
Shares issued or canceled in connection with employee stock incentive plans and related tax effect	815	(4)	5	—	—	1
Shares issued in connection with exercises of employee stock options	3	—	6	—	—	6
Share-based compensation expense	—	—	3,488	—	—	3,488
Balance at June 30, 2019	46,683	465	241,456	(63,800)	(6,812)	171,309
Net loss	—	—	—	(166,328)	—	(166,328)
Cumulative effect of change in accounting principle	—	—	—	(601)	—	(601)
Shares issued in connection with exercises of employee stock options	658	(10)	10	—	—	—
Share-based compensation expense	—	—	2,555	—	—	2,555
Balance at June 30, 2020	47,341	455	244,021	(230,729)	(6,812)	6,935
Net earnings	—	—	—	2,982	—	2,982
Shares issued in connection with a rights offering	38,182	382	59,577	—	—	59,959
Shares issued or canceled in connection with employee stock incentive plans and related tax effect	682	25	49	—	—	74
Share-based compensation expense	—	—	1,851		—	1,851
Balance at June 30, 2021	86,205	$ 862	$ 305,498	$ (227,747)	$ (6,812)	$ 71,801

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

Tuesday Morning Corporation

Consolidated Statements of Cash Flows

(In thousands)

	Years Ended June 30,		
	2021	2020	2019
Cash flows from operating activities:			
Net earnings/(loss)	$ 2,982	$ (166,328)	$ (12,440)
Adjustments to reconcile net earnings/(loss) to net cash provided by/(used in) operating activities:			
Depreciation and amortization	15,412	27,019	26,127
Loss on impairment and abandonment of assets	5,638	105,158	-
Intangible impairment charge	1,639	-	-
Amortization of financing costs and interest expense	7,177	1,606	276
Loss on disposal of assets	(1,389)	46	7
Gain on sale-leaseback transaction	(49,639)	-	-
Stock-based compensation	2,054	2,720	3,536
Rights offering and Backstop agreement	19,990	-	-
Gain on lease terminations	(93,278)	-	-
Deferred income taxes	24	311	307
Construction allowances from landlords	451	1,312	1,491
Change in operating assets and liabilities:			
Inventories	(30,114)	122,825	(3,578)
Prepaid and other current assets	323	(2,547)	483
Lease assets and liabilities	(7,941)	2,941	-
Accounts payable	(43,051)	2,726	(873)
Accrued liabilities	10,082	(3,105)	4,954
Deferred rent	-	-	(823)
Other liabilities—non-current	1,585	(814)	100
Net cash (used in)/provided by operating activities	(158,055)	93,870	19,567
Cash flows from investing activities:			
Capital expenditures	(3,783)	(15,825)	(16,044)
Purchase of intellectual property	-	(27)	(299)
Proceeds from sale-leaseback transaction	68,566	-	-
Proceeds from sales of assets	1,897	1,950	31
Net cash provided by/(used in) investing activities	66,680	(13,902)	(16,312)
Cash flows from financing activities:			
Proceeds under revolving credit facility	811,031	308,506	229,190
Repayments under revolving credit facility	(799,131)	(343,056)	(233,020)
Change in cash overdraft	-	(4,996)	3,213
Proceeds from term loan	25,000	-	-
Proceeds from Rights Offering	40,000	-	-
Proceeds from the issuance of common stock	45	-	8
Payments on finance leases	(217)	(224)	(162)
Payments of financing fees	(3,174)	(4,917)	(599)
Net cash provided by/(used in) financing activities	73,554	(44,687)	(1,370)
Net increase-(decrease) in cash, cash equivalents and restricted cash	(17,821)	35,281	1,885
Cash, cash equivalents and restricted cash, beginning of period	46,676	11,395	9,510
Cash, cash equivalents and restricted cash, end of period	$ 28,855	$ 46,676	$ 11,395
Supplemental cash flow information:			
Interest paid	$ 2,623	$ 2,141	$ 2,140
Income taxes paid/(refunded)	478	(104)	212
Finance/capital lease obligations incurred	-	-	253

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Other General Principles

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

Tuesday Morning is a leading off-price retailer, specializing in name-brand, high-quality products for the home, including upscale textiles, furnishings, housewares, gourmet food, toys and seasonal décor at prices generally below those charged by boutique, specialty and department stores, catalogs and on-line retailers in the United States. We operated 490 discount retail stores in 40 states as of June 30, 2021 (“fiscal 2021”). We operated 685 and 714 discount retail stores at June 30, 2020 (“fiscal 2020”) and 2019 (“fiscal 2019”), respectively. Our customer is a savvy shopper with discerning taste for quality at a value. Our strong value proposition has established a loyal customer base, who we engage regularly with social media, email, direct mail and digital media

Listing

During the pendency of our bankruptcy proceedings, the Company’s common stock was delisted by the Nasdaq Stock Market, LLC (“Nasdaq”) and began trading on the OTC Pink marketplace under the symbol “TUESQ”. In January 2021, following our emergence from bankruptcy, the Company’s common stock began trading on the OTCQX market under the ticker symbol “TUEM.”

On May 24, 2021, Nasdaq approved our application for the relisting of the Company's common stock on the Nasdaq Capital Market. The Company's common stock was relisted and commenced trading on the Nasdaq Capital Market at the opening of the market on Tuesday, May 25, 2021, under the ticker symbol "TUEM."

COVID-19 Pandemic

The COVID-19 pandemic had an adverse effect on our business operations, store traffic, employee availability, financial conditions, results of operations, liquidity and cash flow. On March 25, 2020, we temporarily closed all of our 687 stores nationwide, severely reducing revenues and resulting in significant operating losses and the elimination of substantially all operating cash flow. As allowed by state and local jurisdictions, 685 of our stores gradually reopened as of the end of June 2020. Two stores were permanently closed during the fourth quarter 2020. In accordance with our bankruptcy plan of reorganization, described below, we completed the permanent closure of 197 stores in the first quarter of 2021 and the closure of our Phoenix distribution center in second quarter of 2021. In addition, as part of our restructuring, we secured financing to pay creditors in accordance with the plan of reorganization and to fund planned operations and expenditures.

Future impacts from the COVID-19 pandemic will depend on the potential further geographic spread and duration of the ongoing pandemic, the timing and extent of recovery in traffic and consumer spending in our stores, the extent and duration of ongoing impacts to domestic and international supply chains and the related impacts on the flow, availability and cost of products, the production and administration of effective medical treatments and vaccines, and the actions that may be taken by various governmental authorities and other third parties in response to the pandemic.

Emergence From Chapter 11 Bankruptcy Proceedings

In response to the impacts of the COVID-19 pandemic, on May 27, 2020 (the “Petition Date”), we filed voluntary petitions (the “Chapter 11 Cases”) under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (the “Bankruptcy Court”). The Chapter 11 Cases were jointly administered for procedural purposes. During the pendency of the Chapter 11 Cases, we continued to operate our businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. In accordance with orders of the Bankruptcy Court, we entered into certain debtor-in-possession financing arrangements to provide financing during the pendency of the Chapter 11 Cases. See Note 3 “Debt” to the consolidated financial statements for additional information regarding these debtor-in-possession financing arrangements.

In early June 2020, in accordance with orders of the Bankruptcy Court, we commenced the process to close 132 store locations. By the end of July 2020, all of these stores were permanently closed. In mid-July 2020, we began the process to close an additional 65 stores following negotiations with our landlords, and those store closures were completed in August 2020. In total, we permanently closed 197 stores during the first quarter of fiscal 2021. In addition, we closed our Phoenix distribution center in the second quarter of fiscal 2021.

On November 16, 2020, the Company and its subsidiaries filed with the Bankruptcy Court a proposed Revised Second Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code (the “Amended Plan”) and a proposed Amended Disclosure Statement (the "Amended Disclosure Statement") in support of the Amended Plan describing the Amended Plan and the solicitation of votes to approve the same from certain of the Debtors' creditors with respect to the Chapter 11 Cases. The Amended Plan and the Amended Disclosure Statement contemplated the debt financing transactions described in Note 3 below under the caption "Post-Emergence Debt Financing Arrangements", the exchange and Rights Offering (defined in Note 7 below under "Equity Financing under Plan of Reorganization") and the sale-leaseback transactions described in Note 8.

On December 23, 2020, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the Amended Plan, with certain modifications described in the Confirmation Order (as modified and confirmed, the "Plan of Reorganization"). On December 31, 2020, all of the conditions precedent to the Plan of Reorganization were satisfied and the Company completed the debt financing and sale-leaseback contemplated in the Plan of Reorganization. However, the closing of the Rights Offering was considered a critical component to the execution of our confirmed Plan of Reorganization, therefore, we continued to apply the requirements of ASC 852 – Reorganizations until that transaction closed on February 9, 2021.

In accordance with the Plan of Reorganization, effective December 31, 2020 (the "Effective Date"), the Company's board of directors was comprised of nine members, including five continuing directors of the Company, three new directors appointed by the Backstop Party (as defined in Note 7 under the caption "Equity Financing under Plan of Reorganization") and one director appointed by the equity committee in the Chapter 11 Cases.

Pursuant to the Plan of Reorganization, each outstanding share of the Company's common stock as of the close of business on January 4, 2021 was exchanged for (1) one new share of the Company's stock and (2) a share purchase right entitling the holder to purchase its pro rata portion of shares available to eligible holders in the Rights Offering described in Note 7 under the caption "Equity Financing under Plan of Reorganization." On February 9, 2021, the Company completed the equity financing contemplated by the Plan of Reorganization.

See Note 2 regarding Bankruptcy Accounting for further discussion.

Liquidity and Going Concern

The consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2021, and the related notes (collectively referred to as the "consolidated financial statements") were prepared on the basis of a going concern, which contemplates that the Company will be able to realize assets and discharge liabilities in the normal course of business. Starting in the third quarter of fiscal 2020, the COVID-19 pandemic had an adverse effect on our business operations, store traffic, employee availability, financial conditions, results of operations, liquidity and cash flow. These conditions raised substantial doubt about the Company's ability to continue as a going concern as described in the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the fiscal year ended June 30, 2020 and in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020, September 30, 2020, December 31, 2020 and March 31, 2021.

During the fourth quarter of fiscal 2021, the COVID-19 vaccine was rolled out widely in the United States. This is a significant change in circumstances from our previous going concern assessments. With the expanded availability of the COVID-19 vaccine and relaxed COVID-19 protocols, the Company does not expect widespread store closures as a result of COVID-19, which was a significant contributing factor to the Company's distressed position in fiscal 2020. Additionally, the Company has completed its restructuring plan, as defined in the Plan of Reorganization, which consisted of (i) closing 197 store locations; (ii) closing the Phoenix distribution center; (iii) renegotiating a majority of our leases with landlords; (iv) securing financing to pay creditors in accordance with the plan; and (v) securing financing that will be utilized in connection to fund planned operations and expenditures.

Accordingly, the Company re-evaluated its potential going concern disclosure requirements in accordance with ASC 205-40-50 as of the date of filing. Upon completion of this evaluation, the Company has concluded that funds generated from operating activities, available cash and cash equivalents, and borrowings under the New ABL Facility will be sufficient to fund its planned operations and capital expenditure requirements for at least 12 months. Furthermore, the Company believes this alleviates the prior substantial doubt about the Company's ability to continue as a going concern. This evaluation is based on relevant conditions and events that are currently known or reasonably knowable, as of September 13, 2021.

Summary of Significant Accounting Policies

(a) *Basis of Presentation*—The accompanying consolidated financial statements include the accounts of Tuesday Morning Corporation, a Delaware corporation, and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. We operate our business as a single operating segment. Certain reclassifications were made to prior

period amounts to conform to the current period presentation. None of the reclassifications affected our net earnings/(loss) in any period. We do not present a separate statement of comprehensive income, as we have no other comprehensive income items.

(b) *Use of Estimates*—The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates.

(c) *Cash and Cash Equivalents*—Cash and cash equivalents include credit card receivables and all highly liquid instruments with original maturities of three months or less. Cash equivalents are carried at cost, which approximates fair value. At June 30, 2021 and 2020, credit card receivables from third party consumer credit card providers were $3.2 million and $3.7 million, respectively. Such receivables generally are collected within one week of the balance sheet date.

(d) *Restricted Cash*—Restricted cash was $22.3 million, as of June 30, 2021, which is being held in the Unsecured Creditor Claims Fund (defined below in Note 2).

(e) *Inventories*—Inventories, consisting of finished goods, are stated at the lower of cost or market using the retail inventory method for store inventory and the specific identification method for warehouse inventory. We have a perpetual inventory system that tracks on-hand inventory and inventory sold at a stock-keeping unit ("SKU") level. Inventory is relieved and cost of sales is recorded based on the current calculated cost of the item sold. Buying, distribution, freight and certain other costs are capitalized as part of inventory and are charged to cost of sales as the related inventory is sold. We charged $95.1 million, $97.8 million, and $106.6 million of such capitalized inventory costs to cost of sales for the fiscal years ended June 30, 2021, 2020 and 2019, respectively. We have capitalized $24.2 million and $22.3 million of such costs in inventory at June 30, 2021 and 2020, respectively.

Stores conduct annual physical inventories, staggered during the second half of the fiscal year. During periods in which physical inventory observations do not occur, we utilize an estimate for recording inventory shrink based on the historical results of our previous physical inventories. The estimated shrink rate may require a favorable or unfavorable adjustment to costs of sales based on actual results to the extent that our subsequent actual physical inventory yields a different result. Although inventory shrink rates have not fluctuated significantly in recent years, if the actual rate were to differ from our estimates, then an adjustment to inventory shrink would be required.

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

(f) *Property and Equipment*—Property and equipment are recorded at cost less accumulated depreciation. Furniture, fixtures, leasehold improvements, finance leases and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Estimated Useful Lives

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

Upon sale or retirement of an asset, the related cost and accumulated depreciation are removed from our balance sheet and any gain or loss is recognized in the statement of operations. Expenditures for maintenance, minor renewals and repairs are expensed as incurred, while major replacements and improvements are capitalized.

(g) *Deferred Financing Costs*— Deferred financing costs represent costs paid in connection with obtaining bank and other long-term financing. These costs for the term loan are reported in the balance sheet as a direct deduction from the face amount of the term loan and the new ABL credit agreement (defined in Note 3 below) are presented as deferred financing costs in the balance sheet.

(h) *Income Taxes*—Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the date of enactment. Valuation allowances are established against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur. Valuation allowances are released when positive evidence becomes available that future taxable income is sufficient to utilize the underlying deferred tax assets.

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

On March 27, 2020, in an effort to mitigate the economic impact of the COVID-19 pandemic, the U.S. Congress enacted the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The CARES Act included certain corporate income tax provisions, which among other things, included a five-year carryback of net operating losses and acceleration of the corporate AMT credit. The Company has evaluated the CARES Act and it did not have a material impact on the income tax provision. The CARES Act also contains provisions for deferral of the employer portion of social security taxes incurred through the end of calendar 2020 and an employee retention credit, a refundable payroll credit for 50% of wages and health benefits paid to employees not providing services due to the pandemic. As a result of the CARES Act, we continued to defer qualified payroll taxes through December 31, 2020. Current and non-current qualified deferred payroll taxes are each $2.1 million as of June 30, 2021. Payroll taxes were deferred through December 31, 2020. Half of the deferral is due on December 31, 2021 and the other half is due on December 31, 2022.

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

The insurance liabilities we record are primarily influenced by the frequency and severity of claims, and include a reserve for claims incurred but not yet reported. Our estimated reserves may be materially different from our future actual claim costs, and, when required adjustments to our estimate reserves are identified, the liability will be adjusted accordingly in that period. Our self-insurance reserves for workers' compensation, general liability and medical were $7.3 million, $1.2 million, and $1.0 million, respectively, at June 30, 2021, and $8.4 million, $1.3 million, and $0.9 million, respectively, at June 30, 2020.

We recognize insurance expenses based on the date of an occurrence of a loss including the actual and estimated ultimate costs of our claims. Claims are paid from our reserves and our current period insurance expense is adjusted for the difference in prior period recorded reserves and actual payments as well as changes in estimated reserves. Current period insurance expenses also include the amortization of our premiums paid to our insurance carriers. Expenses for workers' compensation, general liability and medical insurance were $1.4 million, $3.7 million and $7.8 million, respectively, for the fiscal year ended June 30, 2021, $2.7 million, $3.3 million and $8.7 million, respectively, for the fiscal year ended June 30, 2020, and $2.1 million, $2.3 million and $7.9 million, respectively, for the fiscal year ended June 30, 2019.

(j) *Revenue Recognition*—Our revenue is earned from sales of merchandise within our stores and is recorded at the point of sale and conveyance of merchandise to customers. Revenue is measured based on the amount of consideration that we expect to receive, reduced by point of sale discounts and estimates for sales returns, and excludes sales tax. Payment for our sales is due at the time of sale.

