

**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, 2020

or

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

**Commission File Number 0-19658**

**Tuesday Morning Corporation**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**75-2398532**

(I.R.S. Employer Identification No.)

**6250 LBJ Freeway**

**Dallas, Texas 75240**

**(972) 387-3562**

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

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

<b>Title of each class</b>	<b>Trading Symbol</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$0.01 par value per share	TUESQ	*

\* As previously disclosed, on May 27, 2020, Tuesday Morning Corporation (the "Company") was notified by the Listing Qualifications Department of The Nasdaq Stock Market ("Nasdaq") that the Company's common stock would be delisted from Nasdaq as a result of the Company's filing of a voluntary petition under Chapter 11 of the United States Bankruptcy Code. On June 8, 2020, trading in the Company's common stock on Nasdaq was suspended, and the Company's common stock began trading on the OTC Pink Market under the symbol "TUESQ". On July 1, 2020, Nasdaq filed a Form 25 with the SEC to delist the Company's common stock. The deregistration of the common stock under Section 12(b) of the Securities Exchange Act of 1934 (the "Exchange Act") will be effective 90 days, or such shorter period as the SEC may determine, after filing of the Form 25. Upon deregistration of the common stock under Section 12(b) of the Exchange Act, the common stock will remain registered under Section 12(g) of the Exchange Act.

**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, 2019 was approximately \$66,809,834 based upon the closing sale price on the Nasdaq Global Select Market reported for such date.

As of the close of business on September 10, 2020, there were 46,957,928 outstanding shares of the registrant's common stock.

**Documents Incorporated By Reference:**

None.

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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 plans with respect to the Chapter 11 Cases, the Company's plan to continue its operations while it works to complete the Chapter 11 process, the Company's debtor-in-possession financings, the Company's ability to continue as a going concern, the Company's plans for store closures and lease renegotiations, financial projections and other statements regarding the Company's proposed reorganization, strategy, future operations, performance and prospects, sales and growth expectations, our liquidity, capital expenditure plans, 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:

- our ability to obtain timely Bankruptcy Court approval with respect to motions filed in the Chapter 11 Cases;
- the Bankruptcy Court's rulings in the Chapter 11 Cases and the outcome of the Chapter 11 Cases generally;
- our ability to comply with the restrictions imposed by the terms of the Company's debtor-in-possession financing agreements, including the Company's ability to maintain certain minimum liquidity requirements and obtain approval of a plan of reorganization or sale of all of its assets by agreed upon deadlines;
- the length of time that we will operate under Chapter 11 protection and the continued availability of operating capital during the pendency of the Chapter 11 Cases;
- our ability to continue to operate our business during the pendency of the Chapter 11 Cases;
- employee attrition and our ability to retain senior management and other key personnel due to the distractions and uncertainties;
- the effectiveness of the overall restructuring activities pursuant to the Chapter 11 Cases and any additional strategies we may employ to address our liquidity and capital resources;
- the actions and decisions of creditors and other third parties that have an interest in the Chapter 11 Cases;
- risks associated with third parties seeking and obtaining authority to terminate or shorten the Company's exclusivity period to propose and confirm one or more plans of reorganization, for the appointment of a Chapter 11 trustee or to convert the Chapter 11 proceeding to a Chapter 7 proceeding;
- increased legal and other professional costs necessary to execute the Company's restructuring;
- our ability to maintain relationships with suppliers, customers, employees and other third parties as a result of the Chapter 11 Cases;
- the trading price and volatility of the Company's common stock and the effects of the delisting from The Nasdaq Stock Market ("Nasdaq");
- litigation and other risks inherent in a bankruptcy process;
- 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 imported products;*
- *changes in federal tax policy including tariffs;*
- *the success of our marketing, advertising and promotional efforts;*
- *our ability to attract, train and retain quality employees in appropriate numbers, including key employees and management;*
- *increased variability due to seasonal and quarterly fluctuations;*
- *our ability to 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, digital media and newspaper circulars.

With 685 stores across the country as of June 30, 2020, 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, Bankruptcy Filing and Going Concern

The COVID-19 pandemic has had, and will 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 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 have gradually reopened as allowed by state and local jurisdictions, and all but two of our stores had re-opened by the end of the fiscal year. The scope and duration of this pandemic and the related disruption to our business and financial impacts cannot be reasonably estimated at this time.

#### *Bankruptcy Filing and Going Concern*

- 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 are being jointly administered for procedural purposes.
- We will continue 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.
- After we filed our Chapter 11 Cases, the Bankruptcy Court granted certain relief requested by us enabling us to conduct our business activities in the ordinary course, including, among other things and subject to the terms and conditions of such orders, authorizing us to pay employee wages and benefits, to pay taxes and certain governmental fees and charges, to continue to operate our cash management system in the ordinary course, and to pay the pre-petition claims of certain of our vendors. For goods and services provided following the Petition Date, we intend to pay vendors in full under normal terms. See Note 3 - “Debt” and Note 12 – “Subsequent Events” to the consolidated financial statements herein for a discussion of our debtor-in-possession financing agreements.
- Subject to certain exceptions, under the Bankruptcy Code, the filing of the Chapter 11 Cases automatically enjoined, or stayed, the continuation of most judicial or administrative proceedings or filing of other actions against us or our property to recover, collect or secure a claim arising prior to the Petition Date. Accordingly, although the filing of the Chapter 11 Cases triggered defaults under our funded debt obligations, creditors were stayed from taking any actions against us as a result of such defaults, and the creditors’ rights of enforcement are subject to the applicable provisions of the Bankruptcy Code and the Bankruptcy Court orders modifying the stay, including the order of the Bankruptcy Court approving the DIP ABL Facility (as defined below). Absent an order of the Bankruptcy Court, substantially all of our pre-petition liabilities are subject to settlement under the Bankruptcy Code.

- 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, we commenced the process to close 132 store locations in a first wave of store closings. By the end of July, 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. We also expect to close our Phoenix, Arizona distribution center in early fiscal 2021. In the fiscal year ended June 30, 2020, we recorded impairment and abandonment charges of \$105.2 million related to the permanent store and Phoenix distribution center closing plan, as discussed in Note 1 in the Notes to Consolidated Financial Statements.
- We have concluded that our financial condition and our projected operating results, our need to satisfy certain financial and other covenants in our debtor-in-possession financing, our need to implement a restructuring plan and receive new financing, and the risks and uncertainties surrounding the COVID-19 pandemic and the Chapter 11 Cases raise substantial doubt as to our ability to continue as a going concern. We believe that our plans, already implemented and continuing to be implemented, will mitigate the conditions and events that raised substantial doubt about the entity's ability to continue as a going concern. However, due to the uncertainty around the scope and duration of the COVID-19 pandemic and the related disruption to our business and financial impacts, and because our plans, including those in connection with the Chapter 11 Cases, are not yet finalized, fully executed, or approved by the Bankruptcy Court, they cannot be deemed probable of mitigating this substantial doubt. The consolidated financial statements do not include any adjustments that would result if the Company was unable to realize its assets and settle its liabilities as a going concern in the ordinary course of business.
- For the duration of the Chapter 11 Cases, our operations and ability to develop and execute our business plan are subject to the risks and uncertainties associated with the Chapter 11 process as described in Item 1A. "Risk Factors." As a result of these risks and uncertainties, the amount and composition of our assets, liabilities, officers and/or directors could be significantly different following the outcome of the Chapter 11 proceedings, and the description of our operations, properties, liquidity and capital resources included in this annual report may not accurately reflect our operations, properties, liquidity and capital resources following the Chapter 11 process.
- As a result of the filing of the Chapter 11 Cases, the Company's common stock was delisted from trading on Nasdaq, and the Company's common stock now trades over the counter in the OTC Pink Market under the symbol "TUESQ".

## **Business Strategy**

In fiscal 2020, 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 our supply chain efficiency, working capital management and inventory turns, and continued to optimize our marketing effectiveness, cost controls and infrastructure.

We adjusted our strategy in the spring of fiscal 2020, as a result of the COVID-19 pandemic and significant disruption to our business, which led to the filing of our Chapter 11 Cases. For the duration of fiscal 2020, our focus was on safeguarding our assets, preserving liquidity, managing through bankruptcy proceedings, and planning for our anticipated emergence.

## **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, 2019, 2018, and 2017 accounted for approximately 37%, 34% and 33% of our annual net sales for fiscal years 2020, 2019 and 2018, respectively. The rate for fiscal 2020 is impacted by the reduced annual sales achieved due to the COVID-19 pandemic, which resulted in reduced sales in the second half of our fiscal year.

## **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. Historically, the increase in working capital needs during this time was financed with cash flow provided by operations and 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, including information regarding our debtor-in-possession financing agreements, which are (1) the 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 other lenders, which provides for a super priority secured debtor-in-possession revolving credit facility in an aggregate amount of up to \$100 million (the "DIP ABL Facility"), and (2) the Senior Secured Super Priority Debtor-In-Possession Delayed Draw Term Loan Agreement (the "DIP DDTL Agreement") with the Franchise Group, Inc., which provides for delayed draw term loans up to an aggregate principal amount of \$25 million (the "DIP Term Facility").

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 2020, our top ten vendors accounted for approximately 10.7% of total purchases, with no single vendor accounting for more than 1.6% of total purchases.

## **Low Cost Operations**

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

## **Customer Shopping Experience**

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

## **Distribution Network**

In fiscal 2020, we utilized 1.2 million square feet of distribution center facilities in Dallas, Texas and a 0.6 million square foot distribution center in Phoenix, Arizona, along with bypass facilities and a network of pool point facilities throughout the country which service all of our stores throughout the United States. The Phoenix distribution center commenced operations during the fourth quarter of fiscal 2016. We shipped approximately 98 million units to our stores during fiscal 2020, a significant reduction from the prior year, impacted by the COVID-19 pandemic. In fiscal 2020, as the next step in our supply chain strategy, we began the retrofit of our existing Dallas-based distribution facility to accommodate our distribution requirements for our existing store base as well as for planned future growth. Due to the impacts of COVID-19, the retrofit of the Dallas distribution center was ceased in the fourth quarter of fiscal 2020. We also 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 we expect to be completed in early fiscal 2021.

## **Pricing**

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

## **Employees**

As of June 30, 2020, we employed 1,555 persons on a full-time basis and 5,878 persons on a part-time basis, which is a significant reduction from the prior year due to the impacts of COVID-19 and a resulting reduction in force we implemented in the fourth quarter of fiscal 2020. Our employees are not represented by any labor unions. We have not experienced any work stoppage due to labor disagreements, and we believe that our employee relations are strong.

## **Intellectual Property**

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

## **Corporate Information**

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

We maintain a website at [www.tuesdaymorning.com](http://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](http://www.sec.gov), which contains the reports, proxy and information statements and other information which we file with, or furnish to, the SEC.

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## **Stores and Store Operations**

**Store Locations.** As of June 30, 2020, we operated 685 stores in the following 39 states:

<b>State</b>	<b># of Stores</b>	<b>State</b>	<b># of Stores</b>
Alabama	20	Missouri	18
Arizona	21	Nebraska	3
Arkansas	12	Nevada	6
California	56	New Jersey	10
Colorado	20	New Mexico	6
Delaware	3	New York	9
Florida	63	North Carolina	29
Georgia	31	North Dakota	1
Idaho	5	Ohio	17
Illinois	12	Oklahoma	12
Indiana	13	Oregon	10
Iowa	5	Pennsylvania	18
Kansas	8	South Carolina	19
Kentucky	11	Tennessee	22
Louisiana	15	Texas	109
Maryland	14	Utah	6
Massachusetts	1	Virginia	33
Michigan	6	Washington	14
Minnesota	7	Wisconsin	6
Mississippi	14		

**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. As a result of the disruption to our business from the pandemic, and as part of our reorganization, we have accelerated the closure of a significant number of stores, as described above. 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 lease substantially all store locations under operating leases. Our existing store leases generally are for an initial term of five to ten years with two five-year renewal options and, in limited circumstances, our store leases involve a tenant allowance for leasehold improvements. We record rent expense ratably over the life of the lease beginning with the date we take possession of or have the right to use the premises, and if our leases provide for a tenant allowance, we record the landlord reimbursement as a liability and ratably amortize the liability as a reduction to rent expense over the lease term beginning with the date we take possession of or control the physical access to the premises. Leases for new stores also typically allow us the ability to terminate a lease after approximately 60 months if store sales do not reach a stipulated amount stated in the lease. As a result, we generally do not operate locations with continued store-level operating losses for an extended period of time. As a result of the disruption to our business from the COVID-19 pandemic, we have reviewed all of our leases and renegotiated the terms of many of our leases, obtaining more favorable terms. New leases and amendments to existing leases are often for shorter terms than historically.

**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, 2020. 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. As noted above, we temporarily closed all stores as of March 25, 2020 due to the COVID-19 pandemic, and began the process to re-open in late April, and continued re-opening stores on a rolling basis with modified operating hours as appropriate. By June 15, 2020, we had reopened all but two of our 687 store locations, and those stores have since been permanently closed. The timing and frequency of shipments of merchandise to our stores results in efficiency of receiving and restocking activities at our stores. The COVID-19 pandemic resulted in significant disruption to the inventory flow to our stores. We attempt to align our part-time employees’ labor hours with anticipated workload and with current sales. We generally conduct annual physical counts of our store merchandise staggered throughout the second half of our fiscal year. In the second half of fiscal 2020, due to the impact of the COVID-19 pandemic including our temporary store closures, we conducted physical inventories at a portion of our stores sufficient to validate the existence of inventory in our stores and the accuracy of our estimated shrink reserve rate.

**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

***As a result of the filing of the Chapter 11 Cases, we are subject to the risks and uncertainties associated with bankruptcy proceedings, and operating under Chapter 11 may restrict our ability to pursue strategic and operational initiatives.***

For the duration of the Chapter 11 Cases, our operations and our ability to execute our business strategy will be subject to the risks and uncertainties associated with bankruptcy. These risks include:

- our ability to obtain timely Bankruptcy Court approval with respect to motions filed in the Chapter 11 Cases;
- the Bankruptcy Court’s rulings in the Chapter 11 Cases and the outcome of the Chapter 11 Cases generally;
- our ability to comply with the restrictions imposed by the terms of the DIP ABL Facility and the DIP Term Facility, including the Company’s ability to maintain certain minimum liquidity requirements, complete the DIP Term Facility, and obtain approval of a plan of reorganization or sale of all of its assets by agreed upon deadlines;
- the length of time that we will operate under Chapter 11 protection and the continued availability of operating capital during the pendency of the Chapter 11 Cases;
- our ability to continue to operate our business during the pendency of the Chapter 11 Cases;
- employee attrition and our ability to retain senior management and other key personnel due to the distractions and uncertainties;
- the effectiveness of the overall restructuring activities pursuant to the Chapter 11 Cases and any additional strategies we may employ to address our liquidity and capital resources;
- the actions and decisions of creditors and other third parties that have an interest in the Chapter 11 Cases;
- risks associated with third parties seeking and obtaining authority to terminate or shorten the Company’s exclusivity period to propose and confirm one or more plans of reorganization, for the appointment of a Chapter 11 trustee or to convert the Chapter 11 proceeding to a Chapter 7 proceeding;
- increased legal and other professional costs necessary to execute the Company’s restructuring;
- our ability to maintain relationships with suppliers, customers, employees and other third parties as a result of the Chapter 11 Cases;
- the trading price and volatility of the Company’s common stock and the effects of the delisting from Nasdaq; and
- litigation and other risks inherent in a bankruptcy process.