We maintain a reserve for estimated sales returns, and we use historical customer return behavior to estimate our reserve requirements. ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606) ("ASC 606") was adopted in the first quarter of fiscal 2019. No impairment of the returns asset was indicated or recorded for the fiscal year ended June 30, 2021.

Gift cards are sold to customers in our stores and we issue gift cards for merchandise returns in our stores. Revenue from sales of gift cards and issuances of merchandise credits is recognized when the gift card is redeemed by the customer, or if the likelihood of the gift card being redeemed by the customer is remote ("gift card breakage"). The gift card breakage rate is determined based upon historical redemption patterns. An estimate of the rate of gift card breakage is applied over the period of estimated performance and the breakage amounts are included in net sales in the Consolidated Statement of Operations. Breakage income recognized was $0.4 million, $0.8 million and $0.4 million for the fiscal years ended June 30, 2021, 2020 and 2019, respectively. The gift card liability totals $1.0 million and $1.3 million included in "Accrued Liabilities" in the Consolidated Balance Sheet at June 30, 2021 and 2020, respectively (See Note 5).

(k) *Advertising*—Costs for direct mail, television, radio, newspaper, digital and other media are expensed as the advertised events take place. Advertising expenses for the fiscal years ended June 30, 2021, 2020, and 2019 were $8.3 million, $18.6 million, and $26.5 million, respectively. We do not and did not receive consideration from vendors to support our advertising expenditures during fiscal 2021, 2020 and 2019.

(l) *Share-Based Compensation*— The Company accounts for share-based compensation in accordance ASC 718, *Compensation-Stock Compensation*, which requires the fair value of share-based payments to be recognized in the consolidated financial statements as share-based compensation expense over the requisite service period. For time-based awards, share-based compensation expense is recognized on a straight-line basis, net of forfeitures, over the requisite service period for awards that actually vest. For performance-based awards, share-based compensation expense is estimated based on achievement of the performance condition and is recognized using the accelerated attribution method over the requisite service period for awards that actually vest. Share-based compensation expense is recorded in the selling, general and administrative expenses line in the consolidated statements of operations. ASC 718 also provides guidance for determining whether certain financial instruments awarded in share-based payment transactions are liabilities. The guidance requires that instruments that include conditions other than service, performance or market conditions that affect their fair value, exercisability or vesting be classified as a liability and be remeasured at fair value at each fiscal period (See Note 7 for further discussion on share-based compensation).

During fiscal year ended June 30, 2021, no stock options were granted. The fair value of each stock option granted during the fiscal years ended June 30, 2020 and 2019 was estimated at the date of grant using a Black-Scholes option pricing model, using the following assumptions:

	Fiscal Years Ended June 30,		
	2021	**2020**	**2019**
Risk-free interest rate	-	2.4%	2.3 - 2.9%
Expected term (years)	-	4.6	3.8 - 5.0
Expected stock volatility	-	64.8%	49.0 - 64.8%
Expected dividend yield	-	0.0%	0.0%

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

(m) *Net Earnings/(Loss) Per Common Share*—Basic net earnings/(loss) per common share for the fiscal years ended June 30, 2021, 2020, and 2019, was calculated by dividing net earnings/(loss) by the weighted average number of common shares outstanding for each period. Diluted net earnings/(loss) per common share for the fiscal years ended June 30, 2021, 2020 and 2019 was calculated by dividing net earnings/(loss) by the weighted average number of common shares including the impact of dilutive common stock equivalents and warrants (unless anti-dilutive). See Note 10.

(n) *Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of*—Long-lived assets, principally property and equipment, including leasehold improvements, and lease right-of-use assets are reviewed for impairment when, in management's judgment, events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. If the carrying value of the asset or asset group exceeds the undiscounted cash flows expected to result from the use and eventual disposition of the asset group, the Company will write the carrying value down to the fair value in the period identified. Since there is typically no active market for our long-lived tangible assets, we estimate fair values based on the expected future cash flows. We estimate future cash flows based on store-level historical results, current trends, and operating and cash flow projections. While we believe our estimates and judgments about future cash flows are reasonable, future impairment charges may be required if the expected cash flow estimates, as projected, do not occur or if events change requiring us to revise our estimates.

Assets subject to fair value measurement under ASC 820, "Fair Value Measurement", are categorized into one of three different levels of the fair value hierarchy depending on the observability of the inputs employed in the measurement, as follows:

- Level 1 – observable inputs that reflect quoted prices (unadjusted) for identical assets in active markets.

- Level 2 – inputs that reflect quoted prices for identical assets in markets which are not active; quoted prices for similar assets in active markets; inputs other than quoted prices that are observable for the asset; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – unobservable inputs reflecting the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. See Note 4 and Note 8 for additional information.

(o) *Intellectual Property*—Our intellectual property primarily consists of indefinite-lived trademarks. We evaluate annually whether the trademarks continue to have an indefinite life. Trademarks and other intellectual property are reviewed for impairment annually in the fourth quarter, and may be reviewed more frequently if indicators of impairment are present.

Due to change in the Company's management in the fourth quarter of fiscal 2021 and their future strategy related to the reduced use of certain intellectual properties, the Company concluded the assets no longer held value which resulted in a $1.6 million impairment of the intangible assets.

(p) *Asset Retirement Obligations*—We account for asset retirement obligations ("ARO") in accordance with ASC 410, *Asset Retirement and Environmental Obligations*, which requires the recognition of a liability for the fair value of a legally required asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. Our ARO liabilities are associated with the disposal and retirement of leasehold improvements and removal of installed equipment, resulting from contractual obligations, at the end of a lease to restore a facility to a condition specified in the lease agreement.

For leases that contractually result in an ARO, we record the net present value of the ARO liability and also record a related capital asset, in an equal amount. The estimated ARO liability is based on a number of assumptions, including costs to return facilities back to specified conditions, inflation rates and discount rates. Accretion expense related to the ARO liability is recognized as operating expense in our Consolidated Statements of Operations. The capitalized asset is depreciated on a straight-line basis over the useful life of the related leasehold improvements. Upon ARO fulfillment, any difference between the actual retirement expense incurred and the recorded estimated ARO liability is recognized as an operating gain or loss in our Consolidated Statements of Operations. Our ARO liability, which totaled $1.0 million as of June 30, 2021 is included in "Asset retirement obligation—non-current" on our Consolidated Balance Sheet at June 30, 2021. Our ARO liability, which totaled $2.8 million as of June 30, 2020 was comprised of a $1.6 million short-term portion included in accrued liabilities and a $1.2 million long-term portion included in "Asset retirement obligation—non-current" on our Consolidated Balance Sheet.

(q) *Leases*—We conduct substantially all operations from leased facilities, including our corporate offices in Dallas and the Dallas warehouse, distribution and retail complex, which were leased on December 31, 2020, subsequent to the sale and leaseback of those facilities on that date. Our retail store locations, our corporate office and our distribution center are under operating leases that will expire over the next 1 to 10 years. Many of our leases include options to renew at our discretion. We include the lease renewal option periods in the calculation of our operating lease assets and liabilities when it is reasonably certain that we will renew the lease. We also lease certain equipment under finance leases that generally expire within 5 years.

We adopted Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)" ("ASC 842") effective July 1, 2019 using the modified retrospective adoption method, which resulted in an adjustment to opening retained earnings of $0.6 million as of July 1, 2019 to recognize impairment of the opening right-of-use asset balance for two stores for which assets had been previously impaired under ASC 360, "Property, Plant, and Equipment." We utilized the simplified transition option available in ASC 842, which allowed the continued application of the legacy guidance in ASC 840, including disclosure requirements, in the comparative periods presented in the year of adoption.

In addition, subsequent to the petition date noted above, we commenced negotiations with our landlords on substantially all of our ongoing leases, resulting in significant modifications and remeasurement recorded in the fiscal 2021. As a result of the remeasurements and terminations of rejected leases, we reduced our operating lease right-of-use assets by approximately $31 million and our operating lease liabilities by approximately $124 million, recording a gain of approximately $93 million, which would have been reduced by the $80.1 million impairment loss recorded on right-of-use lease assets in fiscal 2020, if the liability had been adjusted in the same fiscal year. The results of our fourth quarter fiscal 2020 impairment analysis indicated an impairment of our property and equipment as well as operating lease right-of-use assets at approximately 200 of our stores along with property and equipment of our Phoenix distribution center facility totaling $80.1 million, which is included in restructuring costs in the consolidated statement of operations for fiscal 2020. The impairments were the result of closing plans for these stores and the Phoenix distribution center. The $93 million gain was further reduced by an amount of estimated claims allowable by the bankruptcy court, resulting in a $66 million net gain which is included in Reorganization items, net (see Note 2) in the Consolidated Statement of Operations.

(r) *Legal Proceedings*— Information related to the Chapter 11 Cases that were filed on May 27, 2020 is included in Note 1 (under the heading "Emergence from Chapter 11 Bankruptcy Proceedings") and Note 2 in the Notes to Consolidated Financial Statements.

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

(s) *Recent Accounting Pronouncements*

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, with early adoption permitted. The adoption of this standard in the first quarter of fiscal 2022 is not expected to result in a material impact to the Company's financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for public companies for annual reporting periods beginning after December 15, 2019, and interim periods within those fiscal years. We adopted ASU 2018-15 in the first quarter of fiscal 2021 and it did not have a material impact on our results of operations, financial condition or cash flows.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, the purpose of which is to improve the effectiveness of disclosures about fair value measurements required under ASC 820. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. We adopted ASU 2018-13 in the first quarter of fiscal 2021 and it did not have a material impact on our results of operations, financial condition or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326)" ("ASC 326"), which makes significant changes to the accounting for credit losses on financial assets and disclosures. The standard requires immediate recognition of management's estimates of current expected credit losses. We adopted ASC 326 in the first quarter of fiscal 2021 and it did not have a material impact on our results of operations, financial condition or cash flows.

2. BANKRUPTCY ACCOUNTING

ASC 852 – Reorganizations requires that the consolidated financial statements, for periods subsequent to the filing of the Chapter 11 Cases, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. During the pendency of the Chapter 11 cases until we qualified for emergence under ASC 852, the consolidated financial statements were prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business and reflect the application of ASC 852. Accordingly, certain expenses, gains and losses that were realized or incurred in the bankruptcy proceedings were recorded in Reorganization items, net in our Consolidated Statements of Operations. In addition, pre-petition unsecured and under-secured obligations that were subject to the bankruptcy reorganization process were classified as Liabilities subject to compromise in our Consolidated Balance Sheet.

Pursuant to the Plan of Reorganization, a General Unsecured Claim Fund ("Unsecured Creditor Claim Fund") was established for the benefit of holders of allowed general unsecured claims. Upon the closing of the sale and leaseback of the Corporate Office and the Dallas Distribution Center properties (see Note 8) and the issuance of the Term Loan (as defined in Note 3), net proceeds of $67.5 million, after payment of property taxes, and $18.8 million, respectively, were deposited directly into the Unsecured Creditor Claim Fund that is being administered by an independent unsecured claims disbursing agent. The remaining proceeds from the Term Loan that were not deposited into the Unsecured Creditor Claim Fund were deposited into our operating account. In addition, $14.2 million of additional cash was deposited into a segregated bank account at Wells Fargo Bank and was restricted for use in paying compensation for services rendered by professionals on or after the Petition date and prior to the approval date of our Plan of Reorganization by the court ("Effective Date") ("Wells Fargo Restricted Fund"). The closing of the Rights Offering described in Note 7 provided approximately $40.0 million of cash that was deposited to the Unsecured Creditor Claim Fund and recorded as restricted cash. During the fiscal 2021, all services rendered by professionals were paid and the Wells Fargo Restricted Fund account was closed with all of the applicable funds disbursed. Net cash remaining of $1.9 million was deposited directly into our unrestricted cash account during the fourth quarter of fiscal 2021.

As of June 30, 2021, we had $22.3 million of cash held in the Unsecured Creditor Claim Fund, recorded as restricted cash on the balance sheet for the payment of claims.

The accompanying consolidated financial statements as of June 30, 2020 do not purport to reflect or provide for the consequences of the Chapter 11 Cases. In particular, the consolidated financial statements do not purport to show: (i) the realizable value of assets on a liquidation basis or their availability to satisfy liabilities; (ii) the full amount of pre-petition liabilities that may be allowed for claims or contingencies, or the status and priority thereof; (iii) the effect on stockholders' investment accounts of any changes that may be made to our capitalization; or (iv) the effect on operations of any changes that may be made to our business. For specific discussion on balances of liabilities subject to compromise and reorganization items, see below.

Our Plan of Reorganization was confirmed on December 23, 2020, and all listed material conditions precedent were resolved by the December 31, 2020 legal effective date of emergence as governed by the Bankruptcy Court. However, the closing of our Rights Offering was considered a critical component to the execution of our confirmed Plan of Reorganization, therefore, we continued to apply the requirements of ASC 852 until that transaction closed on February 9, 2021.

We were not required to apply fresh start accounting based on the provisions of ASC 852 as there was no change in control and the entity's reorganization value immediately before the date of confirmation was more than the total of all its post-petition liabilities and allowed claims.

Liabilities Subject to Compromise

As a result of the Chapter 11 Cases, the payment of pre-petition indebtedness was subject to compromise. Generally, actions to enforce or otherwise effect payment of pre-bankruptcy filing liabilities are stayed. Although payment of pre-petition claims is generally not permitted, the Bankruptcy Court granted the Company authority to pay certain pre-petition claims in designated categories and subject to certain terms and conditions. This relief generally was designed to preserve the value of our businesses and assets. Among other things, the Bankruptcy Court authorized the Company to pay certain pre-petition claims relating to employee wages and benefits, customers, vendors, and suppliers in the ordinary course of business and certain insurance, tax, and principal and interest payments. With respect to pre-petition claims, we notified all known claimants of the deadline to file a proof of claim with the Bankruptcy Court. Pre-petition liabilities that are subject to compromise were required to be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts (see above for details on the Unsecured Creditor Claim Fund). On December 31, 2020, the legal effective date in accordance with the Bankruptcy Court, we assumed some leases and other executory contracts, while we rejected others. Liabilities for those leases and contracts that were assumed are no longer categorized in liabilities subject to compromise, as any pre-petition amounts outstanding as of June 30, 2021 were cured. As of June 30, 2021, all are known and are reclassified.

In connection with our emergence from bankruptcy, all allowable claims have been reclassified from Liabilities subject to compromise to Accounts payable and Accrued liabilities in our Consolidated Balance Sheets as of June 30, 2021. Where there was uncertainty about whether a secured claim would be paid or impaired pursuant to the Chapter 11 Cases, we classified the entire amount of the claim as an outstanding liability subject to compromise as of June 30, 2020. Liabilities subject to compromise in our condensed consolidated balance sheet include the following as of June 30, 2021 and 2020 (in thousands):

	June 30,	
	2021	2020
Accounts payable	$ -	$ 83,467
Accrued expenses	-	6,630
Operating lease liabilities	-	71,097
Lease liabilities - non-current	-	294,812
Other liabilities - non-current	-	333
Liabilities subject to compromise	$ -	$ 456,339

Restructuring, Impairment and Abandonment Charges

Restructuring and abandonment charges total $10.8 million and $113.5 million for the years-ended June 30, 2021 and 2020, respectively, and include the following (in thousands):

	Fiscal Year Ended June 30,	
	2021	**2020**
Restructuring costs:		
Professional fees	$ -	$ 5,212
Severance and compensation related costs	3,557	3,122
Total restructuring costs	$ 3,557	$ 8,334
Impairment costs:		
Store long-lived assets	$ -	$ 11,656
Distribution center long-lived assets	-	16,794
Operating lease right-of-use assets	-	51,626
Intangible asset	1,639	-
Total impairment costs	$ 1,639	$ 80,076
Abandonment costs:		
Accelerated recognition of operating lease right-of-use assets	5,638	25,082
Total abandonment costs	$ 5,638	$ 25,082
Total restructuring, impairment and abandonment costs	$ 10,834	$ 113,492

There were no Restructuring, Impairment and Abandonment Charges recorded in fiscal 2019.

For the year-ended June 30, 2021, restructuring and abandonment costs primarily related to $3.6 million of executive severance and employee retention costs, intangible impairment charge of $1.6 million, as well as abandonment cost of $5.6 million related to the permanent closure of our stores and the Phoenix distribution center. For the year-ended June 30 2020, restructuring, impairment and abandonment charges primarily related to (i) $80.1 million in impairment cost and $25.1 million in abandonment cost relating to our permanent store closing plan along with our decision to close the Phoenix distribution center; (ii) $5.2 million in pre-filing incremental professional fees; and (iii) $3.1 million in compensation costs related to a reorganization reduction in force completed prior to the filing of the Chapter 11 Cases. Decisions regarding store closures and the Phoenix distribution center were made in the fourth quarter of fiscal 2020, prior to filing the Chapter 11 Cases; however, the closure of the Phoenix distribution center was not completed until the second quarter of fiscal 2021.