Because of the risks and uncertainties associated with the Chapter 11 Cases, we cannot predict or quantify the ultimate impact that events occurring during the Chapter 11 process may have on our business, financial condition and results of operations, and there is substantial doubt as to our ability to continue as a going concern. We believe that our plans, already implemented and continuing to be implemented, will mitigate the conditions and events that have raised substantial doubt about the entity’s ability to continue as a going concern. However, due to the uncertainty around the scope and duration of the COVID-19 pandemic and the related disruption to our business and financial impacts, and because our plans, including those in connection with the Chapter 11 Cases, are not yet finalized, fully executed, or approved by the Bankruptcy Court, they cannot be deemed probable of mitigating this substantial doubt.

***Our common stock has been delisted from trading on Nasdaq, and is traded only in the over-the-counter market, which could negatively affect our stock price and liquidity. Additionally, trading in our securities during the pendency of the Chapter 11 Cases is highly speculative and poses substantial risks. Trading prices for the Company’s common stock may bear little or no relationship to the actual recovery, if any, by holders of the Company’s common stock in the Chapter 11 Cases.***

On May 27, 2020, the Company received a letter from the Listing Qualifications Department staff of The Nasdaq Stock Market (“Nasdaq”) notifying it that, as a result of the Chapter 11 Cases and in accordance with Nasdaq Listing Rules 5101, 5110(b) and IM-5101-1, Nasdaq determined that the Company’s common stock would be delisted from Nasdaq. On June 8, 2020, trading in the Company’s common stock on Nasdaq was suspended. On July 1, 2020, Nasdaq filed a Form 25 with the SEC to delist the Company’s common stock and the delisting was effective 10 days thereafter.

On June 8, 2020, the Company's common stock began trading on the OTC Pink marketplace under the symbol "TUESQ". The Company can provide no assurance that the Company's common stock will continue to trade on this market, whether broker-dealers will continue to provide public quotes of the Company's common stock on this market, whether the trading volume of the Company's common stock will be sufficient to provide for an efficient trading market or whether quotes for the Company's common stock will continue on this market in the future. The Company cautions that trading in the Company's common stock during the pendency of the Chapter 11 Cases is highly speculative and poses substantial risks. Trading prices for the Company's common stock may bear little or no relationship to the actual recovery, if any, by holders of the Company's common stock in the Chapter 11 Cases.

***The pursuit of the Chapter 11 Cases has consumed and will continue to consume a substantial portion of the time and attention of our management, which may have an adverse effect on our business and results of operations, and we may face increased levels of employee attrition.***

While the Chapter 11 Cases continue, our management will be required to spend a significant amount of time and effort focusing on the cases. This diversion of attention may materially adversely affect the conduct of our business, and, as a result, our financial condition and results of operations, particularly if the Chapter 11 Cases are protracted.

During the pendency of the Chapter 11 Cases, our employees will face considerable distraction and uncertainty and we may experience increased levels of employee attrition. A loss of key personnel or material erosion of employee morale could have a materially adverse effect on our ability to meet customer expectations, thereby adversely affecting our business and results of operations. The failure to retain or attract members of our management team and other key personnel could impair our ability to execute our strategy and implement operational initiatives, thereby having a material adverse effect on our financial condition and results of operations.

***If we are not able to confirm a Chapter 11 plan of reorganization or liquidation or are not able to consummate a sale of the Company or certain of its material assets pursuant to Section 363 of the Bankruptcy Code, we could be required to liquidate under Chapter 7 of the Bankruptcy Code.***

The Company intends to pursue, among other things, a Chapter 11 plan of reorganization or the consummation of a sale or other disposition of all or substantially all assets of the Company and certain of its subsidiaries pursuant to Section 363 of the Bankruptcy Code. If we are not able to confirm a plan of reorganization or liquidation or consummate a Section 363 sale, we could be forced to liquidate under Chapter 7 of the Bankruptcy Code.

Upon a showing of cause, the Bankruptcy Court may convert the Chapter 11 Cases to a case under Chapter 7 of the Bankruptcy Code. In such event, a Chapter 7 trustee would be appointed or elected to liquidate our assets for distribution in accordance with the priorities established by the Bankruptcy Code. We believe that liquidation under Chapter 7 would result in significantly smaller distributions being made to our creditors than those provided for in a Chapter 11 sale because of (i) the likelihood that the assets would have to be sold or otherwise disposed of in a distressed fashion over a short period of time rather than in a controlled manner and as a going concern, (ii) additional administrative expenses involved in the appointment of a Chapter 7 trustee, and (iii) additional expenses and claims, some of which would be entitled to priority, that would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of operations.

There can be no assurance that our current cash position and amounts of cash from future operations will be sufficient to fund operations. In the event that we do not have sufficient cash to meet our liquidity requirements, and our current financing is insufficient or exit financing is not available, we may be required to seek additional financing. There can be no assurance that such additional financing would be available, or, if available, would be available on acceptable terms. Failure to secure any necessary exit financing or additional financing would have a material adverse effect on our operations and ability to continue as a going concern.

***If we pursue a Chapter 11 plan of reorganization, our post-bankruptcy capital structure is yet to be determined, and any changes to our capital structure may have a material adverse effect on existing debt and security holders.***

If we pursue a Chapter 11 plan of reorganization, our post-bankruptcy capital structure will be set pursuant to a plan that requires Bankruptcy Court approval. Any reorganization of our capital structure may include exchanges of new debt or equity securities for our existing securities, and such new debt or equity securities may be issued at different interest rates, payment schedules and maturities than our existing creditors. The success of a reorganization through any such exchanges or modifications will depend on approval by the Bankruptcy Court and the willingness of existing security holders to agree to the exchange or modification, and there can be no guarantee of success. If such exchanges or modifications are successful, holders of our debt may find their holdings no longer have any value or are materially reduced in value, or they may be converted to equity and be diluted or may be modified or replaced by debt with a principal amount that is less than the outstanding principal amount, longer maturities and reduced interest rates. There can be no assurance that any new debt or equity securities will maintain their value at the time of issuance. If existing debt or equity holders are adversely affected by a reorganization, it may adversely affect our ability to issue new debt or equity in the future.



***Any plan of reorganization that we may implement will be based in large part upon assumptions and analyses developed by us. If these assumptions and analyses prove to be incorrect, our plan may be unsuccessful in its execution.***

Any plan of reorganization that we may implement could affect both our capital structure and the ownership, structure and operation of our businesses and will reflect assumptions and analyses based on our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we consider appropriate under the circumstances. Whether actual future results and developments will be consistent with our expectations and assumptions depends on a number of factors, including but not limited to (i) our ability to change substantially our capital structure; (ii) our ability to obtain adequate liquidity and financing sources; (iii) our ability to maintain customers' confidence in our viability as a continuing entity and to attract and retain sufficient business from them; (iv) our ability to obtain merchandise; (v) our ability to retain key employees, and (vi) the overall strength and stability of general economic conditions. The failure of any of these factors could materially adversely affect the successful reorganization of our businesses.

In addition, any plan of reorganization will rely upon financial projections, including with respect to revenues, EBITDA, capital expenditures, debt service and cash flow. Financial forecasts are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. In our case, the forecasts will be even more speculative than normal, because they may involve fundamental changes in the nature of our capital structure. Accordingly, we expect that our actual financial condition and results of operations will differ, perhaps materially, from what we have anticipated. Consequently, there can be no assurance that the results or developments contemplated by any plan of reorganization we may implement will occur or, even if they do occur, that they will have the anticipated effects on us and our subsidiaries or our businesses or operations. The failure of any such results or developments to materialize as anticipated could materially adversely affect the successful execution of any plan of reorganization.

***We may be unable to comply with restrictions imposed by our DIP ABL Facility and DIP Term Facility.***

The DIP ABL Facility and the DIP Term Facility contain customary affirmative and negative covenants for debtor-in-possession financings, which include, among other things, restrictions on (i) indebtedness, (ii) liens, (iii) mergers, consolidations and dispositions, (iv) affiliate transactions, (v) changes in the nature of our businesses, (vi) dividends, distributions, and other restricted payments, (vii) the use of loan proceeds and cash on hand, (viii) entering into agreements that restrict our subsidiaries from paying dividends or distributions or that restrict us or our subsidiaries from granting security interests and other liens, (ix) advances, loans and investments, and (x) transactions with respect to our subsidiaries. In addition, the DIP ABL Facility requires us to, among other things, maintain certain minimum liquidity requirements, and receive approval of a plan of reorganization or sale of substantially all of our assets through the Chapter 11 process pursuant to certain agreed upon deadlines. Our ability to comply with these provisions may be affected by events beyond our control and our failure to comply could result in an event of default under the DIP ABL Facility and DIP Term Facility. On September 8, 2020, the lenders under the DIP ABL Facility agreed to extend the deadline contained in the court order approving the DIP ABL Credit Agreement for filing a plan of reorganization or motion to sell substantially all of our assets to September 17, 2020. On September 9, 2020, the committee for the unsecured creditors in the Chapter 11 Cases filed an objection with the Bankruptcy Court asserting the extension was not valid. The Company believes the objection is without merit and intends to vigorously oppose the objection.

***We have substantial liquidity needs and may not be able to obtain sufficient liquidity during the pendency of the Chapter 11 proceedings or to confirm a plan of reorganization or liquidation.***

In addition to the cash requirements necessary to fund ongoing operations, we have incurred, and expect to continue to incur, significant professional fees and other costs in connection with our Chapter 11 proceedings. While we believe the DIP ABL Facility and the DIP Term Facility will provide sufficient liquidity to fund anticipated cash requirements through the Chapter 11 proceedings, there can be no assurance that our liquidity will be sufficient to allow us to satisfy our obligations related to the Chapter 11 Cases or to pursue confirmation of a Chapter 11 plan of reorganization or plan of liquidation. We can provide no assurance that we will be able to secure additional interim financing or exit financing sufficient to meet our liquidity needs or, if sufficient funds are available, offered to us on acceptable terms.

**We may be subject to claims that will not be discharged in our Chapter 11 proceedings, which could have a material adverse effect on our financial condition and results of operations.**

The Bankruptcy Code provides that the confirmation of a Chapter 11 plan of reorganization discharges a debtor from substantially all debts arising prior to confirmation. With few exceptions, all claims that arose prior to confirmation of the plan of reorganization (i) would be subject to compromise and/or treatment under the plan of reorganization and (ii) would be discharged in accordance with the Bankruptcy Code and the terms of the plan of reorganization. Any claims not ultimately discharged through a Chapter 11 plan of reorganization could be asserted against the reorganized entities and may have an adverse effect on our financial condition and results of operations on a post-reorganization basis.

***Our financial results may be volatile and may not reflect historical trends.***

During the Chapter 11 Cases, we expect our financial results to continue to be volatile as asset impairments, restructuring activities and expenses, contract terminations and rejections, and claims assessments may significantly impact our consolidated financial performance. As a result, our historical financial performance is likely not indicative of our financial performance after the Petition Date.

In addition, if we emerge from Chapter 11, the amounts reported in subsequent consolidated financial statements may materially change relative to historical consolidated financial statements, including as a result of revisions to our operating plans pursuant to a plan of reorganization. We also may be required to adopt fresh start accounting, in which case our assets and liabilities will be recorded at fair value as of the fresh start reporting date, which may differ materially from the recorded values of assets and liabilities on our consolidated balance sheets. Our financial results after the application of fresh start accounting also may be different from historical trends.

***Operating in bankruptcy for a long period of time may harm our business.***

A long period of operations under Bankruptcy Court protection could have a material adverse effect on our business, financial condition, results of operations, and liquidity. So long as the proceedings related to the Chapter 11 Cases continue, senior management will be required to spend a significant amount of time and effort dealing with the reorganization instead of focusing exclusively on business operations. A prolonged period of operating under Bankruptcy Court protection also may make it more difficult to retain management and other key personnel necessary to the success of our business. In addition, the longer the proceedings related to the Chapter 11 Cases continue, the more likely it is that customers will lose confidence in our ability to reorganize our business successfully and will seek to establish alternative commercial relationships.

So long as the proceedings related to these cases continue, we will be required to incur substantial costs for professional fees and other expenses associated with the administration of the Chapter 11 Cases, including the cost of litigation. In general, litigation can be expensive and time consuming to bring or defend against. Such litigation could result in settlements or damages that could significantly affect our financial results. It is also possible that certain parties will commence litigation with respect to the treatment of their claims under a plan of reorganization. It is not possible to predict the potential litigation that we may become party to, nor the final resolution of such litigation. The impact of any such litigation on our business and financial stability, however, could be material.

Should the Chapter 11 proceedings be protracted, we may also need to seek new financing to fund operations. If we are unable to obtain such financing on favorable terms or at all, the chances of successfully reorganizing our business may be seriously jeopardized and the likelihood that we will instead be required to liquidate our assets may increase.

***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 will 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. Although stores have gradually reopened as allowed by state and local jurisdictions, and all but two of our stores had re-opened by the end of the fiscal year, the scope and duration of this pandemic and the related disruption to our business and financial impacts cannot be reasonably estimated at this time. Further impacts may include, but are not limited to, both internal and external impacts to our supply chain, transportation capabilities, staffing ability, and self-insurance costs

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 that have reopened or may reopen. 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 impact our business, results of operations, financial condition and liquidity is highly uncertain and difficult to predict considering the rapidly evolving environment and will depend on future developments, including the potential further geographic spread and duration of the ongoing pandemic, the severity, containment, and management of the virus and the actions that may be taken by various governmental authorities and other third parties in response to the pandemic.

***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 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 23% of our total assets at June 30, 2020 and 64% at June 30, 2019. Our inventory balance at June 30, 2020 is significantly lower than the prior year due to the COVID-19 disruption to our supply chain operations. Also impacting the lower percentage for fiscal 2020 is the adoption of ASC 842 at the beginning of the fiscal year, which resulted in recognizing operating lease right-of-use assets on our balance sheet in the current year. Inventory at June 30, 2020 represented 47% of total assets excluding our operating lease right-of-use assets at that same date. Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels to meet our customers' demands without allowing those levels to increase to such an extent that the costs to store and hold the goods unduly impact our financial results. If our buying decisions do not accurately predict customer trends or purchasing actions, we may have to take unanticipated markdowns to dispose of the excess inventory, which also can adversely impact our financial results. We continue to focus on ways to reduce these risks, but we cannot assure that we will be successful in our inventory management. If we are not successful in managing our inventory balances, our results of operations may be negatively affected. We have recorded significant inventory write-downs from time to time in the past and there can be no assurances that we will not record additional inventory charges in the future.

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

With few exceptions, all inventory is shipped directly from suppliers to our distribution network, including our Dallas distribution center along with bypass and pool point facilities, where the inventory is then processed, sorted and shipped to our stores. We depend in large part on the orderly operation of this receiving and distribution process, which depends, in turn, on adherence to shipping schedules and effective management of our distribution centers. We may not anticipate all of the changing demands which our 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. We also cannot assure that our insurance will be sufficient, or that insurance proceeds will be paid to us in a timely manner, in the event a distribution center is shut down for any reason. As a result of the COVID-19 pandemic and impact to our business, we have announced that we will be closing our Phoenix distribution center. We expect the closure to be completed in early fiscal 2021 and there can be no assurance there will be no delays in the delivery of merchandise to our stores.

***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 fail to support our growth and may limit opportunities.

***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:

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

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

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

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 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 promotional efforts, including email, direct mail, newspaper inserts, digital video, digital display, search and social networks. In fiscal 2020, due to the COVID-19 pandemic, we reduced our marketing spend, and anticipate spending at a reduced level for an unknown period of time. If we are unable to increase our marketing spend appropriately, our business may suffer. 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. 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, 2019, 2018, and 2017 accounted for approximately 37%, 34% and 33% of our annual net sales for fiscal years 2020, 2019 and 2018, 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 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.

**If we fail to maintain an effective system of internal controls over financial reporting there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis, which could result in a loss of investor confidence and negatively impact our business, results of operations, financial condition and stock price.**

Effective internal controls are necessary for us to provide reliable and accurate financial statements and to effectively prevent fraud. As further described in Part II Item 9A “Controls and Procedures” of this Annual Report, management has concluded that, because of a material weakness in internal control over financial reporting related to ineffective assessment of impairment of long-lived assets, our disclosure controls and procedures were not effective as of June 30, 2020. Specifically, management’s estimation of fair value did not appropriately utilize market participant assumptions, which was identified and corrected prior to filing. The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We cannot be certain that these measures will be successful or that we will be able to prevent future significant deficiencies or material weaknesses. Any remediation efforts additionally may require us to incur unanticipated costs for various professional fees and services. Material inaccuracies in our financial statements would damage their value to management and our Board of Directors in making decisions as to the operation of our business, could harm our reputation and cause investors to lose confidence in our reported financial information.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

***Stores.***

We lease all of our stores from unaffiliated third parties, except one Company-owned store located adjacent to our existing distribution facility in Dallas, Texas. A description of the location of our stores is provided in Item 1, “Business—Stores and Store Operations.” At June 30, 2020, 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 60 months after entering into the lease if store sales do not reach a stipulated amount stated in the lease.

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

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

We lease from unaffiliated third parties four parcels of land of approximately 538,250 square feet, for trailer parking and storage.

In fiscal 2020, as the next step in our supply chain strategy, we began the retrofit of our existing Dallas-based distribution facility to accommodate our distribution requirements for our existing store base as well as for planned future growth. Due to the impacts of COVID-19, the retrofit of the Dallas distribution center was ceased in the fourth quarter of fiscal 2020. We also 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 we expect to be completed in early fiscal 2021.

**Item 3. Legal Proceedings**

Information related to the Chapter 11 Cases that were filed on May 27, 2020 is included in Note 1 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**

As a result of the filing of the Chapter 11 Cases, on June 8, 2020, trading in the Company's common stock on Nasdaq was suspended. On July 1, 2020, Nasdaq filed a Form 25 with the SEC to delist the Company's common stock.

On June 8, 2020, the Company's common stock began trading on the OTC Pink marketplace under the symbol "TUESQ". Securities traded in the over-the-counter market generally have significantly less liquidity than securities traded on a national securities exchange. Over-the-counter market quotations may reflect inter-dealer prices, without any retail mark-up, mark-down or commission and may not necessarily represent actual transactions. The Company cautions that trading in the Company's common stock during the pendency of the Chapter 11 Cases is highly speculative and poses substantial risks. Trading prices for the Company's common stock may bear little or no relationship to the actual recovery, if any, by holders of the Company's common stock in the Chapter 11 Cases.

As of September 10, 2020, there were approximately 155 holders of record of our common stock.

### **Dividend Policy**

During the fiscal years ended June 30, 2020, 2019 and 2018, 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 DIP ABL Facility and DIP Term Facility do not permit us to pay dividends or repurchase our common stock. Additional details are provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources"

### **Item 6. Selected Financial Data**

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 “Selected Financial Data” and our consolidated financial statements and related notes thereto included elsewhere in this Form 10-K.*

### **Overview**

- We are one of the original off-price retailers and a leading destination for unique home and lifestyle goods. We are 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 strong value proposition has established a loyal customer base, who we engage regularly with social media, email, direct mail, digital media and newspaper circulars.
- The COVID-19 pandemic has had, and will continue to have, an adverse effect on our business operations, store traffic, employee availability, financial condition, results of operations, liquidity and cash flow.
- On March 25, 2020, we temporarily closed all of our stores nationwide, as well as our distribution centers, and corporate office, severely reducing revenues and resulting in significant operating losses and the elimination of substantially all operating cash flow. Stores have gradually reopened as allowed by state and local jurisdictions. The scope and duration of this pandemic and the related disruption to our business and financial impacts cannot be reasonably estimated at this time.
- On April 24, 2020, we reopened 140 locations with reduced operating hours. We continued re-opening stores on a rolling basis with modified operating hours as appropriate. As of May 27, 2020, we had re-opened 563 of our stores, although with modified operating procedures in place to address COVID-19 related concerns and to comply with applicable laws, government instructions, and best practices to promote the safety of customers and employees. By June 15, 2020, we had reopened all but two of our 687 store locations, and those stores have since been permanently closed.

### *Bankruptcy Filing and Going Concern*

- 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 are being jointly administered for procedural purposes.
- We will continue 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.
- After we filed our Chapter 11 Cases, the Bankruptcy Court granted certain relief requested by us enabling us to conduct our business activities in the ordinary course, including, among other things and subject to the terms and conditions of such orders, authorizing us to pay employee wages and benefits, to pay taxes and certain governmental fees and charges, to continue to operate our cash management system in the ordinary course, and to pay the pre-petition claims of certain of our vendors. For goods and services provided following the Petition Date, we intend to pay vendors in full under normal terms. See Note 3 - “Debt” and Note 12 – “Subsequent Events” to the consolidated financial statements herein for a discussion of the DIP ABL Facility and the DIP Term Facility.
- Subject to certain exceptions, under the Bankruptcy Code, the filing of the Chapter 11 Cases automatically enjoined, or stayed, the continuation of most judicial or administrative proceedings or filing of other actions against us or our property to recover, collect or secure a claim arising prior to the Petition Date. Accordingly, although the filing of the Chapter 11 Cases triggered defaults under our funded debt obligations, creditors were stayed from taking any actions against us as a result of such defaults, and the creditors’ rights of enforcement are subject to the applicable provisions of the Bankruptcy Code and the Bankruptcy Court orders modifying the stay, including the order of the Bankruptcy Court approving the DIP ABL Facility. Absent an order of the Bankruptcy Court, substantially all of our pre-petition liabilities are subject to settlement under the Bankruptcy Code.
- 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, we commenced the process to close 132 store locations in a first wave of store closings. By the end of July, 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. We also expect to close our Phoenix, Arizona distribution center in early fiscal 2021. In the fiscal year ended June 30, 2020, we recorded restructuring, impairment, and abandonment charges of \$105.2 million related to the permanent store and Phoenix distribution center closing plan, as discussed in Note 1 in the Notes to Consolidated Financial Statements.

- We have concluded that our financial condition and our projected operating results, our need to satisfy certain financial and other covenants in our debtor-in-possession financing, our need to implement a restructuring plan and receive new financing, and the risks and uncertainties surrounding the COVID-19 pandemic and the Chapter 11 Cases raise substantial doubt as to our ability to continue as a going concern. We believe that our plans, already implemented and continuing to be implemented, will mitigate the conditions and events that have raised substantial doubt about the entity's ability to continue as a going concern. However, due to the uncertainty around the scope and duration of the COVID-19 pandemic and the related disruption to our business and financial impacts, and because our plans, including those in connection with the Chapter 11 Cases, are not yet finalized, fully executed, or approved by the Bankruptcy Court, they cannot be deemed probable of mitigating this substantial doubt. The consolidated financial statements do not include any adjustments that would result if the Company was unable to realize its assets and settle its liabilities as a going concern in the ordinary course of business.
- For the duration of the Chapter 11 Cases, our operations and ability to develop and execute our business plan are subject to the risks and uncertainties associated with the Chapter 11 process as described in Item 1A. "Risk Factors." As a result of these risks and uncertainties, the amount and composition of our assets, liabilities, officers and/or directors could be significantly different following the outcome of the Chapter 11 proceedings, and the description of our operations, properties, liquidity and capital resources included in this quarterly report may not accurately reflect our operations, properties, liquidity and capital resources following the Chapter 11 process.
- As a result of the filing of the Chapter 11 Cases, the Company's common stock was delisted from trading on Nasdaq, and the Company's common stock now trades over the counter in the OTC Pink Market under the symbol "TUESQ".

*Results for the Year ended June 30, 2020*

- We operated 685 stores in 39 states as of June 30, 2020. Our store base decreased from 714 stores in 40 states as of June 30, 2019. As of March 25, 2020, we temporarily closed all of our stores due to the COVID-19 pandemic. Prior to that date, we had approximately 400 stores closed in compliance with state and local regulations. In late April 2020, we began the process of re-opening our stores, which continued throughout our fourth quarter. By the end of June 2020, we had re-opened all but two of our stores, which are now permanently closed. As discussed above, by the end of July, we completed the closure of all of our first wave of 132 store closings, and have begun the process of closing an additional 65 stores. We also began the process to close our Phoenix, Arizona distribution center. These store closures will have an impact on our operating cash flows.
- Our net sales for fiscal 2020 were significantly negatively impacted by the COVID-19 pandemic. Net sales for fiscal 2020 were \$874.9 million, a decrease of 13.1% compared to \$1,007 million for the same period last year, primarily due to the impact from the pandemic. Comparable store sales (which we define as stores open at least five quarters, including stores relocated in the same market and renovated stores) declined 11.8%. The decrease in comparable store sales was due to an 11.5% decrease in customer transactions along with a 0.4% decrease in average ticket. All stores that were temporarily closed due to the pandemic continued to be included in the computation of comparable store sales for fiscal 2020; thereby negatively impacting comparable store sales. To provide a further assessment of our performance and a more comparable performance indicator, we calculated comparable store sales excluding the period of time stores were closed as a result of the COVID-19 pandemic, and estimate that comparable store sales, as adjusted for only the period of time stores were open in both fiscal 2020 and fiscal 2019, were approximately flat for fiscal 2020. Additionally, to provide a comparable measure for our continuing stores, we calculated comparable store sales excluding the period of time stores were closed as a result of the COVID-19 pandemic, as well as excluding sales for the stores we plan to permanently close, and estimate that comparable store sales, as further adjusted, declined approximately 1.3% for fiscal 2020. Sales per square foot for the year ended June 30, 2020 were \$102, a decrease of 11.3% from the period ended June 30, 2019. We utilize key performance indicators, such as those described above, to evaluate performance of our business. These measures are defined as described above and throughout management's discussion and analysis.
- Gross margin for fiscal 2020 was 32.6%, compared to 35.0% for fiscal 2019.
- Selling, general and administrative expenses (SG&A) for fiscal 2020 decreased \$32.2 million to \$330.6 million, from \$362.8 million for fiscal 2019.
- Impairment and abandonment charges were \$105.2 million during fiscal 2020, and related to our permanent store closing plan along with our decision to close our Phoenix distribution center.
- Restructuring costs, excluding impairment and abandonment charges, were \$8.3 million during fiscal 2020, and included compensation costs related to a reorganization reduction in force completed prior to the filing of our Chapter 11 Cases along with professional fees incurred prior to the filings.

- Reorganization items were \$3.6 million during fiscal 2020, and included professional fees incurred after and as a direct result of the filing of our Chapter 11 Cases.
- Our operating loss for fiscal 2020 was \$159.2 million compared to an operating loss of \$10.5 million for fiscal 2019. The operating loss in the current year was primarily the result of the significant impairment and abandonment charges recognized for the approved permanent store and Phoenix distribution center closures, and lower net sales which were significantly driven by the impact of the COVID-19 pandemic, along with restructuring costs as well as reorganization costs resulting from the filing of our Chapter 11 Cases.
- Our net loss for fiscal 2020 was \$166.3 million, or diluted net loss per share of \$3.68 compared to a net loss for fiscal 2019 of \$12.4 million, or diluted net loss per share of \$0.28.
- As shown under the heading “Non-GAAP Financial Measures” below, EBITDA was negative \$135.3 million for fiscal 2020, compared to positive \$16.4 million for fiscal 2019. Adjusted EBITDA, was negative \$15.4 million for fiscal 2020 compared to positive \$20.0 million for fiscal 2019.
- Inventory levels at June 30, 2020 decreased \$123.0 million to \$114.9 million from \$237.9 million at June 30, 2019. The decrease in inventory as compared to June 30, 2019 was driven primarily by the disruption to our business caused by the COVID-19 pandemic, including the liquidation of inventory at our stores identified for permanent closure. While our supply chain recommenced operations in mid-June 2020, the disruption to inventory flow is immense. Inventory turnover for the trailing five quarters as of June 30, 2020 was 2.8 turns, compared to the trailing five quarter turnover as of June 30, 2019 of 2.7 turns.
- Cash and cash equivalents at June 30, 2020 increased \$35.3 million to \$46.7 million from \$11.4 million at June 30, 2019. We had remaining outstanding borrowings of \$0.1 million under our Pre-Petition ABL Credit Agreement (as defined below) at June 30, 2020 and borrowings of \$34.7 million at June 30, 2019. There were no outstanding borrowings under the DIP ABL Facility at June 30, 2020. Total liquidity, defined as cash and cash equivalents plus the \$33.0 million availability for borrowing under the DIP ABL Facility, was \$79.7 million as of June 30, 2020. In early July 2020, an additional \$25 million of additional borrowing capacity became available upon our execution of the DIP Term Facility.

## Results of Operations

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

	Fiscal Year Ended June 30,		
	2020	2019	2018
Net sales	100.0%	100.0%	100.0%
Cost of sales	67.4	65.0	66.1
Gross margin	32.6%	35.0%	33.9%
Selling, general and administrative expenses	37.8	36.0	36.0
Restructuring, impairment, and abandonment charges	13.0	0.0	0.0
Operating loss	(18.2%)	(1.0%)	(2.1%)
Interest expense	(0.4)	(0.2)	(0.2)
Reorganization items, net	(0.4)	0.0	0.0
Other income	0.0	0.1	0.1
Income tax provision/(benefit)	0.0	0.0	(0.0)
Net loss	(19.0%)	(1.2%)	(2.2%)
Number of stores open at end of period	685	714	726

See Note 1 in the Notes to Consolidated Financial Statements herein for a discussion of restructuring, impairment, and abandonment charges, as well as reorganization items.

## Non-GAAP Financial Measures

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

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

	Year Ended June 30,	
	2020	2019
Net loss (GAAP)	\$ (166,328)	\$ (12,440)
Depreciation and amortization	27,019	26,127
Interest expense, net	3,823	2,435
Income tax provision	221	246
EBITDA (non-GAAP)	(135,265)	16,368
Share-based compensation expense (1)	2,720	3,536
Cease-use rent expense (2)	—	70
Reorganization expenses (3)	3,619	—
Restructuring, impairment and abandonment charges (4)	113,492	—
Adjusted EBITDA (non-GAAP)	\$ (15,434)	\$ 19,974

- (1) Adjustment includes charges related to share-based compensation programs, which vary from period to period depending on volume, timing and vesting of awards. We adjust for these charges to facilitate comparisons from period to period.
- (2) Adjustment includes accelerated rent expense recognized in relation to closing stores prior to lease termination. In fiscal 2019, few stores were closed prior to lease termination. While accelerated rent expense may occur in future periods, the amount and timing of such expenses will vary from period to period.
- (3) Adjustment includes only incremental professional fees incurred after and as a direct result of the filing of the Chapter 11 Cases.
- (4) Adjustment includes only certain restructuring expenses incurred prior to the filing of the Chapter 11 Cases, including professional fees and compensation costs related to a reorganization reduction in force completed prior to the filing of the Chapter 11 Cases, and also includes impairment and abandonment charges related to the permanent closure plan for stores and our Phoenix distribution center.