Reorganization Items, net

Reorganization items, net, included in our consolidated statement of operations represent amounts resulting from the Chapter 11 Cases and resulted in a net gain of $60.0 million and a net loss of $3.6 million for the years ended June 30, 2021 and 2020 respectively, and include the following (in thousands):

	Fiscal Year Ended June 30,	
	2021	**2020**
Reorganization items, net:		
Professional and legal fees	$ 34,579	$ 3,619
Gains on lease termination, net of estimated claims	(66,247)	-
Claims related costs	1,302	-
Rights Offering and Backstop Agreement	19,990	-
Gain on sale-leaseback	(49,639)	-
Total reorganization items, net	$ (60,015)	$ 3,619

There were no reorganization items recorded in fiscal 2019.

For the year-ended June 30, 2021, Reorganization items, net was a net gain of $60.0 million due to a net gain of $66.2 million resulting from the store lease terminations and the termination of our Phoenix distribution center lease under our permanent closure plan, and a $49.6 million gain on the sale-leaseback transactions under our Plan of Reorganization (see Note 1 and Note 8). These gains were partially offset by $34.6 million in professional and legal fees related to our reorganization costs as well as $20.0 million of charges related to the execution of our Rights Offering (see Note 1 and 7). The proceeds of the sales-leaseback transaction, along with other sources of financing, continue to be used to satisfy allowed claims and are categorized as Reorganization items, net.

For the year-ended June 30, 2020, reorganization costs represent amounts incurred from the Petition Date onward directly resulting from the Chapter 11 Cases and consist of professional fees of $3.6 million.

3. DEBT

Pre-Petition Financing Agreements

Through December 31, 2020, we were party to a credit agreement that provided for an asset-based, five-year senior secured revolving credit facility in the original amount of up to $180.0 million which was scheduled to mature on January 29, 2024 (the “Pre-Petition ABL Credit Agreement”). The availability of funds under the Pre-Petition ABL Credit Agreement was limited to the lesser of a calculated borrowing base and the lenders’ aggregate commitments under the Pre-Petition ABL Credit Agreement. Our indebtedness under the Pre-Petition ABL Credit Agreement was secured by a lien on substantially all of our assets.

As of December 31, 2020, we had no amounts outstanding under the Pre-Petition ABL Credit Agreement, and that agreement was terminated in connection with our legal emergence from bankruptcy.

Debtor-In-Possession Financing Agreements

On May 29, 2020, we entered into a Senior Secured Super Priority Debtor-in-Possession Credit Agreement (the “DIP ABL Credit Agreement”) among the Company, JPMorgan Chase Bank, N.A., as administrative agent, for itself and the other lenders, which provided for a super priority secured debtor-in-possession revolving credit facility in an aggregate amount of up to $100.0 million. On July 10, 2020, we entered into a Senior Secured Super Priority Debtor-In-Possession Delayed Draw Term Loan Agreement (the “DIP DDTL Agreement”) with the Franchise Group, Inc., which provided for delayed draw term loans in an amount not to exceed $25.0 million. We made no borrowings under the DIP ABL Credit Agreement or the DIP DDTL Agreement. On December 31, 2020, the DIP ABL Credit Agreement and the DIP DDTL Agreement were terminated in connection with our legal emergence from bankruptcy.

Post-Emergence Financing Arrangements

On December 31, 2020, the Company and its subsidiaries entered into a Credit Agreement (the “New ABL Credit Agreement”) with JPMorgan Chase Bank, N.A., Wells Fargo Bank, N.A. and Bank of America, N.A. (collectively, the “Lenders”) that provides for a revolving credit facility in an aggregate amount of $110.0 million (the “New ABL Facility”). The New ABL Credit Agreement includes conditions to borrowings, representations and warranties, affirmative and negative covenants, and events of default customary for financings of this type and size. The New ABL Credit Agreement requires the Company to maintain a minimum fixed charge coverage ratio if borrowing availability falls below certain minimum levels, after the first anniversary of the agreement. We are not required to be compliant per the lender agreement until December 31, 2021.

Under the terms of the New ABL Credit Agreement, amounts available for advances would be subject to a borrowing base as described in the New ABL Credit Agreement. Under the New ABL Credit Agreement, borrowings will initially bear interest at a rate equal to the adjusted LIBOR rate plus a spread of 2.75% or the Commercial Bank Floating Bank rate plus a spread of 1.75%.

The New ABL Facility is secured by a first priority lien on all present and after-acquired tangible and intangible assets of the Company and its subsidiaries other than certain collateral that secures the Term Loan (as defined below). The commitments of the Lenders under the New ABL Facility will terminate and outstanding borrowings under the New ABL Facility will mature on December 31, 2023.

As of June 30, 2021, we had $12.0 million of borrowings outstanding under the New ABL Facility and, $12.1 million of letters of credit outstanding. Taking into account $10.0 million of borrowing capacity that is unavailable until December 31, 2021, we have borrowing availability of $38.9 million under the New ABL Facility, as of June 30, 2021.

On December 31, 2020, the Company, Alter Domus (US), LLC, as administrative agent, and the lenders named therein including Tensile Capital Partners Master Fund LP and affiliates of Osmium Partners, LLC, entered into a Credit Agreement (the "Term Loan Credit Agreement") to provide a term loan of $25.0 million to the Company (the "Term Loan").

In accordance with the Plan of Reorganization, on December 31, 2020, three new directors were selected for membership on the Board of Directors by Osmium Partners (Larkspur SPV), LP, an affiliate of Tensile Capital Partners Master Fund LP ("Tensile") and Osmium Partners, LLC ("Osmium"). Pursuant to the Term Loan Credit Agreement, Tensile Capital Partners Master Fund, LP and affiliates of Osmium Partners, LLC., held $19.0 million and $1.0 million, respectively, of the $25.0 million outstanding Term Loan. Representatives of Osmium and Tensile both hold seats on the board and therefore Osmium and Tensile are related parties to the company.

Pursuant to the terms of the Term Loan Credit Agreement, the Term Loan has a maturity date of December 31, 2024 and bears interest at a rate of 14% per annum, with interest payable in-kind ("PIK"). Under the terms of the Term Loan Credit Agreement, the Term Loan is secured by a second lien on the collateral securing the New ABL Facility and a first lien on certain other assets of the Company as described in the Term Loan Credit Agreement. The Term Loan is subject to optional prepayment after the first anniversary of the date of issuance at prepayment price equal to the greater of (1) the original principal amount of the Term Loan plus accrued interest thereon, and (2) 125% of the original principal amount of the Term Loan. The Term Loan is subject to mandatory prepayment in connection with a change of control of the Company as described in the Term Loan Credit Agreement. The Term Loan Credit Agreement also includes customary covenants and events of default. As of June 30, 2021, the outstanding principal balance of the Term Loan was $26.4 million.

Term Loan	June 30, 2021	June 30, 2020
Loan balance, at December 31, 2020	$ 25,000	-
Debt issuance costs	(432)	-
Accrued paid-in-kind interest	1,806	-
Loan balance, at June 30, 2021	$ 26,374	-

At June 30, 2021, we are in compliance with covenants in the New ABL Facility and Term Loan respectively.

Interest Expense

Interest expense for fiscal year 2021 from the New ABL Facility, the DIP ABL Credit Agreement and the Term Loan of $8.2 million was comprised of the amortization of financing fees of $5.5 million, commitment fees of $0.8 million, and, interest paid on the New ABL Facility and accrued PIK interest on the Term Loan of $1.9 million. Interest expense for fiscal year 2020 from the Pre-Petition ABL Credit Agreement of $1.9 million was comprised of interest of $1.5 million, commitment fees of $0.2 million, and the amortization of financing fees of $0.2 million.

Fair Value Measurements

The fair value of our Term Loan was determined based on observable market data provided by a third party for similar types of debt which are considered Level 2 inputs within the fair value hierarchy. The carrying and fair values of our Term Loan as of June 30, 2021 was $26.4 million and $29.6 million, respectively.

4. PROPERTY AND EQUIPMENT, net

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

	June 30,	
	2021	2020
Land	$ -	$ 6,628
Buildings and building improvements	-	43,215
Furniture and fixtures	47,587	63,755
Equipment	50,231	68,909
Software	41,575	50,691
Leasehold improvements	49,651	65,281
Assets under finance lease	681	1,223
	189,725	299,702
Less accumulated depreciation	(151,941)	(231,067)
Net property and equipment	$ 37,784	$ 68,635

In the second quarter ended December 31, 2020, we sold our corporate office and Dallas distribution center properties and land with a total net book value of $18.9 million in a sale-leaseback transaction (see further discussion in Note 8 below). Gains related to the sale or other disposal of such assets are presented in Reorganization items, net on our Consolidated Statement of Operations (See Note 2).

5. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	June 30,	
	2021	2020
Sales and use tax	$ 2,698	$ 5,027
Self-insurance reserves	9,405	10,631
Wages, benefits and payroll taxes	9,639	2,303
Property taxes	1,510	1,809
Freight and distribution	8,658	1,620
Capital expenditures	348	-
Utilities	1,466	791
Advertising	613	69
Gift card liability	1,045	1,281
Asset retirement obligation	3	1,598
Reorganization expenses	6,337	3,544
Other expenses	4,732	5,269
Total accrued liabilities	$ 46,454	$ 33,942

Liabilities subject to compromise as of June 30, 2020 are discussed in Note 2 above and are not included in this table of accrued liabilities.

6. INCOME TAXES

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

	Current	Deferred	Total
Fiscal Year Ended June 30, 2021			
Federal	$ —	$ 20	$ 20
State and local	267	4	271
Total	$ 267	$ 24	$ 291
Fiscal Year Ended June 30, 2020			
Federal	$ (286)	$ 306	$ 20
State and local	196	5	201
Total	$ (90)	$ 311	$ 221
Fiscal Year Ended June 30, 2019			
Federal	$ (286)	$ 303	$ 17
State and local	225	4	229
Total	$ (61)	$ 307	$ 246

A reconciliation between income taxes computed at the statutory federal income tax rate of 21%. Income taxes recognized in the Consolidated Statements of Operations was as follows (in thousands):

	Fiscal Year Ended June 30,		
	2021	2020	2019
Federal income tax benefit computed at statutory rate	$ 687	$ (34,883)	$ (2,561)
State income taxes, net of related federal tax benefit	214	159	181
Increase/(decrease) in federal valuation allowance	(11,637)	34,586	2,291
Federal tax credits	(113)	(91)	(294)
Stock option expiration/deficiencies	250	620	548
Warrant issue expenses	4,324	-	-
Reorganization expenses	6,202	-	-
Other, net	364	(170)	81
Provision for income taxes	$ 291	$ 221	$ 246

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities as of June 30, 2021 and 2020, all of which are classified as non-current in our Consolidated Balance Sheets, were comprised of the following (in thousands):

	June 30, 2021	June 30, 2020
Deferred tax assets:		
Other payroll and benefits	$ 1,182	$ 189
Inventory reserves	931	1,516
Self-insurance reserves	2,318	2,620
Share-based compensation	1,800	1,648
Other current assets	1,160	1,288
Operating lease liabilities	52,008	87,073
Property and equipment	727	3,208
Disallowed interest expense	2,954	942
Net operating loss and tax credits	41,833	38,096
Other noncurrent assets	556	191
Total gross deferred tax assets	$ 105,469	$ 136,771
Deferred tax liabilities:		
Inventory costs	$ 2,924	$ 4,371
Prepaid supplies	1,353	1,174
Operating lease - right of use	47,627	63,694
Total gross deferred tax liabilities	51,904	69,239
Valuation allowance	(53,683)	(67,626)
Net deferred tax liability	$ (118)	$ (94)

During fiscal 2013, we established a valuation allowance related to deferred tax assets. In assessing whether a deferred tax asset would be realized, we considered whether it is more likely than not that some portion or all of the deferred tax assets would not be realized. We considered the reversal of existing taxable temporary differences, projected future taxable income, tax planning strategies and loss carry back potential in making this assessment. In evaluating the likelihood that sufficient future earnings would be available in the near future to realize the deferred tax assets, we considered our cumulative losses over three years including the then-current year. Based on the foregoing, we concluded that a valuation allowance was necessary, and based on our results since fiscal 2013, we have continued to conclude that a full tax valuation allowance is necessary. In fiscal 2021, the deferred tax asset valuation allowance, decreased $13.9 million, due to our operating income for fiscal 2021 and non-deductible reorganization costs.

We have federal net operating loss carryforwards of $153.6 million. These losses can only be carried forward and utilized to offset future taxable income. Of this carryforward amount, $70.2 million will expire in fiscal years 2033 through 2037 if not utilized before then. The remaining $83.4 million can be carried forward indefinitely, due to provisions of the TCJA. Additionally, we have tax effected state net operating loss carryforwards of $6.0 million, which will expire throughout fiscal years 2021 through 2041 filings, if not utilized before then.

Accounting for Uncertainty in Income Taxes. The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before fiscal 2015. The Internal Revenue Service has concluded an examination of the Company for years ending on or before June 30, 2010.

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

Balance at June 30, 2018	$	147
Additions for tax positions of prior years		—
Reductions for lapse of statute of limitations		—
Balance at June 30, 2019	$	147
Additions for tax positions of prior years		—
Reductions for lapse of statute of limitations		—
Balance at June 30, 2020	$	147
Additions for tax positions of prior years		—
Reductions for lapse of statute of limitations		—
Balance at June 30, 2021	$	147

The balance of taxes, interest, and penalties at June 30, 2021, that if recognized, would affect the effective tax rate is $0.3 million. We classify and recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense. No interest or penalties were paid in the tax years ended June 30, 2021, 2020, and 2019.

We do not anticipate that the total amount of unrecognized tax benefits will significantly increase or decrease the effective tax rate within 12 months of June 30, 2021.

7. COMMON STOCK & SHARE-BASED INCENTIVE PLANS

Increase in Authorized Capital Stock

As provided in the Plan of Reorganization, the Company's Amended and Restated Certificate of Incorporation (the "Amended and Restated Certificate of Incorporation") increased the number of authorized shares of the Company's common stock, par value $0.01 per share, to 200,000,000 shares. The Company had 86,204,572 shares of common stock outstanding as of June 30, 2021.

Equity Financing under Plan of Reorganization

Pursuant to the Plan of Reorganization, each outstanding share of the Company's common stock as of the close of business on January 4, 2021 was exchanged (the "Exchange") for (1) one new share of the Company's stock and (2) a share purchase right entitling the holder to purchase its pro rata portion of shares available to eligible holders in a rights offering. In accordance with the Plan of Reorganization, the Company commenced a $40.0 million rights offering in January 2021, under which eligible holders of the Company's common stock could purchase up to $24.0 million of shares of the Company's common stock at a purchase price of $1.10 per share, and Osmium Partners (Larkspur SPV), LP (the "Backstop Party"), a special purpose entity affiliate of Osmium Partners, LLC jointly owned with Tensile Capital Management, could purchase up to $16 million of the Company's common stock at a purchase price of $1.10 per share (the "Rights Offering"). Pursuant to a backstop commitment agreement, the Backstop Party agreed to purchase all unsubscribed shares in the Rights Offering.

The subscription period for the Rights Offering expired on February 1, 2021, with eligible holders subscribing to purchase approximately $19.8 million of the company's common stock, with the Backstop Party purchasing the remaining $20.2 million of the company's common stock. On February 9, 2021, the Company closed on the Rights Offering and recorded proceeds of $40.0 million and recognized a non-cash charge of approximately $14.5 million as a result of the change in fair value of the Company's common stock issued to the Backstop Party as measured from the consummation of the Exchange through the close date ("Backstop Premium"). The change in fair value was determined by reference to the Company's stock price, traded over-the-counter, discounted for the restrictions that limited the holders ability to resell securities until they were registered pursuant to a Registration Rights Agreement entered into on February 9, 2021 between the Company and Backstop Party.

In addition, on February 9, 2021, the Company issued warrants with rights to purchase 10 million shares of common stock with an exercise price of $1.65 and a five year term to the Backstop Party ("Warrants"). The Company classified the Warrants as equity instruments and recognized expense of $3.5 million measured at fair value using the Black-Scholes model. Significant inputs used in the model were: i) An expected term of 5 years; ii) a volatility rate of 37.98%; iii) a risk free interest rate of 0.36%; iv) a discount for lack of marketability of 30%. Finally, on February 9, 2021 the Backstop Party received a backstop fee in the amount of $2.0 million (payable in shares of common stock valued at $1.10 per share) that was classified as an equity instrument. The non-cash charges of approximately $14.5 million for the Backstop Premium, the $3.5 million of expense related to the Warrants, and backstop fee of approximately $2.0 million are recorded in Reorganization items, net in our Consolidated Statements of Operations for the fiscal year ended June 30, 2021. In accordance with the terms of the Plan of Reorganization, all proceeds from the Rights Offering were used to make payments of the claims of general unsecured creditors in the Chapter 11 Cases.

Ownership Restrictions

In order to continue to assist the Company in preserving certain tax attributes (the "Tax Benefits"), the Company's Amended and Restated Certificate of incorporation imposes certain restrictions on the transferability and ownership of the Company's capital stock (the "Ownership Restrictions"). Subject to certain exceptions, the Ownership Restrictions restrict (i) any transfer that would result in any person acquiring 4.5% or more of our Common Stock, (ii) any transfer that would result in an increase of the ownership percentage of any person already owning 4.5% or more of our Common Stock, or (iii) any transfer during the five-year period following December 31, 2020 that would result in a decrease of the ownership percentage of any person already owning 4.5% or more of our Common Stock. Pursuant to the Company's Amended and Restated Certificate of Incorporation, any transferee receiving shares of our Common Stock that would result in a violation of the Ownership Restrictions will not be recognized as a stockholder of the Company or entitled to any rights of stockholders. The Company's Amended and Restated Certificate of Incorporation allows the Ownership Restrictions to be waived by the Company's board of directors on a case by case basis. The board of directors has taken action to waive the restrictions with respect to sales of shares acquired in the Rights Offering by the Backstop Party.

The Ownership Restrictions will remain in effect until the earliest of (i) the repeal of Section 382 of the Internal Revenue Code or any successor statute if the board of directors determines the Ownership Restrictions are no longer necessary for preservation of the Tax Benefits, (ii) the beginning of a taxable year in which the board of directors determines no Tax Benefits may be carried forward, or (iii) such other date as shall be established by the board of directors.

Share-based Awards

We have established the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (the "2008 Plan") and the Tuesday Morning Corporation 2014 Long-Term Incentive Plan, as amended (the "2014 Plan"), which allow for the granting of stock options to directors, officers and key employees of the Company, and certain other key individuals who perform services for us and our subsidiaries. Equity awards may no longer be granted under the 2008 Plan, but equity awards granted under the 2008 Plan are still outstanding.

On September 16, 2014, our Board of Directors adopted the Tuesday Morning Corporation 2014 Plan and the 2014 Plan was approved by our stockholders at the 2014 annual meeting of stockholders on November 12, 2014. Our Board of Directors also approved the termination of the Company's ability to grant new awards under the 2008 Plan, effective upon the date of stockholder approval of the 2014 Plan, and no new awards will be made under the 2008 Plan. On September 22, 2016, our Board of Directors adopted amendments to the 2014 Plan, which were approved at the 2016 Annual Meeting of Stockholders, to increase the number of shares of our common stock available for issuance under the 2014 Plan and to make additional amendments to the 2014 Plan to, among other things, remove liberal share recycling, reduce the number of shares exempt from minimum vesting, and eliminate discretion to accelerate vesting upon a change in control. On August 22, 2017, our Board of Directors adopted a Second Amendment to the 2014 Plan that modified the minimum vesting provisions as they apply to non-employee directors.

As provided in the Plan of Reorganization, on December 31, 2020, the 2014 Plan was further amended to increase the number of shares available for issuance under the 2014 Plan. The maximum number of shares reserved for issuance under the 2014 Plan, as amended, is 8.5 million shares plus any awards under the 2008 Plan (i) that were outstanding on September 16, 2014, and, on or after September 16, 2014, are forfeited, expired or are cancelled, and (ii) any shares subject to such awards that, on or after September 16, 2014 are used to satisfy the exercise price or tax withholding obligations with respect to such awards.

The 2014 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards which may be granted singly, in combination, or in tandem, and which may be paid in cash, shares of common stock, or a combination of cash and shares of common stock. Under the 2014 Plan, stock options may not vest earlier than one year after the date of grant. "Full Value Awards" (i.e., restricted stock or restricted stock units) that constitute performance awards must vest no earlier than one year after the date of grant and Full Value Awards that constituted "Tenure Awards" (i.e., awards that vest upon passage of time) may not vest earlier than over the three-year period commencing on the date of grant (other than awards to non-employee directors which may not vest earlier than one year from the date of grant). The Compensation Committee of our Board of Directors may grant only stock options or Full Value Awards with vesting conditions that are more favorable than the foregoing restrictions with respect to up to 5% of the shares of common stock authorized under the 2014 Plan (referred to in the 2014 Plan as "exempt shares").

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

Options granted under the 2008 Plan and the 2014 Plan typically vest over periods of one to four years and expire ten years from the date of grant. Options granted under the 2008 Plan and the 2014 Plan may have certain performance requirements in addition to service terms. If the performance conditions are not satisfied, the options are forfeited. The exercise prices of stock options outstanding on June 30, 2021 range between $1.64 per share and $19.36 per share. The 2008 Plan terminated with respect to the granting of new awards as the 2014 Plan became effective to provide new awards as of September 16, 2014. There were 1.9 million shares available for grant under the 2014 Plan at June 30, 2021.

Following is a summary of transactions relating to the 2008 Plan and 2014 Plan options for the fiscal years ended June 30, 2021, 2020, and 2019:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options Outstanding at June 30, 2018	3,957,243	$ 6.30	7.21	$ 475,381
Granted during year	536,877	3.22		
Exercised during the year	(3,105)	2.10		
Forfeited or expired during year	(792,972)	7.38		
Options Outstanding at June 30, 2019	3,698,043	5.63	7.10	-
Granted during year	12,000	1.64		
Exercised during the year	-	-		
Forfeited or expired during year	(1,015,427)	6.22		
Options Outstanding at June 30, 2020	2,694,616	5.33	6.11	-
Granted during year	-	-		
Exercised during the year	(22,308)	1.98		
Forfeited or expired during year	(327,565)	5.37		
Options Outstanding at June 30, 2021	2,344,743	$ 5.36	4.70	$ 1,642,845
Options Exercisable at June 30, 2021	2,019,170	$ 4.43		$ 1,121,354

The weighted average grant date fair value of stock options granted during the fiscal years ended June 30, 2020, and 2019, was $0.83 per share, and $1.71 per share, respectively. There were no stock options granted during the fiscal year ended June 30, 2021. There is a $1.1 million intrinsic value of vested unexercised options at June 30, 2021.

The aggregate intrinsic value of stock options exercised was $43,599, $0, and $1,800 during the fiscal years ended June 30, 2021, 2020, and 2019, respectively. At June 30, 2021, we had $0.2 million of total unrecognized share-based compensation expense related to stock options that is expected to be recognized over a weighted average period of 0.93 years.

The following table summarizes information about stock options outstanding at June 30, 2021:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
$1.64 - $2.10	151,483	5.91	$ 2.03	118,353	$ 2.07
$2.45 - $2.45	348,036	5.58	2.45	261,029	2.45
$3.12 - $3.12	15,000	6.86	3.12	11,250	3.12
$3.25 - $3.25	411,571	6.49	3.25	209,885	3.25
$3.95 - $5.59	104,390	2.64	4.84	104,390	4.84
$5.64 - $5.64	376,101	3.66	5.64	376,101	5.64
$5.95 - $5.95	272,825	3.61	5.95	272,825	5.95
$6.71 - $6.71	367,485	4.75	6.71	367,485	6.71
$7.90 - $14.72	244,894	3.42	9.42	244,894	9.42
$18.42 - $19.36	52,958	3.42	18.96	52,958	18.96
	2,344,743	4.70	5.36	2,019,170	5.76

Restricted Stock Awards/Units

The 2008 Plan and the 2014 Plan authorize the grant of restricted stock awards to directors, officers, key employees and certain other key individuals who perform services for us and our subsidiaries. Equity awards may no longer be granted under the 2008 Plan, but restricted stock awards granted under the 2008 Plan are still outstanding. Restricted stock awards are not transferable, but bear certain rights of common stock ownership including voting and dividend rights. Shares are valued at the fair market value of our common stock at the date of award. Shares may be subject to certain performance requirements. If the performance requirements are not met, the restricted shares are forfeited. Under the 2008 Plan and the 2014 Plan, as of June 30, 2021, there were 1,708,368 shares of restricted stock awards and 3,021,924 restricted stock units outstanding with award vesting periods, both performance-based and service-based, of one to four years and a weighted average grant date fair value of $1.94 and $2.83 per share, respectively. On May 19, 2021, Fred Hand was awarded 1,230,769 performance based and 1,538,462 service based restricted stock units as an incentive to become CEO. These awards vest over a period of one to five years.

The following table summarizes information about restricted stock units, performance stock units, restricted stock awards and performance stock awards granted and outstanding for the fiscal years ended June 30, 2021, 2020, and 2019:

	Restricted and Performance Stock Units Number of Shares	Weighted-Average Fair Value at Date of Grant	Restricted and Performance Stock Awards Number of Shares	Weighted-Average Fair Value at Date of Grant
Outstanding at June 30, 2018	-	$ -	1,433,269	$ 3.95
Granted during year	57,693	3.25	1,039,050	3.09
Vested during year	-	3.25	(421,359)	4.59
Forfeited during year	-	-	(211,099)	3.63
Outstanding at June 30, 2019	57,693	$ 3.25	1,839,861	$ 3.36
Granted during year	57,693	1.58	1,422,927	1.63
Vested during year	(57,693)	1.58	(446,987)	3.55
Forfeited during year	-	-	(836,321)	2.38
Outstanding at June 30, 2020	57,693	$ 3.25	1,979,480	$ 2.43
Granted during year	3,021,924	2.81	1,121,250	1.50
Vested during year	(57,693)	1.91	(595,190)	2.26
Forfeited during year	-	-	(797,172)	2.29
Outstanding at June 30, 2021	3,021,924	$ 2.83	1,708,368	$ 1.94

Cash Settled Awards

In the fiscal year ending 2019, 2020 and 2021, we granted stock-based awards to certain employees, which vest over a period of three to four years, and will be settled in cash ("cash settled awards"). Both performance based and service-based awards were granted. Except for the performance based awards which have been deemed unlikely to vest, the fair value of the cash settled awards at each reporting period is based on the price of our common stock. The fair value of the cash settled awards will be remeasured at each reporting period until the awards are settled.

The following table summarizes the activity of cash settled awards during fiscal 2021:

	Performance Based	Service Based	Total
Outstanding at June 30, 2020	287,350	861,056	1,148,406
Grant during year	-	-	-
Vested during year	-	(208,328)	(208,328)
Forfeited during year	(143,675)	(105,030)	(248,705)
Outstanding at June 30, 2021	143,675	547,698	691,373

The liability associated with the cash settled awards was $1.7 million and $0.1 million at June 30, 2021 and June 30, 2020, respectively.

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

	Fiscal Years Ended June 30,		
	2021	2020	2019
Amortization of share-based compensation during the period	$ 1,851	$ 2,555	$ 3,488
Amounts capitalized in inventory	(410)	(681)	(1,114)
Amount recognized and charged to cost of sales	613	846	1,162
Amounts charged against income for the period before tax	$ 2,054	$ 2,720	$ 3,536

Share-based Compensation from Related Party to CEO

Upon his appointment as the Company's Chief Executive Officer, Fred Hand entered into agreements with Osmium Partners, LLC., pursuant to which Mr. Hand became entitled to receive 30% of all carry distributions ("Carried Interest") payable by certain members of Osmium Partners (Larkspur SPV) LP (the "SPV") in respect of its approximately 31.4% of the outstanding shares of common stock of the Company, at the date of the Carried Interest Arrangement, May 4, 2021 (including warrants to purchase 10,000,000 shares of common stock), to Osmium Partners, LLC, the SPV's carry partner.

Subject to Mr. Hand's continued employment with the Company, such entitlement will vest over 42 months as follows: (a) on the second anniversary of Mr. Hand's employment by the Company, Mr. Hand's entitlement to approximately 17.14% (the product of 30% times 24/42) of the Carried Interest will become vested, and (b) thereafter, Mr. Hand's entitlement to approximately 0.71% (the product of 30% times 1/42) of the Carried Interest will become vested each month. In addition, Mr. Hand's entitlement to a portion of the Carried Interest will be subject to a participation threshold in the minimum amount necessary to render his entitlement a valid profit interest for tax purposes.

Share-based payments awarded to an employee of the reporting entity by a related party or other holder of an economic interest in the entity as compensation for services provided to the entity, are share-based payment transactions to be accounted for unless the transfer is clearly for a purpose other than compensation for services to the reporting entity. The substance of such a transaction is that the economic interest holder makes a capital contribution to the reporting entity, and that entity makes a share-based payment to its employee in exchange for services rendered. The Company concluded that the Carried Interest entitlement granted by Osmium Partners, LLC to Mr. Hand falls under this category and therefore it is treated as share based compensation in the accounts of the Company. We performed a valuation on the Carried Interest to determine the Level 2 fair value measurement, using: the Option Pricing method. The significant inputs utilized in the model assumed the following: i) a risk free interest rate of 0.34%: ii) a volatility rate of 70.0%; iii) an expected time to liquidity of 3 years; iv) a discount for lack of marketability of 25% and v) expected dividend of 0%. Shared-based compensation expense with respect to the Carried Interest Agreement was $0.1 million for fiscal 2021.

8. LEASES

We conduct substantially all operations from leased facilities. Our retail store locations, our corporate office and our distribution center are under operating leases that will expire over the next 1 to 10 years. Many of our leases include options to renew at our discretion. We include the lease renewal option periods in the calculation of our operating lease assets and liabilities when it is reasonably certain that we will renew the lease. We also lease certain equipment under finance leases that generally expire within 5 years.

In accordance with the Plan of Reorganization, on December 31, 2020, we sold our corporate office and Dallas distribution center properties and leased back those facilities. The lease of the corporate office is for a term of 10 years, and the lease of the distribution center is for an initial term of two and one-half years, with an option to extend the distribution center lease for one additional year. We believe it is reasonably certain the option to extend will be exercised. We determined the sale price represented the fair value of the underlying assets sold and have no continuing involvement with the properties sold other than a normal leaseback. The consideration received for the sale, as reduced by the closing and transaction costs, was $68.5 million, and the net book value of the properties sold was $18.9 million, resulting in a $49.6 million gain, which was recognized as of December 31, 2020. Cash proceeds were deposited directly into the Unsecured Creditor Claim Fund (See Note 2).

The two leases, associated with the transaction, were recorded as operating leases. As of June 30, 2021 we will pay approximately $10.0 million in fixed rents and in-substance fixed rents, over the remaining lease term for the corporate office and we will pay approximately $16.0 million in fixed rents and in-substance fixed rents for the Dallas distribution center property over the remaining lease term, including the one-year option period as noted above. Fixed rents and in-substance fixed rents for each lease were discounted using the incremental borrowing rate we established for the respective term of each lease.

In accordance with ASC 842, we determine whether an agreement contains a lease at inception based on our right to obtain substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset. Lease liabilities represent the present value of future lease payments and the right-of-use (“ROU”) assets represent our right to use the underlying assets for the respective lease terms.

The operating lease liability is measured as the present value of the unpaid lease payments and the ROU asset is derived from the calculation of the operating lease liability. As our leases do not generally provide an implicit rate, we use our incremental borrowing rate as the discount rate to calculate the present value of lease payments. The incremental borrowing rate represents an estimate of the interest rate that would be required to borrow over a similar term, on a collateralized basis in a similar economic environment.

Rent escalations occurring during the term of the leases are included in the calculation of the future minimum lease payments and the rent expense related to these leases is recognized on a straight-line basis over the lease term. In addition to minimum lease payments, certain leases require payment of a proportionate share of real estate taxes and certain building operating expenses allocated on a percentage of sales in excess of a specified base. These variable lease costs are not included in the measurement of the ROU asset or lease liability due to unpredictability of the payment amount and are recorded as lease expense in the period incurred. The ROU asset is adjusted to account for previously recorded lease-related expenses such as deferred rent and other lease liabilities.

Our lease agreements do not contain residual value guarantees or significant restrictions or covenants other than those customary in such arrangements.

The components of lease cost are as follows (in thousands):

	Year Ended June 30, 2021	Year Ended June 30, 2020
Operating lease cost	$ 62,617	$ 94,318
Variable lease cost	10,924	24,014
Amortization of right-of-use assets	210	286
Interest on lease liabilities	8	29
Total lease cost	$ 73,759	$ 118,647

The table below presents additional information related to the Company’s leases as of June 30, 2021 and June 30, 2020:

	June 30, 2021	June 30, 2020
Weighted average remaining lease term (in years)		
Operating leases	4.6	5.9
Finance leases	0.7	2.6
Weighted average discount rate		
Operating leases	8.5%	5.8%
Finance leases	2.4%	3.9%

Other information related to leases, including supplemental disclosures of cash flow information, is as follows (in thousands):

	Year Ended June 30, 2021	Year Ended June 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 64,496	$ 90,983
Operating cash flows from finance leases	$ 9	$ 23
Financing cash flows from finance leases	$ 217	$ 224
Right-of-use assets obtained in exchange for operating lease liabilities	$ (107,497)	$ 28,957

Maturities of lease liabilities were as follows as of June 30, 2021 (in thousands):

	Operating Leases	Finance Leases	Total
Fiscal year:			
2022	$ 69,461	$ 124	$ 69,585
2023	59,776	-	59,776
2024	46,086	-	46,086
2025	31,740	-	31,740
2026	19,332	-	19,332
Thereafter	28,223	-	28,223
Total lease payments	$ 254,618	$ 124	$ 254,742
Less: Interest	43,746	1	43,747
Total lease liabilities	$ 210,872	$ 123	$ 210,995
Less: Current lease liabilities	54,632	-	54,632
Non-current lease liabilities	$ 156,240	$ 123	$ 156,363

Current and non-current finance lease liabilities recorded in “Accrued liabilities” and “Other liabilities – non-current”, respectively, on our Consolidated Balance Sheets. As of June 30, 2021, there were no operating lease payments for legally binding minimum lease payments for leases signed by not yet commenced.