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

Our net sales for the third quarter of fiscal 2020 were significantly negatively impacted by the COVID-19 pandemic. Net sales were \$874.9 million in fiscal 2020 compared to \$1,007 million in fiscal 2019. On March 25, 2020, we 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. Comparable store sales decreased 11.8%. 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. All stores that were temporarily closed due to the pandemic continued to be included in the computation of comparable store sales for fiscal 2020, thereby negatively impacting comparable store sales. The decrease in comparable store sales was comprised of a decrease in customer transactions of 11.5% along with a decrease in average ticket of 0.4%. Non-comparable store sales decreased by a total of \$16.9 million and resulted in a 130 basis point negative impact on net sales. Non-comparable store sales include the net effect of sales from

new stores and sales from stores that have closed. The non-comparable store sales decrease was driven by 30 store closings, partially offset by one store opening, which have occurred since the end of fiscal 2019. To provide a further assessment of our performance and a more comparable performance indicator, we calculated comparable store sales excluding the period of time stores were closed as a result of the COVID-19 pandemic, and estimate that comparable store sales, as adjusted for only the period of time stores were open in both fiscal 2020 and fiscal 2019, were approximately flat for fiscal 2020. Additionally, to provide a comparable measure for our continuing stores, we calculated comparable store sales excluding the period of time stores were closed as a result of the COVID-19 pandemic, as well as excluding sales for the stores we plan to permanently close, and estimate that comparable store sales, as further adjusted, declined approximately 1.3% for fiscal 2020.

Gross profit for fiscal 2020 was \$284.9 million, a decrease of 19.1% compared to \$352.3 million for fiscal 2019. As a percentage of net sales, gross margin decreased to 32.6% in fiscal 2020 compared with 35.0% in fiscal 2019. The decrease in gross margin was primarily a result of higher markdowns, primarily driven by liquidation markdowns at closing stores, along with higher recognized supply chain and transportation costs.

SG&A decreased to \$330.6 million in fiscal 2020, compared to \$362.8 million in the same period last year. The decrease was due to lower labor costs, incentive compensation and retention costs, as well as reduced advertising, driven in part by the temporary store closures and cost management initiatives in response to the COVID-19 pandemic. As a percentage of net sales, SG&A increased to 37.8% for fiscal 2020, versus 36.0% in the prior year, deleveraging significantly, as impacted by the negative impact on sales in the current year quarter due to the COVID-19 pandemic.

Restructuring, impairment and abandonment charges, were \$113.5 million during fiscal 2020 and were primarily related to our permanent store closing plan along with our decision to close our Phoenix distribution center, as well as compensation costs related to a reorganization reduction in force completed prior to the filing of the Chapter 11 Cases and pre-filing incremental professional fees.

Our operating loss was \$159.2 million during fiscal 2020 as compared to an operating loss of \$10.5 million for fiscal 2019, an increase of \$148.7 million. The operating loss in the current year was primarily the result of the significant impairment and abandonment charges recognized for the approved permanent store and Phoenix distribution center closures, and lower net sales which were significantly driven by the impact of the COVID-19 pandemic, along with restructuring costs as well as reorganization costs resulting from the filing of our Chapter 11 Cases.

Interest expense increased \$1.3 million to \$3.8 million in fiscal 2020 compared to \$2.5 million in the prior year, as a result of higher interest rates on our revolving credit facility and increased borrowings during fiscal 2020, as well as the acceleration of financing costs as a result of reduced borrowing capacity driven by both a lower commitment and a reduced term. Other income was \$0.6 million in fiscal 2020 compared to \$0.8 million in fiscal 2019.

Income tax expense for fiscal 2020 was \$221,000 compared to income tax expense of \$246,000 in fiscal 2019. The effective tax rates for fiscal 2020 and 2019 were (0.1%) and (2.0%), 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, 2020. The total valuation allowance at the end of fiscal years 2020, 2019, and 2018 was \$67.6 million, \$27.5 million and \$23.7 million, respectively. A deviation from the customary relationship between income tax benefit and pretax income results from utilization of the valuation allowance.

#### **Fiscal Year Ended June 30, 2019 Compared to Fiscal Year Ended June 30, 2018**

For a discussion of fiscal 2019 results of operations as compared to fiscal 2018 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, 2019, filed with the SEC on August 22, 2019.

#### **Liquidity and Capital Resources**

##### *Cash Flows from Operating Activities*

In fiscal 2020, cash provided by operating activities was \$93.9 million, compared to \$19.6 million in the prior fiscal year. The increase in cash provided by operating activities for fiscal 2020 was primarily the result of a \$126.4 million larger decrease in inventory. This increase was partially offset by our higher net loss of \$153.9 million 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 rents, which were paid at the end of June, and a \$4.5 million higher cash usage in accounts payable and accrued liabilities.

### *Cash Flows from Investing Activities*

Net cash used in investing activities for fiscal 2020 and 2019 related primarily to capital expenditures. Our capital expenditures are generally associated with store relocations, expansions and new store openings, capital improvements to existing stores, as well as enhancements to our distribution center facilities, equipment, and systems along with improvements related to technology and equipment. Cash used in investing activities totaled \$13.9 million and \$16.3 million for fiscal 2020 and 2019, respectively. Prior year spending primarily related to our store real estate strategy, while current year spending reflects reduced real estate project activity and increased investment in our distribution center facilities as well as in technology.

We currently expect to incur capital expenditures, net of construction allowances received from landlords, of approximately \$6 million to \$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 the COVID-19 pandemic.

### *Cash Flows from Financing Activities*

Net cash used in financing activities of \$44.7 million in fiscal 2020 was related to \$34.6 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. Net cash used in financing activities of \$1.4 million in fiscal 2019 related to \$3.8 million of net repayments on our revolving credit facility, \$0.6 million of financing costs related to the January 2019 amendment and extension of our revolving credit facility, and \$0.2 million of capital lease principal payments, partially offset by a \$3.2 cash overdraft provision.

### *Pre-Petition ABL Credit Agreement*

We are party to a credit agreement providing for an asset-based, five year senior secured revolving credit facility in the original amount of up to \$180.0 million that 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 is secured by a lien on substantially all of our assets.

As of June 30, 2020, we had \$0.1 million remaining outstanding under the Pre-Petition ABL Credit Agreement, as required by the DIP ABL Credit Agreement. See Note 3 to the consolidated financial statements herein and “Liquidity” below for additional information.

### *Liquidity*

Historically, we have financed our operations with funds generated from operating activities, available cash and cash equivalents, and borrowings under our Pre-Petition ABL Credit Agreement.

The COVID-19 pandemic has had, and will 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 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.

The filing of the Chapter 11 Cases was an event of default under the Pre-Petition ABL Credit Agreement, making all amounts outstanding under the Pre-Petition ABL Credit Agreement immediately due and payable and no additional borrowings are available under the Pre-Petition ABL Credit Agreement. As of June 30, 2020, the remaining outstanding amounts under the existing agreement are reflected as a current liability in the Consolidated Balance Sheet.

To provide for liquidity during the Chapter 11 Cases, we have entered into agreements for debtor-in-possession financing. On May 29, 2020, in accordance with an order of the Bankruptcy Court, Debtors entered into the DIP ABL Credit Agreement, which provides for a super priority secured debtor-in-possession revolving credit facility in an aggregate amount of up to \$100 million. Under the terms of the DIP ABL Credit Agreement, amounts available for advances are subject to a borrowing base generally consistent with the borrowing base under the Pre-Petition ABL Credit Agreement, subject to certain agreed upon exceptions. The DIP ABL Credit Agreement requires that all proceeds of advances under the DIP ABL Facility be used only for ordinary course general corporate and working capital purposes, costs of administration of the Chapter 11 Cases, certain professional fees and fees and expenses relating to the DIP ABL Facility, in each case, in accordance with a cash flow budget that will be updated periodically, subject to certain permitted variances. The DIP ABL Credit Agreement requires that all cash received by us (other than proceeds of the DIP ABL Facility) be applied to repay outstanding amounts under the Pre-Petition ABL Credit Agreement.

The DIP ABL Facility contains customary affirmative and negative covenants for debtor-in-possession financings. In addition, the DIP ABL Facility requires us to, among other things, maintain certain minimum liquidity requirements, and receive approval of a plan of reorganization or sale of substantially all of our assets through the Chapter 11 process by agreed upon deadlines.

The commitments of the lenders under the DIP ABL Facility terminate and outstanding borrowings under the DIP ABL Facility mature at the earliest of the date which is one hundred eighty (180) days after the Petition Date; the date of consummation of the sale of all or substantially all of our assets; the effective date of a plan of reorganization; or upon the occurrence of an event of default under the DIP ABL Credit Agreement or such other date as the outstanding borrowings under the DIP Facility are accelerated.

As of June 30, 2020, cash and cash equivalents were \$46.7 million and total liquidity, defined as cash and cash equivalents plus borrowing availability, was \$79.7 million as of June 30, 2020, which includes \$33.0 million available for borrowing under the DIP ABL Facility. In early July 2020, an additional \$25 million of additional borrowing capacity became available upon our execution of the DIP DDTL Agreement.

As discussed above, in mid-June 2020, we commenced the process to close 132 store locations in a first wave of store closings. By the end of July, 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. We also began the process to close our Phoenix, Arizona distribution center and expect the closure to be completed early in fiscal 2021. These store closures will have an impact on our operating cash flows.

Please refer to Note 1, Note 3 and Note 12 in the Notes to Consolidated Financial Statements for additional information regarding the Chapter 11 Cases as well as for a discussion of the DIP ABL Facility and the DIP Term Facility.

Although we are seeking to address our liquidity concerns through the Chapter 11 Cases, the approval of a plan of reorganization or the sale of all or substantially all of our assets is not within our control and uncertainty remains as to whether the Bankruptcy Court will approve a plan of reorganization or a sale of all or substantially all of our assets.

We have concluded that our financial condition and our projected operating results, our need to satisfy certain financial and other covenants in our debtor-in-possession financing, our need to implement a restructuring plan and receive new financing, and the risks and uncertainties surrounding the COVID-19 pandemic and the Chapter 11 Cases raise substantial doubt as to our ability to continue as a going concern. We believe that our plans, already implemented and continuing to be implemented, will mitigate the conditions and events that have raised substantial doubt about the entity's ability to continue as a going concern. However, due to the uncertainty around the scope and duration of the COVID-19 pandemic and the related disruption to our business and financial impacts, and because our plans, including those in connection with the Chapter 11 Cases, are not yet finalized, fully executed, or approved by the Bankruptcy Court, they cannot be deemed probable of mitigating this substantial doubt.

## Critical Accounting Policies and Estimates

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

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

**Impairment of Long-Lived Assets**—We evaluate long-lived assets, principally property and equipment, as well as lease right-of-use assets subsequent to the adoption of ASC 842, 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. 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 statement of operations. The impairments were the result of closing plans for these stores and the Phoenix distribution center.

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.

Our property and equipment, combined with our operating lease right-of-use assets totaled \$327.1 million as of June 30, 2020, or approximately 65% of total assets, which reflects the impact of the \$80.1 million impairment recorded in the fourth quarter of fiscal 2020. Impairment charges recorded in fiscal 2019 were not material.

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

Our stores conduct annual physical inventories, staggered during the second half of the fiscal year. During periods in which physical inventory observations do not occur, we utilize an estimate for recording inventory shrink based on the historical results of our previous physical inventories. In the second half of fiscal 2020, due to the impact of the COVID-19 pandemic including our temporary store closures, we conducted physical inventories at a portion of our stores sufficient to validate the existence of inventory in our stores and the accuracy of our estimated shrink reserve rate. 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.

Inventory is one of the largest assets on our balance sheet and represented approximately 23%, 64%, and 62% of total assets at June 30, 2020, 2019, and 2018, respectively. Total inventory decreased \$123.0 million or 51.7% from June 30, 2019 to June 30, 2020, as a result of the COVID-19 pandemic and the disruption to our retail and supply chain operations, including the liquidation of inventory at our closing stores. Total inventory increased 5.6%, or \$12.5 million, from June 30, 2018 to June 30, 2019. On a per store basis, store inventory decreased 50.8% from June 30, 2019 to June 30, 2020 and increased 3.2% from June 30, 2018 to June 30, 2019.

**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 5.9% in fiscal 2020 and were 4.5% in fiscal 2019. The increase in fiscal year 2020 was primarily related to the markdowns taken in conjunction with our store closure going out of business sales. Markdowns may vary throughout the quarter or year in timing.

The effect of a 1.0% markdown in the value of our inventory at June 30, 2020 would result in a decline in gross profit and a reduction in our earnings per share for the fiscal year ended June 30, 2020 of \$1.1 million and \$0.02, respectively.

**Insurance and Self-Insurance Reserves**—We use a combination of insurance and self-insurance plans to provide for the potential liabilities associated with workers' compensation, general liability, property insurance, director and officers' liability insurance, vehicle liability and employee health care benefits. Our stop loss limits per claim are \$500,000 for workers' compensation, \$250,000 for general liability, and \$150,000 for medical. Liabilities associated with the risks that are retained by us are estimated, in part, by historical claims experience, severity factors and the use of loss development factors 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 \$8.4 million, \$1.3 million, and \$0.9 million, respectively, at June 30, 2020 and \$8.2 million, \$1.1 million, and \$0.9 million, respectively, at June 30, 2019.

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 \$2.7 million, \$3.3 million and \$8.7 million, respectively, for the fiscal year ended June 30, 2020; \$2.1 million, \$2.3 million and \$7.9 million, respectively, for the fiscal year ended June 30, 2019; and \$5.3 million, \$2.9 million and \$6.4 million, respectively, for the fiscal year ended June 30, 2018.

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

## Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of June 30, 2020.

## Contractual Obligations

The following table summarizes our contractual obligations at June 30, 2020 and the effects that such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

<u>Contractual Obligations</u>	Payments Due by Period				
	Total	1 Year or Less	2 - 3 Years	4 - 5 Years	More than 5 Years
Operating leases	\$ 433,541	\$ 89,598	\$ 146,106	\$ 108,697	\$ 89,140
Maintenance, insurance and taxes on operating leases	102,163	21,083	34,247	25,374	21,459
Finance leases	723	383	330	10	—
Borrowings under Pre-Petition ABL Credit Agreement	100	100	—	—	—
Interest and commitment fees on DIP ABL Credit Agreement	301	301	—	—	—
<b>Total</b>	<b>\$ 536,828</b>	<b>\$ 111,465</b>	<b>\$ 180,683</b>	<b>\$ 134,081</b>	<b>\$ 110,599</b>

Contractually required payments for maintenance, insurance and taxes on our leased properties are estimated as a percentage of rent based on historical trends. These amounts can vary based on multiple factors including inflation, macroeconomic conditions, various local tax rates and appraised values of our rental properties. The operating lease obligations include the lease obligations of our new, additional distribution center in Phoenix, Arizona opened in the fourth quarter of fiscal 2016. We do not consider most merchandise purchase orders to be contractual obligations due to designated cancellation dates on the face of the purchase order.

Commitment fees and interest on the Pre-Petition ABL Credit Agreement were calculated based on contractual commitment fees, standby letter of credit fees, and interest based on outstanding balances. As of June 30, 2020, the outstanding balance on the Pre-Petition ABL Credit Agreement was \$0.1 million and was no longer subject to unused commitment fees and interest.