Rent expense for real estate leases for the fiscal years ended June 30, 2021, 2020, and 2019 was $73.5 million, $118.3 million, and $121.5 million, respectively. Total lease cost in fiscal 2021 was $73.8 million, including finance lease costs. Rent expense includes minimum base rent as well as contractually required payments for maintenance, insurance and taxes on our leased store locations and distribution centers. Total lease costs of $73.8 million for fiscal 2021 excludes $5.6 million recorded for accelerated recognition of rent expense due to our abandonment of our Phoenix distribution center.

Total lease costs of $118.6 million for fiscal 2020 excluded $51.6 million of impairment recorded for operating lease right-of-use assets and $25.1 million recorded for accelerated recognition of rent expense due to planned abandonments due to our permanent store and Phoenix distribution center closing plans.

9. 401(K) PROFIT SHARING PLAN

We have a 401(k) profit sharing plan for the benefit of our full-time employees who become eligible after one month of service, and for our part-time employees who become eligible after both 12 months of service and a minimum of 1,000 hours worked. Under the plan, eligible employees may request us to deduct and contribute from 1% to 75% of their salary to the plan, subject to Internal Revenue Service Regulations. We match each participant’s contribution up to 4% of participant’s compensation. We expensed contributions of $1.4 million, $1.4 million, and $1.4 million for the fiscal years ended June 30, 2021, 2020, and 2019, respectively.

10. EARNINGS PER COMMON SHARE

The Company uses the two-class method of computing basic EPS due to the existence of non-vested restricted stock awards with non-forfeitable rights to dividends or dividend equivalents (referred to as participating securities). Basic EPS is computed using the weighted average number of common shares outstanding during each of the respective years. Diluted EPS is computed using the weighted average number of common and common equivalent shares outstanding during each of the respective years using the more dilutive of either the treasury stock method or two-class method. The difference between basic and diluted shares, if any, largely results from common equivalent shares, which represents the dilutive effect of the assumed exercise of certain outstanding share options, the assumed vesting of restricted stock granted to employees and directors, or the satisfaction of certain necessary conditions for contingently issuable shares.

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

	Fiscal Year Ended June 30,		
	2021	2020	2019
Net earnings/(loss)	$ 2,982	$ (166,328)	$ (12,440)
Less: Income to participating securities	(135)	—	—
Net earnings/(loss) attributable to common shares	$ 2,847	$ (166,328)	$ (12,440)
Weighted average common shares outstanding—basic	60,584	45,208	44,719
Effect of dilutive stock equivalents	1,105	—	—
Weighted average common shares outstanding—dilutive	61,689	45,208	44,719
Net earnings/(loss) per common share—basic	$ 0.05	$ (3.68)	$ (0.28)
Net earnings/(loss) per common share—diluted	$ 0.05	$ (3.68)	$ (0.28)

For June 30, 2021, 2020 and 2019, options and awards representing the rights to purchase approximately 2.8 million, 3.9 million and 4.8 million weighted average shares respectively, were excluded in the dilutive earnings per share calculation because the assumed exercise of such options would have been anti-dilutive. On February 9, 2021, as part of the Rights Offering, the Company issued warrants to purchase 10 million shares of common stock with an exercise price of $1.65 and a five year term, all which remained outstanding as of June 30, 2021.

11. Related Party

On November 16, 2020, following approval of the Bankruptcy Court, the Company and Osmium Partners LLC (“Osmium Partners”) entered into a backstop commitment agreement (the “Backstop Commitment Agreement”), pursuant to which Osmium Partners agreed that Osmium Partners or an affiliate would serve as the backstop party (the “Backstop Party”) and purchase all unsubscribed shares in the $40 million Rights Offering described in Note 7 above. Osmium Partners (Larkspur SPV) LP (“Larkspur SPV”), jointly owned by Osmium Partners and Tensile Capital Partners Master Fund LP (“TCM”), was formed to serve as the Backstop Party. In addition, on November 15, 2020, the Company and TCM entered into a commitment letter (the “Commitment Letter”) pursuant to which TCM agreed to provide $25 million in subordinated debt financing to the Company.

In accordance with the Plan of Reorganization and the Commitment Letter, on December 31, 2020, the Company, Alter Domus (US), LLC, as administrative agent, and the lenders named therein, including TCM and an affiliate of Osmium, entered into the Term Loan Credit Agreement described in Note 3 above which provided for the $25 million Term Loan to the Company.

In accordance with the Plan of Reorganization and the Backstop Commitment Agreement, on December 31, 2020, the Company, Osmium Partners and Larkspur SPV (Osmium Partners and Larkspur SPV together, the “Osmium Group”) entered into an agreement pursuant to which the Osmium Group is entitled to appoint three directors to the Company’s Board of Directors (the “Directors Agreement”). Pursuant to the Directors Agreement, Douglas J. Dossey of Tensile Capital Management LP, John H. Lewis of Osmium Partners and W. Paul Jones were appointed as members of the Company’s Board of Directors. The Directors Agreement entitles the Osmium Group to appoint an additional member of the Board of Directors under certain circumstances. The Directors Agreement also specifies various other board-related and voting-related procedures and includes a standstill provision limiting certain actions by the Osmium Group. The full text of the Directors Agreement is included as Exhibit 10.35 to this Annual Report on Form 10-K.

On February 9, 2021, the Company received proceeds of approximately $40 million upon the closing of the Rights Offering, as contemplated by the Plan of Reorganization. In accordance with the terms of the Backstop Commitment Agreement, Larkspur SPV purchased 18,340,411 shares of the Company’s common stock in the Rights Offering for an aggregate purchase price of approximately $20.2 million. In addition, in accordance with the Plan of Reorganization and the Backstop Commitment Agreement, Larkspur SPV received (1) 1,818,182 additional shares of the Company’s common stock as payment of the commitment fee for serving as Backstop Party in the Rights Offering, and (2) a warrant to purchase 10 million additional shares of the Company’s common stock at a purchase price of $1.65 per share.

Based on Schedule 13D filings made by Osmium Partners and TCM, and their respective affiliates, on February 19, 2021, Osmium Partners and TCM each are deemed to beneficially own the 30,158,593 shares of the Company’s stock beneficially owned by Larkspur SPV (representing approximately 31.4% of outstanding shares), and Osmium Partners beneficially owns an additional 3,004,840 shares of the Company’s common stock.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2021. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended (the “Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2021, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures are effective at the reasonable assurance level.

Management’s Annual Report on Internal Control Over Financial Reporting

Management of Tuesday Morning is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or Rule 15(d)-15(f) under the Exchange Act. Tuesday Morning’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets; (2) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

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

Our management (with the participation of our principal executive officer and our principal financial officer) assessed the effectiveness of Tuesday Morning’s internal control over financial reporting as of June 30, 2021. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013 Framework). Based on this assessment, management concluded that, as of June 30, 2021, Tuesday Morning maintained effective internal control over financial reporting.

As of June 30, 2020, a material weakness was identified in our internal controls related to ineffective assessment of impairment of long-lived assets in that, our estimation of fair value did not appropriately utilize market participant assumptions. The material weakness resulted in a material misstatement in our June 30, 2020 financial statements, which was identified, corrected and disclosed prior to the filing of our Form 10-K for the fiscal year ended June 30, 2020. There were no restatements of prior period financial statements and no change in previously released financial results were required as the result of the control deficiency. Management has assessed and confirmed that this material weakness, has been fully remediated as of June 30, 2021.

Ernst & Young LLP, the Company’s independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company’s internal control over financial reporting as of June 30, 2021. The report follows on the next page.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited Tuesday Morning Corporation's internal control over financial reporting as of June 30, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Tuesday Morning Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of June 30, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of June 30, 2021 and 2020, the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2021, and the related notes and our report dated June 30, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Dallas, Texas
September 13, 2021

Changes in Internal Control Over Financial Reporting

Other than the remediation of a previously reported material weakness noted above, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 is incorporated herein by reference to the applicable disclosure found in our definitive proxy statement to be filed with the SEC in connection with Tuesday Morning's 2021 Annual Meeting of Stockholders, including under the captions "Proposal No. 1—Election of Directors", "Corporate Governance", "Executive Officers", "Meetings and Committees of the Board", and "Delinquent Section 16(a) Reports."

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

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

Item 11. Executive Compensation

The information required by this Item 11 is incorporated herein by reference to the applicable disclosure found in our definitive proxy statement to be filed with the SEC in connection with Tuesday Morning's 2021 Annual Meeting of Stockholders, including under the captions "Compensation Committee Report", "Executive Compensation", and "Director Compensation."

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

The information required by this Item 12 is incorporated herein by reference to the applicable disclosure found in our definitive proxy statement to be filed with the SEC in connection with Tuesday Morning's 2021 Annual Meeting of Stockholders, including under the caption "Security Ownership of Certain Beneficial Owners and Management."

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column)
Equity Compensation Plans Approved by Security Holders	2,344,743	$ 5.36	1,875,185
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	2,344,743	$ 5.36	1,875,185

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

The information required by this Item 13 is incorporated herein by reference to the applicable disclosure found in our definitive proxy statement to be filed with the SEC in connection with Tuesday Morning's 2021 Annual Meeting of Stockholders, including under the captions "Certain Relationships and Related Transactions" and "Corporate Governance."

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 is incorporated herein by reference to the applicable disclosure found in our definitive proxy statement to be filed with the SEC in connection with Tuesday Morning's 2021 Annual Meeting of Stockholders, including under the caption "Independent Registered Public Accounting Firm."

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

(1) Financial Statements:

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

(2) Financial Statement Schedules:

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

(3) Exhibits:

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

Item 16. Form 10-K Summary

Not applicable.

EXHIBIT INDEX

Exhibit No.	Description
3.1.1	Amended and Restated Certificate of Incorporation of Tuesday Morning Corporation (the "Company") (incorporated by reference to Exhibit 3.1 to the Company's 8-K (File No. 000-19658) filed with the Securities and Exchange Commission (the "Commission") on January 4, 2021)
3.2	Amended and Restated By-laws of the Company effective as of December 31, 2021 (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on January 4, 2021)
4.1	Form of Warrant (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on February 16, 2021)
4.2	Registration Rights Agreement (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on February 16, 2021)
4.3	Description of Securities
10.1	Credit Agreement, dated as of December 31, 2020, by and among the Company and its subsidiaries, JPMorgan Chase Bank, N.A., Wells Fargo, National Association, (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on January 4, 2021)
10.2	Credit Agreement, dated as of December 31, 2020, among the Company and its subsidiaries, Alter Domus (US), LLC, as administrative agent, and the lenders named therein, including Tensile Capital Partners Master Fund LP and Osmium Partners, LLC (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on January 4, 2021)
10.3†	Tuesday Morning Corporation Corporate Executive Annual Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on November 8, 2013)
10.4.1†	Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on November 19, 2008)
10.4.2†	First Amendment to Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on November 9, 2012)
10.4.3†	Second Amendment to Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on October 23, 2012)
10.54†	Form of Incentive Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on March 3, 2009)
10.6†	Form of Nonqualified Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on March 3, 2009)
10.7†	Form of Nonqualified Stock Option Award Agreement for Directors under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.17 to the Company's Form 10-K (File No. 000-19658) filed with the Commission on August 28, 2013)
10.8†	Form of Nonqualified Stock Option Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on May 8, 2014)
10.9†	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.5 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on January 4, 2021)
10.10.1†	Composite Copy of Tuesday Morning Corporation 2014 Long-Term Incentive Plan, as amended through November 16, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) as filed with the Commission on November 22, 2016)
10.10.2†	Second Amendment to Tuesday Morning Corporation 2014 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.34 to the Company's Form 10-K (File No. 000-19658) filed with the Commission on August 24, 2017)

Exhibit No.	Description
10.10.3†	Third Amendment to Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on February 5, 2021).
10.11†	Form of Nonqualified Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on November 14, 2014)
10.12†	Form of Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.26 to the Company's Form 10-K (File No. 000-19658) filed with the Commission on August 21, 2018)
10.13†	Form of Restricted Stock Award Agreement for Directors under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.24 to the Company's Form 10-K (File No. 000-19658) filed with the Commission on August 21, 2018)
10.14†	Form of Performance-Based Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.27 to the Company's Form 10-K (File No. 000-19658) filed with the Commission on August 21, 2018)
10.15.1†	Employment Agreement, dated December 11, 2015, by and between Steven R. Becker and the Company (the "Becker Employment Agreement") (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on December 14, 2015)
10.15.2†	Amendment, dated May 1, 2018, to Employment Agreement, by and between Steven R. Becker and the Company (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on May 3, 2018)
10.15.3†	Transition Agreement with Steven R. Becker (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658)filed January 19, 2021)
10.16†	Form of Nonqualified Stock Option Award Agreement (Time-Based Vesting) under the Becker Employment Agreement and the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on December 14, 2015)
10.17†	Form of Nonqualified Stock Option Award Agreement (Performance-Based Vesting) under the Becker Employment Agreement and the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on December 14, 2015)
10.18†	Form of Non-Qualified Stock Option Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on October 29, 2015)
10.19†	Form of Non-Qualified Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.25 to the Company's Form 10-K (File No. 000-19658) filed with the Commission on August 21, 2018)
10.20†	Form of Time-Vesting Restricted Stock Unit Award Agreement under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on September 28, 2018)
10.21†	Form of Cash Award Agreement under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on September 28, 2018)
10.22†	Tuesday Morning Executive Severance Plan, effective May 1, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on May 3, 2018)
10.23†	Form of Retention Letter (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on May 28, 2020)
10.24.1†	Amended and Restated Consulting Agreement with BEL Retail Advisors (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on December 9, 2019)

Exhibit No.	Description
10.24.2†	Second Amendment to Amended and Restated Consulting Agreement with BEL Retail Advisors (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on January 19, 2021)
10.24.3†	Third Amended and Restated Consulting Agreement with BEL Retail Advisors (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on March 31, 2021)
10.25†	Form of Restricted Stock Unit Award Agreement with Paul Metcalfe (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on March 31, 2021)
10.26†	Enhanced Severance Agreement with Stacie Shirley (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on February 16, 2021)
10.27.1†	Offer Letter with Bridgett Zeterberg.
10.27.2†	Enhanced Severance Agreement with Bridgett Zeterberg (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on February 16, 2021)
10.28†	Employment Agreement, dated as of May 4, 2021, between the Company and Fred Hand (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on May 6, 2021)
10.29†	Consulting Agreement, dated as of May 18, 2021, between the Company and Marc Katz (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on May 21, 2021)
10.30	Purchase and Sale Agreement, dated as of December 7, 2020, among the Company and certain subsidiaries and PBV – 14303 Inwood, LP (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on January 4, 2021)
10.31	Headquarters Facility Lease Agreement, dated as of December 31, 2020, among the Company and certain subsidiaries and PBV – 14303 Inwood, LP (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on January 4, 2021)
10.32	Warehouse Facility Lease Agreement, dated as of December 31, 2020, among the Company and certain subsidiaries and PBV – 14303 Inwood, LP (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on January 4, 2021)
10.34	Backstop Commitment Agreement, dated as of November 16, 2020, between the Company and Osmium Partners, LLC (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on November 19, 2020)
10.35	Agreement among Osmium Partners (Larkspur SPV) LP, Osmium Partners, LLC and the Company (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on February 16, 2021)
10.36†	Form of Time-Based Restricted Stock Unit Inducement Grant to Fred Hand (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 (Registration No. 333-256303) filed with the Commission on May 19, 2021)

Exhibit No.	Description
10.37†	Form of Performance-Based Restricted Stock Unit Inducement Grant to Fred Hand (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 (Registration No. 333-256303) filed with the Commission on May 19, 2021)
10.38	Form of Restricted Stock Unit Award Agreement (Performance-Based) under Tuesday Morning Corporation 2014 Long-Term Incentive Plan,
10.39	Form of Restricted Stock Unit Award Agreement (Time-Based) under Tuesday Morning Corporation 2014 Long-Term Incentive Plan.
10.40	Employment Agreement between Marc Katz and the Company (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 001-40432) filed with the Commission on September 9, 2021)
10.41	Offer Letter between Jennifer Robinson and the Company (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 001-40432) filed with the Commission on September 9, 2021)
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to the Company's Form 10-K (File No. 000-19658) filed with the Commission on September 14, 2020)
23.1	Consent of Independent Registered Public Accounting Firm
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
99.1	Term Sheet re Carried Interest Arrangement, dated as of May 4, 2021, between Fred Hand and Osmium Partners, LLC (incorporated by reference to Exhibit 99.2 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on May 6, 2021)
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Schema Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

† Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date: September 13, 2021

By: /s/ FRED HAND
Fred Hand
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ FRED HAND Fred Hand	Chief Executive Officer (Principal Executive Officer) and Director	September 13, 2021
/s/ MARC KATZ Marc Katz	Principal and Chief Operating Officer, Interim Chief Financial Officer (Principal Financial Officer)	September 13, 2021
/s/ BRIAN T. VACLAVIK Brian T. Vaclavik	Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)	September 13, 2021
/s/ SHERRY M. SMITH Sherry M. Smith	Chairman of the Board	September 13, 2021
/s/ ANTHONY F. CRUDELE Anthony F. Crudele	Director	September 13, 2021
/s/ DOUGLAS J. DOSSEY Douglas J. Dossey	Director	September 13, 2021
/s/ FRANK M. HAMLIN Frank M. Hamlin	Director	September 13, 2021
/s/ W. PAUL JONES W. Paul Jones	Director	September 13, 2021
/s/ JOHN H. LEWIS John H. Lewis	Director	September 13, 2021
/s/ REUBEN E. SLONE Reuben E. Slone	Director	September 13, 2021
/s/ RICHARD S WILLIS Richard S Willis	Director	September 13, 2021

Exhibit 4.3

DESCRIPTION OF SECURITIES REGISTERED UNDER SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

General

On May 27, 2020, Tuesday Morning Corporation ("Tuesday Morning" or the "Company") and certain of its direct and indirect subsidiaries (collectively with Tuesday Morning, the "Debtors") filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code (the "Bankruptcy Code") in the U.S. Bankruptcy Court for the Northern District of Texas ("Bankruptcy Court").