Commitment fees and interest on the DIP ABL Credit Agreement are calculated based on contractual commitment fees, standby letter of credit fees, and interest based on any outstanding balances on the DIP ABL Credit Agreement. As of June 30, 2020, there were no balances outstanding and letters of credit totaled 8.8 million. See "Liquidity and Capital Resources" above. The interest and commitment fees on our DIP ABL Credit Agreement reflect the future cash requirements for interest payments until maturity and incorporates the interest rates in effect as of June 30, 2020. The interest on the letter of credit utilization and unused commitments are fixed at 3.125% and 0.5%, respectively.

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

### **Quarterly Results and Seasonality**

The tables in Note 10 in Notes to the Consolidated Financial Statements set forth certain quarterly financial data for the eight quarters ended June 30, 2020. The quarterly information is unaudited, but has been prepared on the same basis as the audited financial statements included elsewhere in this Form 10-K. We believe that all necessary adjustments (consisting only of normal recurring adjustments) have been included to present fairly the unaudited quarterly results when read in conjunction with our consolidated financial statements and related notes included elsewhere in this Form 10-K. The results of operations for any quarter are not necessarily indicative of the results for any future period. Please refer to Note 10 of the Consolidated Financial Statements.

Our quarterly results of operations may fluctuate based upon such factors as the number and timing of store openings, the amount of net sales contributed by new and existing stores, the mix of merchandise sold, pricing, store closings or relocations, competitive factors and general economic and weather-related conditions. The timing of advertised and promotional events could impact the weighting of sales between quarters. We expect to continue to experience seasonal fluctuations in our business, with a significant percentage of our net sales and operating income being generated in the quarter ending December 31, which includes the holiday selling season. Our results for the third and fourth quarters of fiscal 2020 were negatively impacted by the COVID-19 pandemic.

### **Inflation**

In our opinion, the overall impact of inflation has not had a material effect on our results of operations in any of the fiscal years of 2020, 2019, or 2018. We cannot assure that inflation will not materially affect our results of operations in the future.

### **Recent Accounting Pronouncements**

Refer to Note 1 to the Consolidated Financial Statements.

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

Not required.

## **Item 8. Financial Statements and Supplementary Data**

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

Index	Page Number
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
<a href="#">Consolidated Balance Sheets as of June 30, 2020 and 2019</a>	F-3
<a href="#">Consolidated Statements of Operations for the fiscal years ended June 30, 2020, 2019, and 2018</a>	F-4
<a href="#">Consolidated Statements of Stockholders' Equity for the fiscal years ended June 30, 2020, 2019, and 2018</a>	F-5
<a href="#">Consolidated Statements of Cash Flows for the fiscal years ended June 30, 2020, 2019, and 2018</a>	F-6
<a href="#">Notes to Consolidated Financial Statements for the fiscal years ended June 30, 2020, 2019, and 2018</a>	F-7

## **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, 2020. 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, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weakness in internal control over financial reporting described below in “Management’s Annual Report on Internal Control Over Financial Reporting.”

### **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, 2020. 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, and the material weakness identified below, management concluded that, as of June 30, 2020, Tuesday Morning did not maintain effective internal control over financial reporting.

A material weakness (as defined in Rule 12b-2 under the Exchange Act) is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We identified a material weakness in internal control related to ineffective assessment of impairment of long-lived assets. Management's 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 and corrected prior to filing. 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.

We are committed to maintaining a strong internal control environment and implementing measures designed to help ensure that control deficiencies contributing to the material weakness are remediated. We are designing and implementing our remediation plan for the material weakness in internal control over financial reporting described above, which includes steps to improve the operation and monitoring of control activities and procedures associated with our impairment assessment. We will consider the material weakness remediated after the applicable controls operate for a sufficient period of time, and management has concluded, through testing, that the controls are operating effectively.

Following identification of the material weakness and prior to filing this Annual Report on Form 10-K, we completed additional procedures for the year ended June 30, 2020. Based on these procedures, management believes that our consolidated financial statements included in this Form 10-K have been prepared in accordance with generally accepted accounting principles. Our principal executive officer and our principal financial officer have certified that, based on their knowledge, the financial statements, and other financial information included in this Form 10-K, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Form 10-K. Ernst & Young LLP, the Company's independent registered public accounting firm, has issued an unqualified opinion on our financial statements, which is included in page F-2 of this Form 10-K.

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, 2020. 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, 2020, 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, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, Tuesday Morning Corporation (the Company) has not maintained, in all material respects, effective internal control over financial reporting as of June 30, 2020, based on the COSO criteria.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment: Management has identified a material weakness in controls related to the Company's impairment assessment of long-lived assets.

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, 2020 and 2019, the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2020, and the related notes. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the fiscal year 2020 consolidated financial statements, and this report does not affect our report dated September 14, 2020, which 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 14, 2020

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

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

### **Changes in Internal Control Over Financial Reporting**

Other than the identification of the material weakness discussed 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**

*Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.*

On September 8, 2020, Trent E. Taylor, provided the Company with notice of his resignation as Chief Information Officer and Executive Vice President, Supply Chain and Inventory Management, effective September 25, 2020.

## PART III

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

#### Directors of the Company

**Terry Burman**, age 74, joined the Board of Tuesday Morning as a director in February 2013, and has served as Chairman of the Board of the Company since December 2015. Prior to that, Mr. Burman served as Lead Independent Director and a member of the Office of the Chairman from September 2015 to December 2015. Mr. Burman has served as the Non-Executive Chairman of the Board of Abercrombie & Fitch Co., a clothing retailer, since February 2018 and prior to that as Lead Independent Director since May 2017 and on the Board of Directors of Abercrombie & Fitch Co. since January 2014. He has been a director of Learning Care Group, a privately-held company operating over 900 learning and daycare centers in the United States, since July 2014. He has been a board member of the St. Jude Children's Research Hospital Board of Governors since July 2004 and has served as Chairman of the Board since July 1, 2020. Mr. Burman has also served as a board member of ALSAC, the fundraising organization of St. Jude, since July 2004 and on the Board of Trustees of the Norman Rockwell Museum since September 2016. Mr. Burman served as Chairman of the Board and a director of Zale Corporation, a jewelry retailer, from May 2013 until it was acquired in May 2014 and served on the Board of Directors of YCC Holdings LLC, a retailer of candles, fragrances and other products, from October 2007 until it was acquired in October 2013. From March 2001 to January 2011, Mr. Burman was the Chief Executive Officer of Signet Jewelers Limited ("Signet"), a specialty jewelry retailer. Mr. Burman joined Signet in 1995 as the Chairman and CEO of Sterling Jewelers, Inc., a U.S. division of Signet. Mr. Burman also served on the Board of Directors of Signet until January 2011. Prior to joining Signet, Mr. Burman held various senior executive positions of increasing responsibility with Barry's Jewelers, Inc., which now does business as Samuels Jewelers, from 1980 to 1995, including President and Chief Executive Officer from 1993 to 1995. Prior to that, Mr. Burman was a partner with Roberts Department Stores, a regional department store chain specializing in apparel. In nominating Mr. Burman to serve as a director of the Company, the Board of Directors considered his extensive executive, financial and management expertise and experience, his experience as a chief executive officer in the retail industry, his significant international management experience, and his general business and financial acumen.

**Steven R. Becker**, age 53, has served as a director of Tuesday Morning since July 2012 and was appointed its Chief Executive Officer in December 2015. Prior to becoming CEO of Tuesday Morning, Mr. Becker served as Chairman of the Board of the Company from July 2012 until September 2015 and as Executive Chairman and head of the Office of the Chairman from September 2015 until December 2015. Prior to becoming CEO of Tuesday Morning, Mr. Becker spent 20 years in the investment management industry with a focus on investing in middle market public companies. Mr. Becker has extensive public company board experience having previously served as a board member at a variety of public companies including, Hot Topic, Inc., an apparel retailer, Ruby Tuesday, a national restaurant company, Emcore, a semiconductor producer, Plato Learning, an educational software company, Pixelworks, a semiconductor producer, Fuel Systems Solutions, a manufacturer of alternative energy systems, and Special Diversified Opportunities, a holding company that owns businesses in a variety of industries, among others. Prior to becoming CEO of Tuesday Morning, Mr. Becker was the co-managing partner at Becker Drapkin Asset Management, whose predecessor, Greenway Capital, he founded in 2005. From 1997 to 2004, Mr. Becker was a partner at Special Situations Funds, a New York City based asset manager. Prior to joining Special Situations Funds, Mr. Becker was a part of the distressed debt and leveraged equities research team at Bankers Trust Securities. Mr. Becker began his career at Manley Fuller Asset Management in New York as a small cap analyst. In nominating Mr. Becker to serve as a director of the Company, the Board of Directors considered the insights Mr. Becker brings through his prior service as a director of the Company, his demonstrated leadership and experience as Chief Executive Officer and his extensive financial experience, in both public and private companies, which provides the Board with valuable expertise in corporate finance, strategic planning, and corporate governance.

**James T. Corcoran**, age 37, has served as a director of Tuesday Morning since November 2017. He is a Partner at AREX Capital Management, LP, an investment management firm focused on special situations, activism and catalyst-driven investing. He founded Purple Mountain Capital Partners LLC, a private investment firm, in 2017 and remains Chief Executive Officer. Prior to founding Purple Mountain Capital Partners LLC, he served as a Principal at Highfields Capital Management, a value-oriented investment management firm in Boston, from 2010 to 2016. Mr. Corcoran worked as an investment banking analyst for Credit Suisse (USA), Inc. in its leveraged finance and restructuring group, from 2006 to 2008, in addition to working in its hedge funds investment group, from 2005 to 2006. Mr. Corcoran received his MBA from the Harvard Business School and his AB with honors in Economics and Political Science from the University of Chicago and is a CFA charterholder. Mr. Corcoran was nominated by the Board pursuant to the terms of a Cooperation Agreement entered into with certain Company stockholders to settle a contested election for directors at the 2017 annual meeting of stockholders for the Company.

**Barry S. Gluck**, age 68, has served as a director of Tuesday Morning since January 2017. Mr. Gluck served in various senior management positions with Ross Stores Inc. (“Ross”) from 1989 to 2007, most recently as Executive Vice President of Merchandising, Marketing and Store Planning and Allocation. Prior to joining Ross, Mr. Gluck was with Today’s Man as Vice President, General Merchandise Manager and Chief Merchandising Officer and with Macy’s Department Stores as Vice President Divisional Merchandising Manager. Since 2012, Mr. Gluck has served as the Founder and Managing Director of Gluck Consulting LLC, a management consultant group which focuses primarily on off-price/value channels. In nominating Mr. Gluck to serve as a director of the Company, the Board considered his 32 years of off-price and value channel experience, his extensive executive, marketing and management expertise having served as a chief merchandising officer in the retail industry, and his general business and financial acumen.

**Frank M. Hamlin**, age 52, has served as a director of Tuesday Morning since April 2014. Mr. Hamlin is currently Executive Vice President, Chief Customer Officer of GameStop Corporation (“GameStop”), a global, multichannel video game, consumer electronics and wireless services retailer. Mr. Hamlin had previously served as Chief Marketing Officer of GameStop from June 2014 to August 2016. Mr. Hamlin served as Chief Marketing Officer of Spence Diamonds from May 2018 to August 2018 and as Executive Vice President and Chief Marketing Officer for Tailored Brands, Inc., a leading national menswear retailer from September 2017 to May 2018. Mr. Hamlin previously served as Executive Vice President and GM, Marketing and E-Commerce of Guitar Center, Inc., a musical instruments retailer, from June 2010 until May 2014, and as Executive Vice President and Chief Operating Officer of E-Miles, LLC, an interactive marketing company, from February 2007 to June 2010. From July 2004 until February 2007, he was Director of Marketing, Central Market Division for H.E. Butt Grocery, a fresh, specialty and prepared foods retailer. Prior to that time, Mr. Hamlin held various positions with Brierley & Partners, E-Rewards, Inc., Arista Records and The Walt Disney Company. In nominating Mr. Hamlin to serve as a director of the Company, the Board of Directors considered the various senior executive-level positions he previously held with retail service companies, as well as his extensive experience in marketing, branding strategy and customer engagement.

**Reuben E. Slone**, age 57, has served as a director of Tuesday Morning since June 2019. Mr. Slone is currently Executive Vice President, Supply Chain at Advance Auto Parts, Inc. (NYSE: AAP) and sat on the Board of Directors from March 2016 to October 2018. Mr. Slone is a seasoned supply chain executive with experience across multiple consumer-facing industry sectors at best-in-class companies. Previous to Advance Auto Parts Inc., Mr. Slone was Senior Vice President, Supply Chain at Walgreens, a pharmaceutical retailer from May 2012 to October 2018. From November 2004 until May 2012, Mr. Slone was Executive Vice President, Supply Chain, and General Manager, Services at Office Max. From April 2000 to November 2004, Mr. Slone held various positions at Whirlpool Corporation including Vice President Global Supply Chain, Vice President North American Region Supply Chain and Vice President, Global eBusiness. From February 1997 to March 2000, Mr. Slone was eGM Director, Global eSales and Director, Global Manufacturing Strategic Process and System Alignment at General Motors Corporation. Prior to that time, Mr. Slone held various positions with Federal-Mogul Corporation, Electronic Data Systems, Ernst & Young and Engineering Technology LTD. In nominating Mr. Slone to serve as a director of the Company, the Board of Directors considered his leadership qualities developed from his experience while serving as a senior supply chain executive with Advance Auto Parts, Walgreens, Office Max and Whirlpool, his other board experience, as well as his general business and financial acumen.

**Sherry M. Smith**, age 59, has served as a director of Tuesday Morning since April 2014. Ms. Smith served in various positions with SUPERVALU, Inc., a grocery retailer and food distributor, from 1987 to 2013. Ms. Smith served as Chief Financial Officer and Executive Vice President of SUPERVALU, Inc. from December 2010 until August 2013, and she previously served as Senior Vice President, Finance from 2006 until 2010, Senior Vice President, Finance and Treasurer from 2002 until 2005, and in various other capacities with SUPERVALU, Inc. prior to 2002. Ms. Smith has served on the Board of Directors of Deere & Company, a manufacturer and distributor of agricultural, turf, construction and forestry equipment, since December 2011, and currently serves as a member of the audit committee and finance committee. Ms. Smith has also served on the Board of Directors of Realogy Holdings Corporation since December 2014, and currently serves on its audit committee and nominating and governance committee. Ms. Smith has served on the Board of Directors of Piper Sandler Corp since January 2016, and currently serves on its compensation committee and audit committee. From January 2015 to December 2018, Ms. Smith served on the Financial Accounting Standards Advisory Council (FASAC), a group that advises the Financial Accounting Standards Board (FASB) on strategic issues, project priorities and other matters. In nominating Ms. Smith to serve as a director of the Company, the Board of Directors considered her leadership qualities developed from her experience while serving as a senior executive and as Chief Financial Officer of SUPERVALU, Inc., the breadth of her experiences in auditing, finance, accounting, compensation, strategic planning, and other areas of oversight, and her subject matter knowledge in the areas of finance and accounting and other board experience.

**Richard S. Willis**, age 60, has served as a director of Tuesday Morning since July 2012. Since January 2016, Mr. Willis has served as the Chief Executive Officer, President and a Director of Pharmaca Integrative Pharmacies, an innovative retail pharmacy that combines traditional pharmacy services with natural health and beauty products and expert practitioners. From September 2011 through December 2015, Mr. Willis served as the President, Chief Executive Officer and as a director of Speed Commerce, Inc. (formerly Navarre Corporation), one of the nation’s largest omni channel, pure play, end-to-end e-commerce solution providers.