On December 23, 2020, the Bankruptcy Court entered the *Order Confirming the Revised Second Amended Joint Plan of Reorganization of Tuesday Morning Corporation, et al. Pursuant to Chapter 11 of the Bankruptcy Code* (the "Confirmation Order"), which approved and confirmed Tuesday Morning's Revised Second Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code (the "Plan of Reorganization").

On December 31, 2020, the Plan of Reorganization became effective and the Debtors emerged from their Chapter 11 cases. Pursuant to the Plan of Reorganization, each outstanding share of the Company's common stock as of the close of business on January 4, 2021, was exchanged for (1) one new share of the Company's common stock, par value $0.01 per share (the "Common Stock") and (2) a share purchase right entitling the holder to purchase its pro rata portion of shares available to eligible holders in a $40 million rights offering (the "Rights Offering"). In the Rights Offering, eligible holders of the Common Stock were authorized to purchase up to $24 million of shares of the Common Stock at a purchase price of $1.10 per share, and Osmium Partners (Larkspur SPV) LP (the "Backstop Party") was authorized to purchase up to $16 million of shares of the Common Stock at a purchase price of $1.10 per share. Pursuant to a backstop commitment agreement, the Backstop Party agreed to purchase all unsubscribed shares in the Rights Offering (the "Backstop Commitment").

On February 9, 2021, the Company completed the Rights Offering. Pursuant to the Rights Offering, the Company issued 18,023,226 shares of the Common Stock to eligible holders and 18,340,411 shares of the Common Stock to the Backstop Party (the "Backstop Party Rights Offering Shares"). In addition, as consideration for providing the Backstop Commitment, the Company issued to the Backstop Party 1,818,182 additional shares of Common Stock (the "Backstop Commitment Shares") and a warrant (the "Warrant") to purchase up to 10,000,000 shares of the Company's Common Stock (the "Warrant Shares") at a price of $1.65 per share with a five year term. Following the completion of these transactions on February 9, 2021, the Company had 86,145,304 shares of Common Stock outstanding.

From January 13, 2021 through May 24, 2021, the Common Stock has traded on the OTCQX market. Since May 25, 2021, the Common Stock has traded on The Nasdaq Capital Market under the symbol of "TUEM."

The following summary is not intended to be a complete description of the Common Stock and is qualified in its entirety by reference to the provisions of applicable law and to Tuesday Morning's certificate of incorporation and by-laws, filed as exhibits 3.1 and 3.2 to the Company's Annual Report on Form 10-K.

Authorized Capitalization

The authorized capital stock of the Company currently consists of 210,000,000 shares, of which (1) 200,000,000 shares are designated as the Common Stock; and (2) 10,000,000 shares are designated as preferred stock, $0.01 par value. As of June 30, 2021, there were 86,204,572 shares of common stock issued and outstanding and no shares of preferred stock issued and outstanding.

Common Stock

Holders of shares of the Common Stock are entitled to one vote for each share held of record on any matter submitted to the holders of the Common Stock for a vote and do not have cumulative voting rights. All shares of the Common Stock outstanding are fully paid and nonassessable. Subject to the rights of the holders of any outstanding shares of preferred stock and any restrictions that may be imposed by any lender to Tuesday Morning, holders of the Common Stock are entitled to receive such dividends, if any, as may be declared by the board of directors out of legally available funds. In the event of the liquidation, dissolution or winding up of Tuesday Morning, holders of the Common Stock are entitled to share equally and ratably, based on the number of shares held, in the assets, if any, remaining after payment of all of Tuesday Morning's debts and liabilities and the liquidation preference of any outstanding preferred stock. The shares of the Common Stock are neither redeemable nor convertible, and the holders of the Common Stock have no preemptive rights to subscribe for or purchase any additional shares of capital stock issued by Tuesday Morning.

Preferred Stock

Tuesday Morning's certificate of incorporation authorizes its board of directors, subject to any limitations prescribed by law, to issue shares of preferred stock in one or more series without shareholder approval. Each such series of preferred stock will have such rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as will be determined by the board of directors. The purpose of authorizing the board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a shareholder vote on specific issuances. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from acquiring, a majority of Tuesday Morning's outstanding voting stock.

Delaware Takeover Statute

Tuesday Morning is not subject to Section 203 of the Delaware General Corporation Law. Subject to certain exceptions, Section 203 prohibits a Delaware corporation from engaging in a "business combination" with an interested shareholder for three years following the date of the transaction on which an interested shareholder became such, unless the interested shareholder attained such status with the approval of the board of directors or the business combination is approved in a prescribed manner, or certain other conditions are satisfied. A "business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an interested shareholder is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of a corporation's voting stock.

Directors

Pursuant to the Plan of Reorganization, the Board of Directors of the Company was established as of December 31, 2020 with a membership consisting of nine directors, which included five continuing directors of the Company, the three new director (the “Osmium Directors”) appointed by the Osmium Group (as defined below), and one new director appointed by the equity committee (the “EC Director”) in the Company’s bankruptcy case. Under the terms of the Directors Agreement, dated December 31, 2021 (the “Directors Agreement”), among the Company, Osmium Partners and the Backstop Party, Osmium Partners and the Backstop Party (the “Osmium Group”) will be entitled to appoint one additional director if the Company fails to meet certain financial standards set forth in the Directors Agreement. Pursuant to the Directors Agreement, the Board of Directors of the Company shall take all necessary actions to nominate the Osmium Directors for election at the Company’s 2021 annual meeting of stockholders. The Directors Agreement includes certain standstill provisions applicable to the Osmium Group that remain in effect until the first day to submit stockholder director nominations for the 2022 annual meeting of stockholders, including, but not limited to, certain limitations on the acquisition of the Common Stock, engaging in proxy solicitations and seeking to submit nominations in furtherance of a contested solicitation for the election or removal of directors with respect to the Company. The terms of the Directors Agreement, a copy of which is filed as an exhibit to the Company’s Annual Report on Form 10-K, are incorporated herein by reference.

Directors elected by stockholders shall be determined by a plurality of the votes cast. There is no cumulative voting in the election of directors. All directors will be in one class and serve for a term ending at the annual meeting following the annual meeting at which the director was elected or, if later, the date their successor is elected.

Limitation of Liability of Directors

The Company's certificate of incorporation limits the liability of directors for monetary damages for breaches of fiduciary duties to the fullest extent permitted by Delaware law. In addition, the Company's certificate of incorporation and by-laws provide that the Company will indemnify its directors and officers to the fullest extent permitted by Delaware law.

The Company's certificate of incorporation and by-laws provide that it will indemnify officers and directors against losses that they may incur in investigations and legal proceedings resulting from their services to the Company, which may include services in connection with takeover defense measures.

Provisions of our Certificate of Incorporation and Bylaws May Impact a Change of Control

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

- the ability of the Company's Board of Directors to issue shares of the Common Stock and preferred stock without stockholder approval;
- a requirement that stockholder meetings may only be called by the Company's President, Chief Executive Officer, the Chairman of the Board or at the written request of a majority of the directors then in office and not the Company's stockholders;
- a prohibition of cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the ability of the Company's Board of Directors to make, alter or repeal our bylaws without further stockholder approval;
- the requirement for advance notice for nominations for directors to the Company's Board of Directors and for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- the restrictions on transfer of the Common Stock described below under "Ownership Restrictions to Preserve Tax Attributes."

Ownership Restrictions to Preserve Tax Attributes

Through the Company's amended certificate of incorporation that became effective on December 31, 2020, the Company's prior certificate of incorporation was amended by (1) increasing the number of authorized shares of common stock from 100 million shares to 200 million shares, (2) adding a provision restricting the issuance of non-voting equity securities as required by Section 1123 of the Bankruptcy Code, and (3) adding a provision designed to assist the Company in preserving certain tax attributes (the "Tax Benefits"), as discussed below.

In order to continue to assist the Company in preserving certain tax attributes (the "Tax Benefits"), the Company's certificate of incorporation imposes certain restrictions on the transferability and ownership of the Company's capital stock (the "Ownership Restrictions"). Subject to certain exceptions, the Ownership Restrictions restrict (i) any transfer that would result in any person acquiring 4.5% or more of the Common Stock, (ii) any transfer that would result in an increase of the ownership percentage of any person already owning 4.5% or more of the Common Stock, or (iii) any transfer during the five-year period following December 31, 2020 that would result in a decrease of the ownership percentage of any person already owning 4.5% or more of the Common Stock. Pursuant to the Company's certificate of incorporation, any transferee receiving shares of the Common Stock that would result in a violation of the Ownership Restrictions will not be recognized as a stockholder of the Company or entitled to any rights of stockholders. The Company's certificate of incorporation allows the Ownership Restrictions to be waived by the Company's board of directors on a case by case basis. The board of directors has taken action to waive the restrictions with respect to sales of shares acquired in the Rights Offering by the Backstop Party.

The Ownership Restrictions will remain in effect until the earliest of (i) the repeal of Section 382 of the Internal Revenue Code or any successor statute if the board of directors determines the Ownership Restrictions are no longer necessary for preservation of the Tax Benefits, (ii) the beginning of a taxable year in which the board of directors determines no Tax Benefits may be carried forward, or (iii) such other date as shall be established by the board of directors.

Warrant

On February 9, 2021, the Company issued the Warrant to the Backstop Party to purchase up to 10,000,000 shares of the Common Stock at a price of $1.65 per share with a five year term. The terms of the Warrant, a copy of which is filed as Exhibit 4.1 to this registration statement, are incorporated herein by reference.

Registration Rights Agreement

On February 9, 2021, the Company entered into a Registration Rights Agreement with the Backstop Party (the “Registration Statement”), pursuant to which the Company agreed to file a registration statement for the offer and resale of the Backstop Party Rights Offering Shares, the Backstop Commitment Shares and the Warrant Shares. The Backstop Party has customary demand, underwritten offering and piggyback registration rights, subject to the limitations set forth in the Registration Rights Agreement. The Registration Rights Agreement contains other customary terms and conditions, including, without limitation, provisions with respect to blackout periods and indemnification. The terms of the Registration Rights Agreement, a copy of which is filed as Exhibit 4.2 to this registration statement, are incorporated herein by reference.

Transfer Agent and Registrar

The Transfer Agent and Registrar for the Common Stock is Computershare, Inc. Its address is 250 Royall Street, Canton, Massachusetts 02021, and its telephone number at this location is (877) 268-3016.

Tuesday Morning

Exhibit 10.27.1

Bridgett C. Zeterberg
15709 Bondy Lane
Gaithersburg, MD 20878
bridgett.zeterberg@gmail.com
972.523.6196

Dear Bridgett,

On behalf of Tuesday Morning, Inc. ("Tuesday Morning"), it is my pleasure to offer you the position of **Senior Vice President – General Counsel and Corporate Secretary,** reporting directly to me**,** contingent upon successful completion of our background screening process. Your employment with Tuesday Morning shall at all times be "at-will", which means that either you or Tuesday Morning may terminate your employment relationship at any time, for any reason, with or without notice.

Start Date: Monday July 11, 2016 or other mutually agreed to date.

Salary: **$275,000 ($11,458.34** semi-monthly, paid on the 15th and last day of each month) less applicable taxes and withholdings. In addition, we will pay you a cash **sign-on incentive of $25,000** less applicable taxes and withholdings by the end of your 30th day of employment.

Bonus Plan: You will be eligible to participate in the Tuesday Morning Management Incentive Plan for FY2017. Your **annualized target** is **45%** of your salary, or **$123,750**. Threshold payout is 22.5% of salary and maximum payout is 90% of salary. The amount earned may be modified up or down 25% based on your individual performance. You must be employed on the date the bonus is paid to be eligible for the payment. The Plan Document outlines the terms of the bonus program and supersedes all other communication, including this offer letter.

Equity: As a participant in Tuesday Morning's Long-Term Equity Incentive Plan (LTIP), Tuesday Morning will recommend to the Compensation Committee a new hire grant equal to the full annual SVP-level LTI award of **$125,000**, in a mix of **50% non-qualified stock options and 50% restricted stock awards**. Both stock options and restricted stock awards will vest ratably over four years, beginning with the first anniversary of the date of grant, and will be subject to the terms and conditions of a separate award agreement. As part of the LTIP program, Tuesday Morning generally makes annual awards, though there is no guarantee of awards being made every year. For the FY2017 grant, you will receive a prorated stock award equal to 2/12ths of the annual $125,000 LTI grant, or **$20,833**. The LTIP Program may be modified from time to time by the Compensation Committee in its sole and absolute discretion.

Stock Ownership Guidelines Policy: As a Senior Vice President of Tuesday Morning, you will be subject to the stock ownership and retention requirements outlined in the attached policy.

Severance Benefits: In exchange for an executed severance agreement and release of claims, should Tuesday Morning terminate your employment, except for willful misconduct or gross negligence, you will be paid severance benefits as follows:

(i) If the termination occurs on or prior to July 12, 2017, six months of Executive's base salary and COBRA Benefits
(ii) If the termination occurs after July 12, 2017, one year of Executive's base salary and COBRA Benefits

If the termination occurs following or in anticipation of a "change of control," Tuesday Morning will pay you one year of your base salary, which shall not be less than the base salary provided for in this letter. For these purposes, "change of control" shall have the meaning given to it in the 2014 Long Term Incentive Plan.

Tuesday Morning

Relocation: Tuesday Morning will engage a third party relocation company that will pack and deliver your household goods, from Gaithersburg, MD to Dallas, TX, and we will pay **up to $6,000 in temporary living** expenses direct billed to the Company.

Vacation & Sick Leave: You will be granted 8 days of vacation, a prorated amount for the total of 15 vacation days granted in January of each year until you are eligible for additional time based on the Tuesday Morning vacation policy.. Sick leave is earned after a 2-month waiting period and is prorated to your start date for the first year of eligibility. You are granted 6 days per calendar year. Based on your start date, you will have 3 sick days granted for use after your 60-day waiting period. You may designate up to 3 days of your 6 days as personal days and roll over a maximum of 3 sick days to the next year. New associates are encouraged to schedule paid-time off after their first 60 days of employment to maximize the time needed to get familiar with Tuesday Morning operations, programs and practices.

Floating Holidays: The Company currently grants 2 Floating Holidays at the beginning of each calendar year.

Benefits: All normal and standard benefits, offered to eligible Tuesday Morning employees after published qualifying periods of employment. Benefits will become effective the 1st of the month following the completion of 60 days of employment. Tuesday Morning reserves the right to amend or terminate its plans and benefits in its sole discretion at any time.

COBRA Reimbursement: We will reimburse you for the difference between your COBRA premium and the premium you would pay for similar coverage at Tuesday Morning for the period before you are eligible for benefits.

I am excited about the contribution you will make to the continued success of Tuesday Morning. We look forward to having you as a part of our Team!

This offer is valid for 5 business days. Please sign below acknowledging your acceptance of the above offer and scan and e-mail directly to Lee Roever at lroever@tuesdaymorning.com. On your start date please bring two forms of I.D. (such as driver's license, social security card and/or passport) in order to complete your new hire packet. If you have any questions, please contact Lee Roever at 214.394.4570.