Mr. Willis previously served as the Executive Chairman of Charlotte Russe, a mall-based specialty retailer of fashionable, value-priced apparel and accessories, from January 2011 to September 2011. From 2009 to 2011, Mr. Willis served as President of Shoes for Crews, a seller of slip resistant footwear. From 2003 to 2007, Mr. Willis was President and Chief Executive Officer of Baker & Taylor Corporation, a global distributor of books, DVDs and music. Previously, Mr. Willis served as Chairman, President and Chief Executive Officer of Troll Communications and President and Chief Executive Officer of Bell Sports. Mr. Willis served four terms as Chairman of the Board of Regents at Baylor University. In nominating Mr. Willis to serve as a director of the Company, the Board of Directors considered his considerable executive leadership experience across multiple industries, including distribution businesses that serve retailers and their suppliers, and his significant expertise in operating businesses and directing transformative plans, including executive level experiences of more than 20 years in retail and manufacturing industries.

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

## **Executive Officers**

### Stacie R. Shirley

Ms. Shirley, age 51, has served as the Company's Executive Vice President and Chief Financial Officer since January 2016. Prior to joining the Company, Ms. Shirley served as an executive director of Neiman Marcus Group LTD LLC, a luxury fashion retailer, serving as Senior Vice President, Finance and Treasurer from September 2010 until December 2015 and Vice President, Finance and Treasurer from December 2001 until September 2010. In her most recent position with Neiman Marcus Group, Ms. Shirley's areas of responsibility included finance, capital markets, treasury operations, capital planning and forecasting, credit operations, investor relations, risk management and internal audit. Prior to joining Neiman Marcus Group, Ms. Shirley served in various capacities at CompUSA Inc. from 1993 to 2001, including service as Vice President, Finance and Treasurer from 1999 for 2001. Ms. Shirley began her career as an accountant with Ernst & Young in 1990 and is a certified public accountant.

### Phillip D. Hixon

Mr. Hixon, age 66, has served as the Company's Executive Vice President, Store Operations since September 2015 and served as a member of the Office of the Chairman from September 2015 until the dissolution of that office in December 2015. From June 2014 to September 2015, Mr. Hixon served as the Company's Store Vice President, Store Operations, and from September 2013 to June 2014, Mr. Hixon served as the Company's Vice President, Store Planning. Prior to joining the Company, Mr. Hixon served as Vice President of Business Development of Merchco Services, Inc., a provider of retail store development and support services, from June 2012 until August 2013. From 2011 until 2012 and 2005 until 2006, Mr. Hixon owned and served as principal of Diversified Resources LLC, where he developed and implemented programs for clients in the areas of strategic planning, effective business practices, process enhancement and organizational effectiveness. From 2009 until 2011, Mr. Hixon served in the Department of Strategy and Innovation at Petco Animal Supplies Inc., a specialty retailer of pet supplies. From 2006 until 2009, Mr. Hixon held various executive positions with DuckWall-Alco Stores, Inc., a retail chain, including Senior Vice President, Store Operations, Real Estate, Store Development and Senior Vice President, Merchandising. Mr. Hixon served as Vice President, Store Development for Michaels Stores, Inc., a national arts and crafts specialty retailer, from 1987 until 2005.

### Trent E. Taylor

Mr. Taylor, age 63, has served as the Company's Chief Information Officer and Executive Vice President, Supply Chain and Inventory Management since March 2018. From June 2017 to February 2018, he served as the Company's Senior Vice President, Chief Information and Inventory Management Officer, from January 2017 to June 20017 as Senior Vice President, Chief Information Officer and Supply Chain Officer, and from April 2016 to January 2017, as the Company's Senior Vice President, Chief Information Office and Supply Chain Officer. Prior to joining the Company, Mr. Taylor served as an executive officer of hhgregg, a retailer of consumer electronics and home appliances as Chief Information Officer from September 2011 until March 2016. On March 6, 2017, hhgregg filed for a voluntary petition under Chapter 11 of the Bankruptcy Code. From November 1992 until 2009, Mr. Taylor served in various roles for the Walgreen Company including Chief Information Officer and Executive Vice President of e-commerce. On September 8, 2020, Mr. Taylor provided the Company with notice of his resignation as an officer of the Company, effective September 25, 2020.

### Bridgett C. Zeterberg

Ms. Zeterberg, age 57, has served as the Company's Executive Vice President Human Resources, General Counsel and Corporate Secretary responsible for the Company's legal matters and oversight of the human resources, risk management and loss prevention functions since February 2019. From April 2017 to February 2019, she served as the Company's Senior Vice President Human Resources, General Counsel and Corporate Secretary. From July 2016 to April 2017, she served as the Company's Senior Vice President, General Counsel and Corporate Secretary. Prior to joining the Company, Ms. Zeterberg served as Senior Vice President, General Counsel and Corporate Secretary of Zale Corporation, and as Senior Vice President, General Counsel of Total Wine & More. Ms. Zeterberg served in various roles for hospitality company Accor North America including Vice President, Assistant General Counsel and Vice President of Human Resources for the Motel 6 Division.



## **Cooperation Agreement**

Pursuant to the terms of a Cooperation Agreement, dated as of October 1, 2017 (the “Cooperation Agreement”), among the Company, Jeereddi II, LP, Purple Mountain Capital Partners LLC and certain of their affiliates, the Company agreed to nominate James T. Corcoran for election to the Board at the 2017 Annual Meeting. Under the terms of the Cooperation Agreement, Mr. Corcoran agreed to offer his resignation to the Board if at any time the Jeereddi/PMCP Group no longer beneficially owned at least 533,344 shares of the Company’s common stock (subject to adjustment for stock splits, reclassifications, combinations and similar adjustments, the “Minimum Ownership Threshold”). In addition, so long as the Jeereddi/PMCP Group met the Minimum Ownership Threshold, the Jeereddi/PMCP Group was entitled to certain replacement rights during the Standstill Period (as defined below) in the event Mr. Corcoran is unable to serve as a director.

Also under the terms of the Cooperation Agreement, Jeereddi II agreed to irrevocably withdraw its notice of nomination of candidates for election at the 2017 Annual Meeting.

Further, under the terms of the Cooperation Agreement, each member of the Jeereddi/PMCP Group agreed to certain normal and customary standstill provisions during a standstill period, which was defined as the period beginning on the date of the Cooperation Agreement and through the later of (x) the date that is the first day to submit stockholder nominations for the 2019 annual meeting of stockholders pursuant to the Company’s Bylaws (the “2019 Advance Notice Date”) and (y) the date that Mr. Corcoran no longer serves on the Board; provided, however, that if Mr. Corcoran resigned for any reason prior to the 2019 Advance Notice Date, the Standstill Period would continue until the 2019 Advance Notice Date (the “Standstill Period”).

Among other things, the standstill provisions provided that, during the Standstill Period, each member of the Jeereddi/PMCP Group would not, among other things, solicit proxies or consents regarding any matter to come before any annual or special meeting of stockholders, or enter into a voting agreement or any group with stockholders other than affiliates of the Jeereddi/PMCP Group and current group members. In addition, each member of the Jeereddi/PMCP Group would not seek to make, or encourage any third party in making, any offer or proposal with respect to any tender offer, merger, acquisition, amalgamation, recapitalization, restructuring, disposition, spin-off, asset sale, joint venture or other business combination involving the Company and will not seek, or encourage any person, to submit nominees in furtherance of a contested solicitation for the election or removal of directors.

Each of the parties also agreed to certain mutual non-disparagement obligations, and the Company agreed to reimburse the Jeereddi/PMCP Group for its reasonable, documented out-of-pocket fees and expenses, including legal expenses, occurred in connection with the matters related to the negotiation and execution of the Cooperation Agreement, up to a maximum of \$25,000.

On July 24, 2019, the Parties amended and restated the cooperation agreement (“A&R Cooperation Agreement”) to extend the term of the Standstill Period during which the Jeereddi/PMCP Group will remain subject to certain previously disclosed normal and customary standstill provisions, and extend and continue certain other matters related to annual meetings of the stockholders and the continuing service of James T. Corcoran on the Board. Mr. Corcoran was nominated for election as a director at the 2019 Annual Meeting of Stockholders pursuant to the terms of the A&R Cooperation Agreement.

On May 6, 2020, the Company was notified that Jeereddi II, LP had reduced its ownership of the Company’s common stock such that the ownership of the Jeereddi/PMCP Group was below the Minimum Ownership Threshold. In accordance with the terms of the Cooperation Agreement, on May 6, 2020, Mr. Corcoran offered to resign from his position as a director of the Company. Mr. Corcoran informed the Company that his beneficial ownership of shares of the Company’s common stock had not changed from that reported in his most recent filing with the Securities and Exchange Commission on November 22, 2019. On May 8, 2020, the Board of Directors decided not to accept Mr. Corcoran’s offer to resign, and Mr. Corcoran continues to serve as a director of the Company.

## **Board of Directors’ Role in Risk Oversight**

In the normal course of business, our Company faces a variety of enterprise risks, including operational risks, cyber security risks and liquidity risk. In fulfilling its risk oversight role, the Board focuses on the adequacy of the Company’s risk management process and overall risk management system. The Board believes an effective risk management system will (1) adequately identify the material risks that the Company faces in a timely manner, (2) implement appropriate risk management strategies that are responsive to the Company’s risk profile and specific material risk exposures, (3) integrate consideration of risk and risk management into business decision-making throughout the Company and (4) include policies and procedures that adequately transmit necessary information with respect to material risks to senior executives and, as appropriate, to the Board or relevant committee.

The Board of Directors oversees the Company's strategic direction and its policies with respect to risk assessment and risk management, as well as major risk exposures and the process used to manage those exposures. Accordingly, the Board of Directors periodically reviews the risks associated with the various departments within the Company, in addition to its other duties. The Board of Directors receives information from Board committees, management and advisors regarding the Company's risk management process and system, the nature of the material risks the Company faces and the adequacy of the Company's policies and procedures designed to respond to and mitigate these risks.

## **Code of Business Conduct**

We have adopted a "Code of Business Conduct" that establishes the business conduct to be followed by all of our officers, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions (the "Senior Financial Officers"), and all of our employees and members of our Board and embodies the Company's principles and practices relating to the ethical conduct of the Company's business and its long-standing commitment to honesty, fair dealing and full compliance with all laws affecting the Company's business. This policy is reviewed by the Board annually. Amendments to and waivers from the Code of Conduct with respect to the Senior Financial Officers will be posted on our website within four business days after approval by the Board. Any waiver from the Code of Conduct with respect to our Senior Financial Officers requires approval by the Board. There were no waivers from the Code of Conduct with respect to the Senior Financial Officers during the fiscal year ended June 30, 2020. The Code of Conduct is available on the Company's website at [www.tuesdaymorning.com](http://www.tuesdaymorning.com) under "Investor Relations—Corporate Governance—Corporate Governance Documents."

## **Meetings and Committees of the Board of Directors**

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of his or her duties and to attend all Board, committee and stockholder's meetings. During the fiscal year ended June 30, 2020, the Board of Directors held 17 meetings. Each of our directors attended more than 75% of the Board and committee meetings held during the fiscal year (or portion of the fiscal year during which he or she served as a director or committee member). Directors are encouraged to attend the Company's annual meeting of stockholders. All Directors attended the Company's 2019 Annual Meeting of Stockholders held on November 20, 2019.

The Board has established an Audit Committee, Compensation Committee and Nominating and Governance Committee.

### *Audit Committee*

For the fiscal year ended June 30, 2020, the Audit Committee had four members and met seven times. Such members were Richard S Willis, as Chair, Frank M. Hamlin, James T. Corcoran and Reuben E. Sloane. All Audit Committee members were non-employee directors and the Board has determined all were independent pursuant to Nasdaq independence standards and satisfy the SEC requirements relating to the independence of audit committee members. The Board also determined that all the members of the Audit Committee had the ability to read and understand fundamental financial statements.

For the fiscal year ended June 30, 2020, the Board of Directors determined that Mr. Willis qualified as an "audit committee financial expert" as defined by applicable SEC rules and designated him as the Company's audit committee financial expert. The Board has adopted a charter for the Audit Committee, which is available on the Company's website at [www.tuesdaymorning.com](http://www.tuesdaymorning.com) under "Investor Relations—Corporate Governance—Corporate Governance Documents." The Audit Committee Charter is also available in print to any stockholder who requests a copy from the Secretary of the Company at 6250 LBJ Freeway, Dallas, Texas 75240.

### *Compensation Committee*

The Compensation Committee has three members and met six times during the fiscal year ended June 30, 2020. The Compensation Committee is comprised solely of non-employee directors, all of whom the Board has determined are independent pursuant to Nasdaq independence standards.

For the fiscal year ended June 30, 2020, the Compensation Committee was comprised of Sherry M. Smith, as Chair, Frank M. Hamlin and Barry S. Gluck. The Board adopted a charter for the Compensation Committee, which is available on the Company's website at [www.tuesdaymorning.com](http://www.tuesdaymorning.com) under "Investor Relations—Corporate Governance—Corporate Governance Documents." The Compensation Committee Charter is also available in print to any stockholder who requests a copy from the Secretary of the Company at 6250 LBJ Freeway, Dallas, Texas 75240.

## Nominating and Governance Committee

The Nominating and Governance Committee has four members and met four times during the fiscal year ended June 30, 2020. The Nominating and Governance Committee is comprised solely of non-employee directors, all of whom the Board has determined are independent pursuant to Nasdaq independence standards.

The Nominating and Governance Committee is currently comprised of Terry Burman, as Chair, Richard S Willis, Barry S. Gluck and James T. Corcoran. The Board adopted a charter for the Nominating and Governance Committee, which is available on the Company's website at [www.tuesdaymorning.com](http://www.tuesdaymorning.com) under "Investor Relations—Corporate Governance—Corporate Governance Documents." The Nominating and Governance Committee Charter is also available in print to any stockholder who requests a copy from the Secretary of the Company at 6250 LBJ Freeway, Dallas, Texas 75240.

## Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10% of our Common Stock to report their initial ownership of our Common Stock and any subsequent changes in that ownership to the SEC. Specific due dates have been established by the SEC for the filing of these reports, and we are required to disclose in this statement any failure to file by these dates. The SEC's rules require such persons to furnish the Company with copies of all Section 16(a) reports that they file. Based solely on our review of these reports and on written representations from the reporting persons that no report was required, we believe that the applicable Section 16(a) reporting requirements were complied with for all transactions which occurred during the fiscal year ended June 30, 2020.

## Item 11. Executive Compensation

### SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation of each of the NEOs for the fiscal year ended June 30, 2020 and 2019:

	Year	Salary	Bonus (1)	Stock Awards (2)	Option Awards (2)	Non-Equity Incentive Plan Compensation (3)	Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (4)	Total
		\$ 747,583	\$ 600,000	\$ 910,000	\$ —	\$ —	\$ —	\$ 12,583	\$ 2,270,166
Steven R. Becker (5) President and Chief Executive Officer	2020	\$ 747,583	\$ 600,000	\$ 910,000	\$ —	\$ —	\$ —	\$ 12,583	\$ 2,270,166
Stacie R. Shirley (6) Executive Vice President and Chief Financial Officer	2019	732,500	—	1,089,049	426,104	1,000,280	—	12,383	3,260,316
Trent E. Taylor (7) Chief Information Officer, Executive Vice President, Supply Chain and Inventory	2020	424,166	810,000	97,501	—	—	—	12,248	1,343,915
	2019	413,195	240,000	94,448	63,916	338,640	—	12,402	1,162,601
	2020	368,333	600,000	97,501	—	—	—	2,473	1,068,307
	2019	358,333	150,000	94,448	63,916	293,760	—	2,473	962,930

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- (1) Represents (i) payments made during fiscal 2020 under Retention Agreements executed during fiscal 2020 and fiscal 2018 and (ii) payments made during fiscal 2019 under Retention Agreements executed during fiscal 2018. See "Executive Retention Agreements" for additional information.
- (2) These columns represent the grant date fair value of the respective equity awards computed in accordance with Financial Accounting Standards Board's Accounting Standards Codification Topic 718, Compensation—Stock Compensation ("FASB ASC Topic 718"). The amounts reflect the probable outcome of performance conditions and market conditions as of the date of grant that affect the vesting of awards and exclude the impact of estimated forfeitures related to service-based vesting conditions. Refer to note (1)(l) and note (6) to the Company's consolidated financial statements herein for additional information on the valuation assumptions used in the calculation of grant date fair value for stock and option awards included in the Summary Compensation Table above. For additional information regarding stock and option awards to the NEOs, refer to the "Outstanding Equity Awards at 2020 Fiscal Year-End" table. The actual value realized by any named executive officer from these awards may range from \$0 to greater than the amounts reported, depending on the Company's performance, the market value of our common stock and the officer's number of additional years of service with the Company.

A portion of the amounts reflected under stock awards for fiscal 2020 for Mr. Becker includes the value of performance-based restricted stock awards (assuming target level performance), with a value of \$455,000 for Mr. Becker. The value of these performance-based restricted awards at the grant date assuming the highest level of performance was achieved is \$910,000 for Mr. Becker.

- (3) Performance under the Company's Annual Cash Incentive Plan for fiscal 2020 did not meet threshold payout levels. As a result, no amounts were paid under the Annual Cash Incentive Plan for fiscal 2020.
- (4) The amounts set forth in this column reflect the following for the fiscal year ended June 30, 2020:

	<b>Matching Contributions (4-a)</b>	<b>Life Insurance (4-b)</b>	<b>Total</b>
Steven R. Becker (5)	\$ 11,400	\$ 1,183	\$ 12,583
Stacie R. Shirley (6)	11,065	1,183	12,248
Trent E. Taylor (7)	—	2,473	2,473

- (4a) Matching contributions allocated by the Company to each of the NEOs pursuant to the Company's 401(k) Profit Sharing Plan available to all eligible employees.
- (4b) The value attributable to \$300,000 of life insurance premiums (and imputed income) provided under the Company's health benefit program available to all eligible employees.
- (5) Mr. Becker was appointed as Chief Executive Officer in December 2015 and was appointed as President in January 2017.
- (6) Ms. Shirley's appointment as Executive Vice President, Chief Financial Officer and Treasurer was approved on December 17, 2015, and she began service in this position on January 18, 2016. She served as Treasurer until January 31, 2019.
- (7) Mr. Taylor was promoted to Chief Information Officer, Executive Vice President, Supply Chain and Inventory Management Officer on March 3, 2018. Prior to his promotion, Mr. Taylor held the position of Senior Vice President, Chief Information and Inventory Management Officer from June 2017 to March 2018. Mr. Taylor was promoted to Senior Vice President, Chief Information and Supply Chain Officer in January 2017. On September 8, 2020, Mr. Taylor provided the Company with notice of his resignation as an officer of the Company, effective September 25, 2020.

## **NARRATIVE DISCLOSURE TO SUMMARY COMPENSATION TABLE**

### **Employment Agreements or Arrangements**

#### **Employment Agreement with Mr. Becker**

In connection with Mr. Becker's appointment as Chief Executive Officer, the Company entered into an employment agreement with Mr. Becker on December 11, 2015, which was amended in May 2018. In the Becker Employment Agreement, Mr. Becker agreed to serve as Chief Executive Officer for an initial term which ended June 30, 2019. The initial term of employment automatically renews for successive one-year periods unless either party provides notice of non-renewal at least 90 days prior to the expiration of the then current employment term. Mr. Becker's Agreement has been renewed through June 30, 2021.

Under the Becker Employment Agreement, Mr. Becker is entitled to, among other things, an annual base salary of not less than \$700,000. The base salary payable to Mr. Becker is intended to provide a fixed component of compensation reflecting his skill set, experience, role and responsibilities. In addition, Mr. Becker also is eligible for annual equity grants under the 2014 Plan, with the actual amounts subject to the approval of the Board's Compensation Committee. Mr. Becker also is eligible to earn an annual bonus each fiscal year under the Company's Annual Cash Incentive Plan with a threshold opportunity equal to 25% of his base salary, a target opportunity equal to 100% of his base salary and a maximum opportunity equal to 200% of his base salary. No payments were made to Mr. Becker under the Company's Annual Cash Incentive Plan for fiscal 2016, fiscal 2017, fiscal 2018 or fiscal 2020 as the threshold performance levels for each fiscal year were not achieved. In fiscal 2019, a formulaic payment of \$1,000,280 was earned.

In the Becker Employment Agreement, Mr. Becker has agreed to certain restrictive covenants during the employment term and for one year thereafter (or 18 months if Mr. Becker is terminated for any reason on or within 12 months following a change in control).

Under the Becker Employment Agreement, the amendment and the agreements governing Mr. Becker's equity awards, Mr. Becker is entitled to certain severance benefits as discussed below under "Potential Payments upon Termination or Change of Control."

## **Executive Retention Agreements**

On May 1, 2018, the Compensation Committee, following consultation with its independent compensation consultant, also approved Retention Agreements with Stacie R. Shirley and Trent E. Taylor taking into account, among other things, the competitive pressures in the retail industry and competitive hiring pressures in the Dallas-Fort Worth market. In exchange for each executive's agreement to remain employed with the Company through December 31, 2019, the Company agreed to pay the following retention amounts to each executive who entered into a Retention Agreement, less all applicable payroll and other tax withholdings (the "Retention Payment"): \$800,000 to Ms. Shirley, and \$500,000 to Messr. Taylor. Each Retention Payment was payable in two installments: 30% of the Retention Payment was paid on the first regularly scheduled payroll date following January 1, 2019 (the "First Retention Date"), and the remaining 70% of the Retention Payment was paid on the first regularly scheduled payroll date following January 1, 2020 (the "Second Retention Date"), provided the executive has remained employed by the Company through each applicable retention date.

Under the terms of the Retention Agreements, in the event an executive received payment of all or a portion of the Retention Payment and subsequently violates any of the Retention Agreement's restrictive covenants during the applicable restrictive covenant period (as set forth in the Retention Agreements), then the executive would have forfeited any unpaid portion of the Retention Payment and would have immediately repaid the full amount of the Retention Payment previously paid to the executive, less any taxes originally withheld by us from the payment.

## **Special Bonus Award**

On May 22, 2020, the Compensation Committee, recognizing that it needed consistent, experienced strong leaders focused on assisting the Company with meeting the daily responses to the COVID 19 pandemic as well as to retain their services during the reopening process, the bankruptcy reorganization proceedings and beyond, and following consultation with its independent compensation consultants and bankruptcy advisors, granted a Special Bonus Award and entered into retention letters (the "Retention Letters") with Mr. Becker, Ms. Shirley and Mr. Taylor. The Retention Letters provided for the payment on May 22, 2020 of retention awards in the following amounts: \$600,000 to Mr. Becker; \$250,000 to each of Ms. Shirley and Mr. Taylor.

Under the terms of each Retention Letter, 50% of the retention award will vest on February 1, 2021 (the "Time-Based Vesting Date"), and 50% of the retention award will vest on the earlier of (1) a sale of all or substantially all of the Company's assets as a going concern in an event that constitutes a "change in control" under the Company's 2014 Long-Term Incentive Plan or (2) in the event the Company files a plan of reorganization (and not a plan of liquidation), the date of confirmation by the applicable court of such plan of reorganization (the "Performance-Based Vesting Date"). Under each Retention Letter, the applicable officer will be required to repay the portion of the retention award that has not yet vested within 10 days of the first to occur of the following: (1) with respect to 100% of such officer's retention award, the termination of such officer's employment by the Company for cause or such officer's voluntary resignation; or (2) with respect to the portion of the retention award eligible to vest on the Performance-Based Vesting Date, a sale of assets or liquidation other than a sale of assets as a going concern.

## **Other Agreements**

Except as disclosed above, the Company is not a party to other employment agreements with any other current or former NEOs identified in the Summary Compensation Table other than at-will employment arrangements. Named executive officers are participants in the Severance Plan as discussed further below under "Potential Payments Upon Termination or Change in Control."

The Company has entered into indemnification agreements with each named executive officer, each in a form approved by the Board and previously disclosed by the Company. The Company has also entered into a form of the indemnification agreement with each of its directors. The Board has further authorized the Company to enter into the form of indemnification agreement with future directors and executive officers of the Company and other persons or categories of persons that may be designated from time to time by the Board. The indemnification agreement supplements and clarifies existing indemnification provisions of the Company's Certificate of Incorporation and Bylaws and, in general, provides for indemnification to the fullest extent permitted by law, subject to the terms and conditions provided in the indemnification agreement. The indemnification agreement also establishes processes and procedures for indemnification claims, advancement of expenses and costs and other determinations with respect to indemnification.

## **Awards under Equity Plans**

The equity award granted to the NEOs during fiscal 2020 were made as part of the annual LTI grant process. Such awards require that the named executive officer remain employed by the Company until the respective dates listed in the table (or provide consulting services if no longer employed by the Company) and, in the case of performance-based awards, that certain performance metrics be achieved, in each case, subject to the acceleration of vesting in certain circumstances described below under "Potential Payments upon Termination or Change of Control."



## OUTSTANDING EQUITY AWARDS AT FISCAL 2020 YEAR-END

	Option Awards					Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Shares, Units or Other Rights that Have Not Vested (1)
	Number of Securities Underlying Unexercised Options: Exercisable	Number of Securities Underlying Unexercised Options: Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested	Market Value of Shares or Units of Stock that Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested	
Steven R. Becker	10,000	—	—	\$ 4.22	7/1/22	—	\$ —	—	\$ —
	295,508	—	—	5.64	2/2/26				
	186,288	62,096	—	6.71	9/1/26(2)				
	124,193	124,192	—	2.45	9/19/27(3)				
	62,097	186,188	—	3.25	9/26/28(4)				
						173,078 (5)	27,693		
						277,439 (6)	44,390		
								104,322 (7)	16,692
								277,439 (8)	44,390
Stacie R. Shirley	80,593	—	—	5.64	2/2/26				
	16,208	5,402	—	6.71	9/1/26(2)				
	18,629	18,629	—	2.45	9/19/27(3)				
	9,315	27,943	—	3.25	9/26/28(4)				
						2,269 (9)	363		
						7,824 (10)	1,252		
						11,736 (11)	1,878		
						59,451 (6)	9,512		
								13,413 (12)	2,146
Trent E. Taylor	22,615	—	—	6.58	5/16/26				
	18,629	18,629	—	3.95	3/26/28(13)				
	4,391	1,464	—	6.71	9/1/26(2)				
	8,871	8,871	—	2.45	9/19/27(3)				
	9,315	27,943	—	3.25	9/26/28(4)				
						7,824 (14)	4,010		
						538 (9)	86		
						3,260 (10)	1,252		
						11,736 (11)	1,878		
						59,451 (6)	9,512		
								13,413 (12)	2,146

The following table sets forth certain information with respect of the stock awards held by NEOs as of June 30, 2020.

- (1) Market value was determined using the closing price of Common Stock of \$0.16, which was the closing price as reported on June 30, 2020.
- (2) These options vest in four equal annual installments, of which 75% having vested through September 1, 2019, and the remaining portion vesting September 1, 2020.
- (3) These options vest in four equal annual installments, with 50% having vested through September 19, 2019, and the remaining portion vesting on September 19, 2020 and September 19, 2021.
- (4) These options vest in four equal annual installments, of which 25% having vested through September 26, 2019, and the remaining portions vesting on September 26, 2020, September 26, 2021 and September 26, 2022.
- (5) These time-vesting restricted stock units granted on September 26, 2018 vest in four equal annual installments, with 25% having vested through September 26, 2019, and the remaining portions vesting on September 26, 2020, September 26, 2021 and September 26, 2022.
- (6) These restricted stock shares granted on September 10, 2019 vest in four equal annual installments on September 10, 2020, September 10, 2021, September 10, 2022 and September 10, 2023.
- (7) These performance-based restricted stock shares granted on September 26, 2018 will be measured on June 30, 2021 and will vest in September 2021, subject to certain performance conditions. These figures do not include an additional 104,322 shares that would vest if maximum performance levels are achieved because the threshold level of performance has not been achieved during the performance period.

- (8) These performance-based restricted stock shares granted on September 10, 2019 will be measured on June 30, 2022 and will vest in September 2022, subject to certain performance conditions. These figures do not include an additional 277,439 shares that would vest if maximum performance levels are achieved because the threshold level of performance has not been achieved during the performance period.
- (9) These restricted stock shares granted on September 1, 2016 vest in four equal annual installments, of which 75% of the shares having vested through September 1, 2019 and the remaining portion vesting on September 1, 2020.
- (10) These restricted stock shares granted on September 19, 2017 vest in four equal annual installments, of which 50% of the shares having vested through September 19, 2019, and the remaining portion vesting on September 19, 2020 and September 19, 2021.
- (11) These restricted stock shares granted on September 26, 2018 vest in four equal annual installments, of which 25% of the shares having vested through September 26, 2019, and the remaining portion vesting on September 26, 2020, September 26, 2021 and September 26, 2022.
- (12) These performance-based restricted stock shares granted on September 26, 2018 will be measured on June 30, 2021 and will vest in September 2021, subject to certain performance conditions. These figures do not include additional shares (13,413 shares for each of Mr. Taylor and Ms. Shirley) that would vest if maximum performance levels are achieved because the threshold level of performance has not been achieved during the performance period.
- (13) These options vest in four equal annual installments, with 50% having vested through March 26, 2020, and the remaining portion vesting on March 26, 2021 and March 26, 2022.
- (14) These restricted stock shares granted on March 26, 2018 vest in four equal installments, with 50% having vested through March 26, 2020, and the remaining portion vesting on March 26, 2021 and March 26, 2022.

## **POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL**

The tables below reflect the amount of compensation payable to each of the NEOs of the Company in the event of termination of such executive's employment or upon a change of control of the Company. The amount of compensation payable to each named executive officer upon voluntary termination, involuntary termination without cause, involuntary termination with cause, retirement, in the event of the executive's death or disability and in connection with a change of control is shown below. Amounts for awards granted pursuant to the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan 2008 (the "2008 Plan") and the 2014 Plan are calculated for purposes of the tables below, in the case of restricted stock, based on the closing price of Common Stock as of June 30, 2020 (\$0.16). Since the market price as of June 30, 2020 is below the exercise price of all outstanding stock options, no amounts are shown with respect to stock options.

### **Payments Made Upon Termination**

Regardless of the manner in which a named executive officer's employment terminates, he or she is generally entitled to receive amounts earned during his or her term of employment. Such amounts include:

- any accrued, unpaid base salary through the date of termination, any payments or benefits under employee benefit plans in which the executive participates on the date of termination and any unreimbursed expenses; and
- awards granted pursuant to the 2008 Plan and the 2014 Plan (as amended), to the extent vested or exercisable, except in the case of certain terminations for "cause" as discussed below.

### *Long-Term Incentive Plans*

Under the terms of the 2008 Plan and the 2014 Plan (as amended) (and any related award agreements thereunder), upon an executive's voluntary termination or involuntary termination without "cause," all of the executive's options that were exercisable on the date of such termination remain exercisable for a period of 90 days after the date of such termination (but no later than the original expiration date of the options); provided that the executive does not violate any applicable non-compete provisions pursuant to such executive's employment arrangement during such period, subject to certain exceptions, and all options that were not exercisable on such date will be forfeited.