Sincerely,

/s/ Stacie Shirley

Stacie Shirley
Executive Vice President,
Chief Financial Officer

Exhibit 10.38

RESTRICTED STOCK UNIT AWARD AGREEMENT
(Performance Based)

Tuesday Morning Corporation
2014 Long-Term Incentive Plan

This **RESTRICTED STOCK UNIT AWARD AGREEMENT** (this "***Agreement***") is entered into between Tuesday Morning Corporation, a Delaware corporation (the "***Company***"), and _______________ (the "***Participant***") effective as of ___________, 2021 (the "***Date of Grant***"), pursuant to the Tuesday Morning Corporation 2014 Long-Term Incentive Plan, as amended (the "***Plan***"), the terms of which are incorporated by reference herein in their entirety. Capitalized terms not otherwise defined in this Agreement shall have the meanings given to such terms in the Plan.

WHEREAS, the Company desires to grant to the Participant the Awarded Units (defined below) as an inducement for the Participant's continued and effective performance of services for the Company, subject to the terms and conditions of this Agreement; and

WHEREAS, the Participant desires to have the opportunity to acquire shares of the Company's common stock, par value $0.01 per share ("***Common Stock***"), upon the vesting of the Awarded Units, subject to the terms and conditions of this Agreement;

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

1. ***Grant of Restricted Stock Units*.** Effective as of the Date of Grant, the Company shall grant to the Participant an award of **[TOTAL NUMBER OF RSUS THAT COULD VEST AT MAXIMUM PERFORMANCE]** Restricted Stock Units (the "***Awarded Units***"), of which **[TOTAL NUMBER OF RSUS THAT COULD VESTED AT TARGET]** are "Target RSUs" for purposes of <u>Exhibit A</u>. The Awarded Units, to the extent vested, may be converted into the number of shares of Common Stock equal to the number of vested Restricted Stock Units, subject to the terms and conditions provided in the Plan and this Agreement. Each Awarded Unit shall be a notional share of Common Stock, with the value of each Awarded Unit being equal to the Fair Market Value of a share of Common Stock at any time. In accepting the award of the Awarded Units set forth in this Agreement, the Participant accepts and agrees to be bound by all the terms and conditions of the Plan and this Agreement.

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

   (a) "***Cause***" shall mean the occurrence of one of the following events: (i) commission of fraud, embezzlement, theft, felony or an act of dishonesty in the course of the Participant's employment by the Company or a Subsidiary, which conduct damaged the Company or a Subsidiary; (ii) disclosure of trade secrets of the

Company or a Subsidiary; or (iii) violation of the terms of any non-competition, non-disclosure or similar agreement with respect to the Company or any Subsidiary to which the Participant is a party.

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

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

3. ***Vesting*.** Subject to the provisions hereof and the provisions of the Plan, the Awarded Units will vest and become eligible for conversion into shares of Common Stock pursuant to Section 4 below as follows:

(a) *Generally*. Awarded Units which have become vested pursuant to the terms of this Section 3 are collectively referred to herein as "***Vested RSUs***." All other Awarded Units are collectively referred to herein as "***Unvested RSUs***". Except as specifically provided in this Agreement and subject to certain restrictions and conditions set forth in the Plan, the Awarded Units shall vest and become Vested RSUs in accordance with the provisions of Exhibit A, provided that the Participant has not incurred a Termination of Service prior to the applicable vesting date. To the extent any of the Awarded Units do not vest in accordance with Exhibit A, or if the Participant has incurred a Termination of Service before a vesting date then, except as otherwise specified in subsections (b) or (c) below, the Participant shall be deemed to have forfeited all of the Participant's Unvested RSUs. Upon forfeiture, all of the Participant's rights with respect to the forfeited Unvested RSUs shall cease and terminate, without any further obligations on the part of the Company.

(b) *Death or Total and Permanent Disability*. Notwithstanding any provisions of this Section 3 to the contrary, in the event the Participant's Termination of Service is due to the Participant's death or Total and Permanent Disability prior to a vesting date provided in subsection (a), then all Unvested RSUs shall immediately become

Vested RSUs on the date of such Termination of Service due to death or Total and Permanent Disability.

(c) *Change in Control.* Notwithstanding any provision of this Section 3 to the contrary, in the event (i) a Change in Control occurs prior to the date of the Participant's Termination of Service and (ii) the Participant incurs a Termination of Service during the two (2) year period commencing on the date that the Change in Control occurred, either (A) by the Company without Cause or (B) by the Participant for Good Reason, then all Unvested RSUs shall immediately become Vested RSUs, based on the maximum performance level, on the date of such Termination of Service by the Company without Cause or by the Participant for Good Reason.

(d) *Forfeiture Upon Violation of Restrictive Covenant Provisions.* Notwithstanding anything to the contrary contained herein, in the event the Participant fails to comply with the confidentiality, non-solicitation, non-competition, and other restrictive covenant provisions contained in Exhibit B hereto or in any other written agreement by and between the Participant and the Company that are in effect, then (i) the Participant shall be deemed to have forfeited all of the Participant's Unvested RSUs, and all of the Participant's rights with respect to the forfeited Unvested RSUs shall cease and terminate, without any further obligations on the part of the Company, and (ii) any Vested RSUs that have not yet been converted into shares of Common Stock and delivered to the Participant in accordance with Section 4 below shall be immediately forfeited and this Agreement (other than the Surviving Provisions (defined below)) will be terminated on the date of such violation.

4. ***Conversion of Awarded Units.*** Subject to the provisions of the Plan and this Agreement, upon the vesting of Awarded Units, or as soon as practicable following vesting, and in no event, later than sixty (60) days after the vesting of Awarded Units, the Company shall convert the Vested RSUs into the number of whole shares of Common Stock equal to the number of Vested RSUs and shall deliver to the Participant (or, in the event of the Participant's Death or Total and Permanent Disability, his or her personal representative), if requested by the Participant (or, if applicable, his or her personal representative) as described in Section 6.4(a) of the Plan, the Company shall cause to be delivered to the Participant (or, if applicable, his or her personal representative) a stock certificate representing such shares of Common Stock, and such Common Stock shall thereafter be transferable by the Participant (except to the extent that any proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of applicable securities law).

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

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

7. ***No Rights as a Stockholder***. The Participant will have no rights as a stockholder with respect to the Awarded Units until such time as Vested RSUs are converted into shares of Common Stock in accordance with Section 4 above.

8. ***Not an Employment or Service Agreement.*** This Agreement is not an employment, consulting, or other service agreement, and no provision of this Agreement shall be construed or interpreted to create an employment or service relationship between the Participant and the Company or guarantee the right to continue in the employment or service of the Company or a Subsidiary for any specified term or limit the Company's authority to terminate the Participant's employment with or service to the Company or any Subsidiary.

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

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

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

as a continuing waiver of any such condition or breach, a waiver of any other condition, or the breach of any other term or condition.

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

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

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

15. ***Section 409A; Six Month Delay.*** Notwithstanding anything herein to the contrary, in the case of a conversion of Awarded Units and distribution of shares of Common Stock in accordance with Section 4 on account of any Termination of Service (other than death), if the Participant is a "specified employee" as defined in § 1.409A-1(i) of the final regulations under Section 409A of the Code, then solely to the extent required under Section 409A of the Code, a distribution of the number of such shares to the Participant (determined after application of the withholding requirements set forth in Section 16 below) shall not occur until the date which is six (6) months following the date of the Participant's Termination of Service (or, if earlier, the date of the Participant's death). It is intended that each conversion and settlement of shares of Common Stock to be delivered under this Agreement shall be treated as a separate payment for purposes of Section 409A of the Code.

16. ***Tax Withholding.*** The Company or, if applicable, any Subsidiary (for purposes of this Section 16, the term "***Company***" shall be deemed to include any applicable Subsidiary), shall be entitled to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to the vesting of this Award. Alternatively, the Company may require the Participant to pay such sums for taxes directly to the Company in cash or by check within one (1) day after the vesting date. Such payments shall be required to be made when requested by the Company and may be required to be made prior to the delivery of any certificate representing shares of Common Stock, if such certificate is requested by the Participant (or, if applicable, his or her personal representative) in writing in accordance with procedures established by the Committee. Such payment may be made by (a) the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding obligations of the Company; (b) if the Company, in its sole discretion, so consents in writing, the actual delivery by the Participant to the Company of shares of

Common Stock that the Participant has not acquired from the Company within six (6) months prior thereto, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding payment; (c) if the Company, in its sole discretion, so consents in writing, the Company's withholding of a number of shares to be delivered upon the vesting of the Awarded Units, which shares so withheld have an aggregate Fair Market Value that equals (but does not exceed) the required tax withholding payment; or (d) any combination of (a), (b), or (c).

17. ***Survival***. The provisions of Section 3(e), Sections 8 – 16, and Section 19 creating obligations extending beyond the term of this Agreement (collectively, the "***Surviving Provisions***") shall survive the expiration or termination of this Agreement and of the Participant's employment with or service to the Company or, if applicable, any Subsidiary, regardless of the reason for such expiration or termination.

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

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

EXHIBIT A

[Describe vesting dates and performance criteria here][1]

[1] NTD: Unless granted as “Exempt Shares,” the Restricted Stock Units granted hereunder cannot vest earlier than one year after the Date of Grant.

EXHIBIT B

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

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

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

(b) Non-Disclosure.

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

(ii) The Participant shall immediately notify the Company's General Counsel if the Participant learns of or suspects any unauthorized disclosure of Confidential Information concerning the Company.

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

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

(c) No-Interference.

(i) Notwithstanding the foregoing or any other agreement regarding confidentiality with the Company, the Participant may disclose Confidential Information when required to do so by a court of competent jurisdiction, by any governmental agency having authority over the Participant or the business of the Company or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order the Participant to divulge, disclose or make accessible such information. Nothing in this Agreement is intended to interfere with the Participant's right to (1) report possible violations of state or federal law or regulation to any governmental agency or entity, (2) make other disclosures that are protected under the whistleblower provisions of state or federal law or regulation, (3) file a claim or charge with any government agency or entity, or (4) testify, assist, or participate in an investigation, hearing, or proceeding conducted by any government or law enforcement agency, entity or court.

(ii) The Participant is hereby notified in accordance with the Defend Trade Secrets Act of 2016 that the Participant will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (1) is made (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law, or (2) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. The Participant is further notified that if the Participant files a lawsuit for retaliation against the Company for reporting a suspected violation of law, the Participant may disclose the Company's trade secrets to the Participant's attorney and use the trade secret information in the court proceeding if the Participant (x) files any document containing the trade secret under seal; and (y) does not disclose the trade secret, except pursuant to court order.

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

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

(a) Non-Solicitation. The Participant agrees that, as part of the Participant's employment or association with the Company, the Participant will become familiar with the salary, pay scale, capabilities, experiences, skill and desires of the Company's employees and consultants. For these reasons, the Participant agrees that to protect the Company's Confidential Information, legitimate business interests, and business goodwill, it is necessary to enter into the following restrictive covenant. The Participant agrees that, during the Participant's employment and for a period of twelve (12) months following the date on which the Participant's employment with the Company terminates for any reason ("***Restrictive Covenant Period***"), the Participant, whether directly or indirectly, shall not recruit, solicit, hire or attempt to recruit, solicit, or hire, directly or by assisting others, any persons employed by or contracted with the Company, nor shall the Participant contact or communicate with any such persons for the purpose of inducing such persons to terminate their employment or contract with the Company. For purposes of this paragraph, the "persons" covered by this prohibition include current employees and persons who were employed by the Company within twelve (12) months of the time of the attempted recruiting, solicitation, or hiring.

(b) Non-Competition. During the Restrictive Covenant Period, the Participant shall not, without the Company's prior written consent, directly or indirectly: (i) solicit business for or on behalf of any person or business entity operating a Competing Business (as defined below) in the Restricted Area (as defined below); (ii) own, operate, participate in, become employed with, consult for or have any interest in any Competing Business in the Restricted Area, except that the Participant may own publicly traded stock for investment purposes only in any company in which the Participant owns less than 5% of such company's voting equity; or (iii) use or rely upon any Confidential Information in any competition, solicitation, or marketing effort. As used herein, "***Competing Business***" means any business, individual, partnership, firm, corporation or other entity that is competing or that is preparing to compete with the Company's business of being a retailer or a business specializing in high-quality home furnishings, housewares or gift-related items in the United States; and any other business the Company conducted, prepared to conduct or materially contemplated conducting during the Participant's employment with the Company. Competing Business shall include a business of the type of, but not be limited to, the following entities: The TJX Companies, Inc. (including, without limitation, TJ Max, HomeGoods, Marshall's Mega Stores, At Home Group, Inc., and Marshall's, Inc.); Ross Stores, Inc.; Burlington Stores, Inc.; One Kings Lane, Inc.; Joss and Main (owned by Wayfair, LLC); zulily, inc.; Nordstrom Rack (owned by Nordstrom, Inc., but not including Nordstrom stores); Back Stage (owned by Macy's, Inc., but not including Macy's stores); Ollie's Bargain Outlet Holdings, Inc.; Bealls Outlet, Stage Stores and Overstock.com, Inc. As used herein, "***Restricted Area***" means the United States and any other geographical area in which the Company provides services during the Participant's employment and for which the Participant had any responsibility or about which the Participant received Confidential Information.

(c) Remedies. The Participant acknowledges that the restrictions contained in Section 1 and Section 2, in view of the nature of the Company's business, are reasonable and necessary to protect their legitimate business interests, business goodwill and reputation, and that any violation of these restrictions would result in irreparable injury and continuing damage to the Company, and that money damages would not be a sufficient remedy to the Company for any such breach or threatened breach. Therefore, the Participant agrees that the Company shall be entitled to a temporary restraining order and injunctive relief restraining the Participant from the commission of any breach or threatened breach of Section 1 or Section 2, without the necessity of establishing irreparable harm or the posting of a bond, and to recover from the Participant damages incurred by the Company as a result of the breach, as well as the Company's attorneys' fees, costs and expenses related to any breach or threatened breach of this Agreement and enforcement of this Agreement. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation, the recovery of money damages, attorneys' fees, and costs. The existence of any claim or cause of action by the Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the restrictive covenants contained in Section 1 or Section 2, or preclude injunctive relief.

(d) Tolling. If the Participant violates any of the restrictions contained in this Section 2, the Restrictive Covenant Period shall be suspended and shall not run in favor of the Participant until such time that the Participant cures the violation to the satisfaction of the Company; the period of time in which the Participant is in breach shall be added to the Restrictive Covenant Period.

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

Exhibit 10.39

RESTRICTED STOCK UNIT AWARD AGREEMENT
(Time Based)

Tuesday Morning Corporation
2014 Long-Term Incentive Plan

This **RESTRICTED STOCK UNIT AWARD AGREEMENT** (this "***Agreement***") is entered into between Tuesday Morning Corporation, a Delaware corporation (the "***Company***"), and ___________________ (the "***Participant***") effective as of ________________ __, 2021 (the "***Date of Grant***"), pursuant to the Tuesday Morning Corporation 2014 Long-Term Incentive Plan, as amended (the "***Plan***"), the terms of which are incorporated by reference herein in their entirety. Capitalized terms not otherwise defined in this Agreement shall have the meanings given to such terms in the Plan.

WHEREAS, the Company desires to grant to the Participant the Awarded Units (defined below) as an inducement for the Participant's continued and effective performance of services for the Company, subject to the terms and conditions of this Agreement; and

WHEREAS, the Participant desires to have the opportunity to acquire shares of the Company's common stock, par value $0.01 per share ("***Common Stock***"), upon the vesting of the Awarded Units, subject to the terms and conditions of this Agreement;

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

1. ***Grant of Restricted Stock Units*****.** Effective as of the Date of Grant, the Company shall grant to the Participant an award of _____________ Restricted Stock Units (the "***Awarded Units***"), which may be converted into the number of shares of Common Stock equal to the number of vested Restricted Stock Units, subject to the terms and conditions provided in the Plan and this Agreement. Each Awarded Unit shall be a notional share of Common Stock, with the value of each Awarded Unit being equal to the Fair Market Value of a share of Common Stock at any time. In accepting the award of the Awarded Units set forth in this Agreement, the Participant accepts and agrees to be bound by all the terms and conditions of the Plan and this Agreement.

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

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

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

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

3. ***Vesting***. Subject to the provisions hereof and the provisions of the Plan, the Awarded Units will vest and become eligible for conversion into shares of Common Stock pursuant to <u>Section 4</u> below as follows:

(a) *Generally*. Awarded Units which have become vested pursuant to the terms of this <u>Section 3</u> are collectively referred to herein as "***Vested RSUs***." All other Awarded Units are collectively referred to herein as "***Unvested RSUs***". Except as specifically provided in this Agreement and subject to certain restrictions and conditions set forth in the Plan, the Awarded Units shall vest and become Vested RSUs as follows: 1/3 of the Awarded Units shall vest on each of the first, second, and third of the Date of Grant, provided that the Participant has not incurred a Termination of Service prior to the applicable vesting date. If the Participant has incurred a Termination of Service before a vesting date then, except as otherwise specified in subsections (b) or (c) below, the Participant shall be deemed to have forfeited all of the Participant's Unvested RSUs. Upon forfeiture, all of the Participant's rights with respect to the forfeited Unvested RSUs shall cease and terminate, without any further obligations on the part of the Company.

(b) *Death or Total and Permanent Disability*. Notwithstanding any provisions of this <u>Section 3</u> to the contrary, in the event the Participant's Termination of Service is due to the Participant's death or Total and Permanent Disability prior to a vesting date provided in subsection (a), then all Unvested RSUs shall immediately become Vested RSUs on the date of such Termination of Service due to death or Total and Permanent Disability.

(c) *Change in Control.* Notwithstanding any provision of this <u>Section 3</u> to the contrary, in the event (i) a Change in Control occurs prior to the date of the Participant's Termination of Service and (ii) the Participant incurs a Termination of Service during the two (2) year period commencing on the date that the Change in Control occurred, either (A) by the Company without Cause or (B) by the Participant for Good Reason, then all Unvested RSUs shall immediately become Vested RSUs on the date of such Termination of Service by the Company without Cause or by the Participant for Good Reason.

(d) *Forfeiture Upon Violation of Restrictive Covenant Provisions.* Notwithstanding anything to the contrary contained herein, in the event the Participant fails to comply with the confidentiality, non-solicitation, non-competition, and other restrictive covenant provisions contained in Exhibit A hereto or in any other written agreement by and between the Participant and the Company that are in effect, then (i) the Participant shall be deemed to have forfeited all of the Participant's Unvested RSUs, and all of the Participant's rights with respect to the forfeited Unvested RSUs shall cease and terminate, without any further obligations on the part of the Company, and (ii) any Vested RSUs that have not yet been converted into shares of Common Stock and delivered to the Participant in accordance with Section 4 below shall be immediately forfeited and this Agreement (other than the Surviving Provisions (defined below)) will be terminated on the date of such violation.

4. ***Conversion of Awarded Units.*** Subject to the provisions of the Plan and this Agreement, upon the vesting of Awarded Units, or as soon as practicable following vesting, and in no event, later than sixty (60) days after the vesting of Awarded Units, the Company shall convert the Vested RSUs into the number of whole shares of Common Stock equal to the number of Vested RSUs and shall deliver to the Participant (or, in the event of the Participant's Death or Total and Permanent Disability, his or her personal representative), if requested by the Participant (or, if applicable, his or her personal representative) as described in Section 6.4(a) of the Plan, the Company shall cause to be delivered to the Participant (or, if applicable, his or her personal representative) a stock certificate representing such shares of Common Stock, and such Common Stock shall thereafter be transferable by the Participant (except to the extent that any proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of applicable securities law).

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

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

7. ***No Rights as a Stockholder***. The Participant will have no rights as a stockholder with respect to the Awarded Units until such time as Vested RSUs are converted into shares of Common Stock in accordance with Section 4 above.

8. ***Not an Employment or Service Agreement.*** This Agreement is not an employment, consulting, or other service agreement, and no provision of this Agreement shall be construed or interpreted to create an employment or service relationship between the Participant and the Company or guarantee the right to continue in the employment or service of the Company or a Subsidiary for any specified term or limit the Company's authority to terminate the Participant's employment with or service to the Company or any Subsidiary.

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

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

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

12. ***Governing Law and Severability.*** The validity, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts

or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The invalidity of any provision of this Agreement shall not affect any other provision of this Agreement, which shall remain in full force and effect.

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

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

15. ***Section 409A; Six Month Delay.*** Notwithstanding anything herein to the contrary, in the case of a conversion of Awarded Units and distribution of shares of Common Stock in accordance with Section 4 on account of any Termination of Service (other than death), if the Participant is a "specified employee" as defined in § 1.409A-1(i) of the final regulations under Section 409A of the Code, then solely to the extent required under Section 409A of the Code, a distribution of the number of such shares to the Participant (determined after application of the withholding requirements set forth in Section 16 below) shall not occur until the date which is six (6) months following the date of the Participant's Termination of Service (or, if earlier, the date of the Participant's death). It is intended that each conversion and settlement of shares of Common Stock to be delivered under this Agreement shall be treated as a separate payment for purposes of Section 409A of the Code.

16. ***Tax Withholding.*** The Company or, if applicable, any Subsidiary (for purposes of this Section 16, the term "***Company***" shall be deemed to include any applicable Subsidiary), shall be entitled to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to the vesting of this Award. Alternatively, the Company may require the Participant to pay such sums for taxes directly to the Company in cash or by check within one (1) day after the vesting date. Such payments shall be required to be made when requested by the Company and may be required to be made prior to the delivery of any certificate representing shares of Common Stock, if such certificate is requested by the Participant (or, if applicable, his or her personal representative) in writing in accordance with procedures established by the Committee. Such payment may be made by (a) the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding obligations of the Company; (b) if the Company, in its sole discretion, so consents in writing, the actual delivery by the Participant to the Company of shares of Common Stock that the Participant has not acquired from the Company within six (6) months prior thereto, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding payment; (c) if the Company, in its sole discretion, so consents in writing, the Company's withholding of a number of shares to be delivered upon the vesting of the

Awarded Units, which shares so withheld have an aggregate Fair Market Value that equals (but does not exceed) the required tax withholding payment; or (d) any combination of (a), (b), or (c).

17. ***Survival***. The provisions of Section 3(e), Sections 8 – 16, and Section 19 creating obligations extending beyond the term of this Agreement (collectively, the "***Surviving Provisions***") shall survive the expiration or termination of this Agreement and of the Participant's employment with or service to the Company or, if applicable, any Subsidiary, regardless of the reason for such expiration or termination.

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

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

EXHIBIT A

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

(a) Confidential Information. During the Participant's employment with the Company, the Company shall provide the Participant otherwise prohibited access to certain of its Confidential Information which is not known to the Company's competitors or within the Company's industry generally, which was developed by the Company over a long period of time and/or at its substantial expense, and which is of great competitive value to the Company. For purposes of this Agreement, "***Confidential Information***" includes all trade secrets and confidential and proprietary information of the Company, including, but not limited to, the following: all documents or information, in whatever form or medium, concerning or relating to the Company's operations; procedures; computer systems; customer information; methods of doing business; merchandise; marketing plans and methods; financial and accounting information; policies and practices; product information and strategy; project and prospect locations and leads; developmental or experimental work; research; development; know-how; technical data; designs; plans for research or future products; improvements; discoveries; database schemas or tables; development tools or techniques; finances; business plans; sales plans and strategies; budgets; pricing and pricing strategies and techniques; costs; customer and client lists and profiles; customer and client nonpublic personal information; supplier lists; business records; audits; management methods and information; reports, recommendations and conclusions; business practices; strategies; training manuals; vendors; suppliers; contractual relationships; and other business information disclosed or made available to the Participant by the Company, either directly or indirectly, in writing, orally, or by drawings or observation, that is not known to the public or any of the Company's competitors or within the Company's industry generally, which was developed by the Company at its expense, and which is of value to the Company. Confidential Information prepared or compiled by the Participant and/or the Company or furnished to the Participant during the Participant's employment with the Company shall be the sole and exclusive property of the Company, and none of such Confidential Information or copies thereof, shall be retained by the Participant. The Participant acknowledges that the Company does not voluntarily disclose Confidential Information, but rather takes precautions to prevent dissemination of Confidential Information beyond those employees such as the Participant entrusted with such information. The Participant further acknowledges that the Confidential Information: (i) is entrusted to the Participant because of the Participant's position with the Company; and (ii) is of such value and nature as to make it reasonable and necessary for the Participant to protect and preserve the confidentiality and secrecy of the Confidential Information. The Participant acknowledges and agrees that the Confidential Information is a valuable, special, and a unique asset of the Company, the disclosure of which could cause substantial injury and loss of profits and goodwill to the Company. While the Participant may not disclose any such Confidential Information, the Participant has the right to discuss wages, benefits or other terms and conditions of employment. Nothing in this Agreement, including the definition of "***Confidential Information***" above and the nondisclosure requirements in Section 1(b) is intended to restrict the Participant's right to have such discussions.

(b) Non-Disclosure.

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

(ii) The Participant shall immediately notify the Company's General Counsel if the Participant learns of or suspects any unauthorized disclosure of Confidential Information concerning the Company.

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

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

(c) No-Interference.

(i) Notwithstanding the foregoing or any other agreement regarding confidentiality with the Company, the Participant may disclose Confidential Information when required to do so by a court of competent jurisdiction, by any governmental agency having authority over the Participant or the business of the Company or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order the Participant to divulge, disclose or make accessible such information. Nothing in this Agreement is intended to interfere with the Participant's right to (1) report possible violations of state or federal law or regulation to any governmental agency or entity, (2) make other disclosures that are protected under the whistleblower provisions of state or federal law or regulation, (3) file a claim or charge with any government agency or entity, or (4) testify, assist, or participate in an investigation, hearing, or proceeding conducted by any government or law enforcement agency, entity or court.

(ii) The Participant is hereby notified in accordance with the Defend Trade Secrets Act of 2016 that the Participant will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (1) is made (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law, or (2) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. The Participant is further notified that if the Participant files a lawsuit for retaliation against the Company for reporting a suspected violation of law, the Participant may disclose the Company's trade secrets to the Participant's attorney and use the trade secret information in the court proceeding if the Participant (x) files any document containing the trade secret under seal; and (y) does not disclose the trade secret, except pursuant to court order.

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

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

(a) Non-Solicitation. The Participant agrees that, as part of the Participant's employment or association with the Company, the Participant will become familiar with the salary, pay scale, capabilities, experiences, skill and desires of the Company's employees and consultants. For these reasons, the Participant agrees that to protect the Company's Confidential Information, legitimate business interests, and business goodwill, it is necessary to enter into the following restrictive covenant. The Participant agrees that, during the Participant's employment and for a period of twelve (12) months following the date on which the Participant's employment with the Company terminates for any reason ("***Restrictive Covenant Period***"), the Participant, whether directly or indirectly, shall not recruit, solicit, hire or attempt to recruit, solicit, or hire, directly or by assisting others, any persons employed by or contracted with the Company, nor shall the Participant contact or communicate with any such persons for the purpose of inducing such persons to terminate their employment or contract with the Company. For purposes of this paragraph, the "persons" covered by this prohibition include current employees and persons who were employed by the Company within twelve (12) months of the time of the attempted recruiting, solicitation, or hiring.

(b) Non-Competition. During the Restrictive Covenant Period, the Participant shall not, without the Company's prior written consent, directly or indirectly: (i) solicit business for or on behalf of any person or business entity operating a Competing Business (as defined below) in the Restricted Area (as defined below); (ii) own, operate, participate in, become employed with, consult for or have any interest in any Competing Business in the Restricted Area, except that the Participant may own publicly traded stock for investment purposes only in any company in which the Participant owns less than 5% of such company's voting equity; or (iii) use or rely upon any Confidential Information in any competition, solicitation, or marketing effort. As used herein, "*Competing Business*" means any business, individual, partnership, firm, corporation or other entity that is competing or that is preparing to compete with the Company's business of being a retailer or a business specializing in high-quality home furnishings, housewares or gift-related items in the United States; and any other business the Company conducted, prepared to conduct or materially contemplated conducting during the Participant's employment with the Company. Competing Business shall include a business of the type of, but not be limited to, the following entities: The TJX Companies, Inc. (including, without limitation, TJ Max, HomeGoods, Marshall's Mega Stores, At Home Group, Inc., and Marshall's, Inc.); Ross Stores, Inc.; Burlington Stores, Inc.; One Kings Lane, Inc.; Joss and Main (owned by Wayfair, LLC); Zulily, Inc.; Nordstrom Rack (owned by Nordstrom, Inc., but not including Nordstrom stores); Back Stage (owned by Macy's, Inc., but not including Macy's stores); Ollie's Bargain Outlet Holdings, Inc.; Bealls Outlet, Stage Stores and Overstock.com, Inc. As used herein, "*Restricted Area*" means the United States and any other geographical area in which the Company provides services during the Participant's employment and for which the Participant had any responsibility or about which the Participant received Confidential Information.

(c) Remedies. The Participant acknowledges that the restrictions contained in Section 1 and Section 2, in view of the nature of the Company's business, are reasonable and necessary to protect their legitimate business interests, business goodwill and reputation, and that any violation of these restrictions would result in irreparable injury and continuing damage to the Company, and that money damages would not be a sufficient remedy to the Company for any such breach or threatened breach. Therefore, the Participant agrees that the Company shall be entitled to a temporary restraining order and injunctive relief restraining the Participant from the commission of any breach or threatened breach of Section 1 or Section 2, without the necessity of establishing irreparable harm or the posting of a bond, and to recover from the Participant damages incurred by the Company as a result of the breach, as well as the Company's attorneys' fees, costs and expenses related to any breach or threatened breach of this Agreement and enforcement of this Agreement. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation, the recovery of money damages, attorneys' fees, and costs. The existence of any claim or cause of action by the Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the restrictive covenants contained in Section 1 or Section 2, or preclude injunctive relief.

(d) Tolling. If the Participant violates any of the restrictions contained in this Section 2, the Restrictive Covenant Period shall be suspended and shall not run in favor of the Participant until such time that the Participant cures the violation to the satisfaction of the Company; the period of time in which the Participant is in breach shall be added to the Restrictive Covenant Period.

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

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

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

(1) Registration Statement (Form S-3 No. 333-84496) of Tuesday Morning Corporation,

(2) Registration Statement (Form S-3 No. 333-108275) of Tuesday Morning Corporation,

(3) Registration Statement (Form S-3 No. 333-147103) of Tuesday Morning Corporation,

(4) Registration Statement (Form S-8 No. 333-214880) pertaining to the Tuesday Morning Corporation 2014 Long-Term Incentive Plan,

(5) Registration Statement (Form S-8 No. 333-200779) pertaining to the Tuesday Morning Corporation 2014 Long-Term Incentive Plan,

(6) Registration Statement (Form S-8 No. 333-185314) pertaining to the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan,

(7) Registration Statement (Form S-8 No. 333-159035) pertaining to the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan,

(8) Registration Statement (Form S-8 No. 333-79441) pertaining to the Tuesday Morning Corporation Employee Stock Purchase Plan,

(9) Registration Statement (Form S-8 No. 333-90315) pertaining to the Tuesday Morning Corporation 1997 Long-Term Equity Incentive Plan,

(10) Registration Statement (Form S-8 No. 333-117880) pertaining to the Tuesday Morning Corporation 2004 Long-Term Equity Incentive Plan,

(11) Registration Statement (Form S-8 No. 333-145811) pertaining to the Tuesday Morning Corporation 1997 Long-Term Equity Incentive Plan,

(12) Registration Statement (Form S-8 No. 333-256303) pertaining to the Restricted Stock Unit Award Agreement (Time Based) and Restricted Stock Unit Award Agreement (Performance Based) of Tuesday Morning Corporation,

(13) Registration Statement (Form S-8 No. 333-256305) pertaining to the Tuesday Morning Corporation 2014 Long-Term Equity Incentive Plan, and

(14) Registration Statement (Form S-1 No. 333-256315) of Tuesday Morning Corporation;

of our reports dated September 13, 2021, with respect to the consolidated financial statements of Tuesday Morning Corporation and the effectiveness of internal control over financial reporting of Tuesday Morning Corporation included in this Annual Report (Form 10-K) of Tuesday Morning Corporation for the year ended June 30, 2021.

/s/ Ernst & Young LLP

Dallas, Texas
September 13, 2021

Exhibit 31.1

CERTIFICATION

I, Fred Hand, certify that:

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

Date: September 13, 2021

By: /s/ FRED HAND
Fred Hand
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Marc Katz, certify that:

1. I have reviewed this Annual Report on Form 10-K of Tuesday Morning Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 13, 2021

By: /s/ MARC KATZ
Marc Katz
Principal and Chief Operating Officer, Interim Chief Financial Officer

Exhibit 32.1

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

I, Fred Hand, the Chief Executive Officer of Tuesday Morning Corporation, hereby certify that to the best of my knowledge and belief:

1. The Annual Report on Form 10-K of Tuesday Morning Corporation for the fiscal year ended June 30, 2021 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: September 13, 2021

By: /s/ FRED HAND
Fred Hand
Chief Executive Officer

Exhibit 32.2

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

I, Marc Katz, the Interim Chief Financial Officer and Treasurer of Tuesday Morning Corporation, hereby certify that to the best of my knowledge and belief:

1. The Annual Report on Form 10-K of Tuesday Morning Corporation for the fiscal year ended June 30, 2021 fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the above-mentioned report fairly presents, in all material respects, the financial condition and results of operations of Tuesday Morning Corporation.

Date: September 13, 2021

By: /s/ MARC KATZ
Marc Katz
Principal and Chief Operating Officer, Interim Chief Financial Officer