Under the terms of the 2008 Plan and the 2014 Plan (as amended) (and any related award agreements thereunder), upon an executive's voluntary termination or involuntary termination for any reason (other than death, disability, retirement or in connection with a "change in control"), all unvested shares of restricted stock will be forfeited, provided that certain awards may continue to vest if the former executive serves as a director or consultant to the Company.

The award agreements under the 2008 Plan (for awards granted before February 18, 2014) generally define “cause” to mean (i) the commission of a felony or a crime involving moral turpitude or any other act or omission involving dishonesty, disloyalty or fraud, (ii) conduct tending to bring the Company into public disgrace, (iii) substantial and repeated failure to perform duties properly assigned to the executive, (iv) gross negligence or willful misconduct, or (v) breach of duty of loyalty or other act of fraud or dishonesty. During fiscal 2014, we adopted amended forms of award agreements for awards under the 2008 Plan, effective for awards granted under the plan on or after such date, under which “cause” is defined to mean (i) commission of fraud, embezzlement, theft, felony or an act of dishonesty in the course of the executive’s employment which damaged the Company, (ii) disclosure of trade secrets of the Company, or (iii) violated the terms of any non-competition, non-disclosure or similar agreement to which the executive is a party. Award agreements under the 2014 Plan define “cause” to mean the same as such term is defined under the amended forms of award agreements for the 2008 Plan.

The 2008 Plan also defines “cause” more broadly with respect to general provisions relating to forfeiture or recoupment of awards, whether exercised or unexercised or vested or unvested. If the committee administering the 2008 Plan finds that a holder of an award granted under the 2008 Plan, (i) committed fraud, embezzlement, theft, felony, a crime involving moral turpitude or an act of dishonesty in the course of his or her employment which damaged the Company, (ii) disclosed trade secrets of the Company, (iii) violated the terms of any non-competition, non-disclosure or similar agreement, (iv) knowingly caused or assisted in causing the publicly released financial statements of the Company to be misstated, (v) substantially and repeatedly failed to perform the duties of such executive’s office, (vi) committed gross negligence or willful misconduct, (vii) materially breached such executive’s employment agreement, (viii) failed to correct or otherwise rectify any failure to comply with reasonable instruction from the Company that could materially or adversely affect the Company, (ix) willfully engaged in conduct materially injurious to the Company, (x) harassed or discriminated against the Company’s employees, customers or vendors, (xi) misappropriated funds or assets, (xii) willfully violated Company policies or standards of business conduct, (xiii) failed to maintain specified immigration status, or (xiv) knowingly caused or assisted in causing the Company to engage in criminal misconduct, then some or all awards awarded to such holder, and all net proceeds realized with respect to any such awards, will be forfeited to the Company as determined by the committee. The committee may also specify in an award agreement that the rights, payments, and benefits of a holder of an award granted under the 2008 Plan with respect to such award will be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an award.

Under the terms of the 2008 Plan and the 2014 Plan (as amended) (and any related award agreements thereunder), upon an executive’s involuntary termination for “cause,” all of the executive’s options will be forfeited immediately upon termination, whether or not then exercisable.

#### *Annual Cash Incentive Plan*

Under the terms of the Annual Cash Incentive Plan, if a participating executive’s employment is terminated voluntarily for any reason, or is terminated by the Company for any reason other than death or disability, during a performance period, the participating executive will immediately forfeit any right to receive any incentive cash bonus for such performance period. If the termination occurs after the end of the performance period, but prior to the date of actual payment for such performance period, the committee administering the Annual Cash Incentive Plan may pay the terminated executive an amount not to exceed the amount of incentive cash bonus earned for such performance period.

#### *Severance Plan*

Pursuant to the Severance Plan, in the event an Eligible Executive’s employment is terminated by us without “cause” (as each such term is defined in the Severance Plan) at any time during the Severance Plan’s term or by an Eligible Executive for “good reason”, but only if such termination by the Eligible Executive for good reason occurs within 18 months following the closing date of a change in control, the Eligible Executive will be eligible to receive the following:

- **Severance Benefits:** If an Eligible Executive is a senior vice president, he or she will be eligible to receive severance payments of an amount equal to one times his or her annual base salary in effect immediately prior to such Eligible Executive’s termination of employment, payable in equal installments in accordance with our regular payroll procedures for 12 months. If an Eligible Executive is an executive officer higher than a senior vice president, he or she will instead be eligible to receive severance payments of an amount equal to 1.5 times his or her annual base salary in effect immediately prior to such Eligible Executive’s termination of employment, payable in equal installments in accordance with our regular payroll procedures for 18 months. The amount of an Eligible Executive’s annual base salary used to determine his or her severance amounts will not include any bonuses or financial perquisites. Generally, severance payments will commence on our next regularly scheduled payroll date immediately following the date we receive a validly executed, irrevocable release of claims from the Eligible Executive.

- In the event the Eligible Executive's termination of employment occurs within 18 months following a change in control (the "Change in Control Period"), the Eligible Executive's severance payments will be increased as follows: if an Eligible Executive is a senior vice president, his or her aggregate severance payments will be equal to 1.5 times such Eligible Executive's annual base salary, and if an Eligible Executive is an executive officer higher than a senior vice president, his or her aggregate severance payments will be equal to two times such Eligible Executive's annual base salary, in each case, as in effect immediately prior to his or her termination of employment, excluding all bonuses and financial perquisites, and payable in a lump sum on the first date his or her severance payments would have commenced had the termination of employment not occurred during the Change in Control Period as described above.
- Benefits Continuation Payments: Provided the Eligible Executive timely elects to continue in our group health plan pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), monthly payments equal to the employer-portion of health insurance premiums for our active employees for up to the number of months the Eligible Executive's severance benefits described above are payable (or, if earlier, until such Eligible Executive's COBRA coverage terminates for any reason), and provided further that the Eligible Executive timely returns a validly executed, irrevocable release of claims as described above. Benefits continuation payments will commence on the same date as the severance benefits described above commence.
- Outplacement Benefits: Outplacement services provided by an outplacement firm selected by us for up to six months, provided the Eligible Executive timely returns a validly executed, irrevocable release of claims as described above.

No benefits will be payable pursuant to the Severance Plan to an Eligible Executive for any termination of his or her employment other than by us without cause or by the Eligible Executive for good reason during the Change in Control Period (e.g., termination due to the Eligible Executive's death, disability, voluntary resignation without good reason, retirement, etc.). In addition, if an Eligible Executive is party to a severance agreement with us on the date his or her employment with us ends, the Eligible Executive will not be eligible for benefits under the Severance Plan if such benefits would be duplicative of any benefits he or she is eligible to receive pursuant to the terms of his or her severance agreement, and an Eligible Executive will cease receiving any benefits under the Severance Plan if he or she fails to comply with any written agreement in effect between the Eligible Executive and us (or any of our subsidiaries) that contains non-competition, non-solicitation, or confidentiality provisions.

#### *Offer Letters*

In connection with Ms. Shirley's appointment as Executive Vice President, Chief Financial Officer and Treasurer, the Company agreed to certain employment arrangements with Ms. Shirley on December 17, 2015 pursuant to an offer letter from the Company. Ms. Shirley's offer letter provides that in the event of an involuntary termination of her employment, Ms. Shirley will be entitled to receive a severance payment equal to her annual base salary as well as health benefits paid by the Company for 12 months in exchange for an executed severance agreement and release of claims.

#### **Special Incentive Payment**

Pursuant to a Retention Letter, the Company awarded a one-time cash bonus award, paid on May 22, 2020 to the NEOs (\$600,000 to Mr. Becker, \$250,000 to each Ms. Shirley and Mr. Taylor) subject to the certain terms and conditions, including certain repayment obligations as a retentive tool to ensure business continuity during the company restructuring.

Under the terms of each Retention Letter, 50% of the retention award will vest on February 1, 2021 (the "Time-Based Vesting Date"), and 50% of the retention award will vest on the earlier of (1) a sale of all or substantially all of the Company's assets as a going concern in an event that constitutes a "change in control" under the Company's 2014 Long-Term Incentive Plan or (2) in the event the Company files a plan of reorganization (and not a plan of liquidation), the date of confirmation by the applicable court of such plan of reorganization (the "Performance-Based Vesting Date"). Under each Retention Letter, the applicable officer will be required to repay the portion of the retention award that has not yet vested within 10 days of the first to occur of the following: (1) with respect to 100% of such officer's retention award, the termination of such officer's employment by the Company for cause or such officer's voluntary resignation; or (2) with respect to the portion of the retention award eligible to vest on the Performance-Based Vesting Date, a sale of assets or liquidation other than a sale of assets as a going concern.

#### **Payments Made Upon Retirement**

In the event of the retirement of a named executive officer (in addition to the items identified above under "Payments Made Upon Termination"), under the terms of the 2008 Plan and the 2014 Plan (as amended), all of the executive's options that were exercisable on the date of such retirement remain exercisable for a period of up to three years after the date of such retirement (but no later than the original expiration date of the options); provided that the executive does not compete against the Company (as defined in

the applicable plan or award agreement) during such period, subject to certain exceptions, and all options that were not exercisable on such date will be forfeited, provided that certain awards may continue to vest if the former executive serves as a director or consultant to the Company. Upon the executive's retirement, all unvested shares of restricted stock awarded under the 2008 Plan and the 2014 Plan (as amended) will be forfeited, provided that certain awards may continue to vest if the former executive serves as a director or consultant to the Company. The 2008 Plan generally defines "retirement" to mean the same as such term is defined under any Company pension plan or retirement program or as otherwise approved by the committee administering the plan. The 2014 Plan defines "retirement" to mean an executive's termination of service solely due to retirement upon or after the attainment of age 65.

No benefits will be payable pursuant to the Severance Plan to an Eligible Executive for any termination due to retirement, and no payments will be required under the Retention Agreements due to retirement.

### **Payments Made Upon Death or Disability**

In the event of the death or disability of a named executive officer (in addition to the items identified above under "Payments Made Upon Termination") the named executive officer would receive payments under the Company's disability or life insurance plan, as appropriate. Under the terms of the 2008 Plan (and related award agreements thereunder) (for awards granted before February 18, 2014), upon an executive's death or disability, all of the executive's options that were exercisable on the date of death or disability remain exercisable for a period of one year after such date (but no later than the original expiration date of the options), all options that were not exercisable on such date will be forfeited and all unvested shares of restricted stock will vest. During fiscal 2014, the Company adopted amended forms of award agreements for awards under the 2008 Plan, effective for awards granted under the plans on or after such date, under which, upon an executive's death or disability, all of the executive's unvested options will vest and become exercisable on the date of death or disability, all options will remain exercisable for a period of one year after such date (but no later than the original expiration date of the options), and all unvested shares of restricted stock will vest. Award agreements for awards under the 2014 Plan include provisions consistent with those in the amended forms of award agreements under the 2008 Plan with respect to accelerated vesting of equity awards upon an executive's death or disability.

The 2008 Plan defines "disability" to mean, (i) in the case of an award that is exempt from Code Section 409A, a disability that would entitle the executive to disability payments under any Company disability plan, or in the absence of such plan (or coverage thereunder), a permanent and total disability as defined in Code Section 22(e)(3), and (ii) in the case of an award subject to Code Section 409A, (A) the executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (B) the executive is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under a Company accident and health plan. The 2014 Plan defines "disability" to mean, (i) in the case of an award (other than an incentive stock option) that is exempt from Code Section 409A, a disability that would entitle the executive to disability payments under any Company disability plan or insurance policy, or in the absence of such plan or policy (or eligibility thereunder), that the executive, because of a physical or mental condition resulting from bodily injury, disease or mental disorder, is unable to perform his or her duties of employment for a period of six continuous months, as determined in good faith by the committee administering the plan, based upon medical reports or other evidence satisfactory to such committee, (ii) in the case of an incentive stock option, a total and permanent disability as defined under the rules governing such awards under the Code, and (iii) in the case of an award subject to Code Section 409A, a disability as defined under Code Section 409A and the regulations or other guidance issued thereunder (in lieu of the definition of disability for awards exempt from Code Section 409A to the extent necessary to comply with Code Section 409A).

### *Annual Cash Incentive Plan*

Under the terms of the Annual Cash Incentive Plan, if a participating executive's employment is terminated due to death or disability during a performance period, the committee administering the Annual Cash Incentive Plan may, in its discretion, pay the executive a pro rata portion of incentive cash bonus that would have been earned by the executive, if the executive had remained employed, based on the number of days worked during the performance period. The Annual Cash Incentive Plan defines "disability" to mean any disability that would entitle the executive to disability payments under the Company's disability plan or insurance policy; or, if no such plan or policy is then in existence or if the executive is not entitled to participate in such plan or policy, a physical or mental condition resulting from bodily injury, disease or mental disorder that prevents the executive from performing his or her duties for a period of six continuous months, as determined in good faith by the committee administering the Annual Cash Incentive Plan, based upon medical reports or other evidence satisfactory to the committee. However, if the incentive cash bonus award is subject to Code Section 409A, then the term "disability" will have the meaning given such term under Code Section 409A.

## *Executive Severance Plan*

Under the terms of the Severance Plan, no benefits will be payable if the participant's employment is terminated due to death or disability.

## **Payments Made Upon Change of Control**

### *Long-Term Incentive Plans*

Under the terms of all awards issued under the 2008 Plan, and all awards issued under the 2014 Plan prior to November 16, 2016, immediately prior to a change of control, all stock options and stock awards held by the named executive officer automatically vest and become exercisable.

Generally, a change of control is deemed to occur under the 2008 Plan and the 2014 Plan if:

- (a) any "person" or "group" other than an "exempt person" (as defined in such plan), is or becomes the "beneficial owner" (as such terms are defined in the Exchange Act and the rules thereunder), of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities; or
- (b) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation where the Company is the surviving entity or which do not affect the Company's corporate existence and, in the case of awards under the 2008 Plan and the 2014 Plan, the transaction is actually consummated; or
- (c) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets, other than a sale to an exempt person.

In addition, a change of control is deemed to occur under the 2008 Plan and the 2014 Plan if the individuals who are the incumbent directors (as determined under such plan) cease for any reason to constitute a majority of the members of the Board.

On November 16, 2016, the 2014 Plan was amended to provide that all future awards will not automatically vest upon a change of control. All future awards will vest if a participant's employment is terminated without "cause" or the participant terminates his or her employment for "good reason" at any time within the two year period following the change of control.

### *Severance Plan*

See "Potential Payments Made Upon Termination or Change in Control—Payments Made Upon Termination—Severance Plan" above for information regarding severance payments required under the Severance Plan in the event an Eligible Executive's employment is terminated by the Company without "cause" at any time during the Severance Plan's term or by an Eligible Executive for "good reason", but only if such termination by the Eligible Executive for good reason occurs within 18 months following the closing date of a "change in control" (as each such term is defined in the Severance Plan).

## **Steven R. Becker**

Under the Becker Employment Agreement, in the event Mr. Becker terminates his employment without "good reason," or the Company terminates his employment for "cause," Mr. Becker would only be entitled to the compensation identified above in the first paragraph under "Payments Made Upon Termination."

In the event Mr. Becker terminates his employment with "good reason," or the Company terminates his employment without "cause," prior to a "change in control" or more than 12 months thereafter (in addition to the items identified above under "Payments Made Upon Termination"), Mr. Becker would be entitled to: (i) 12 months base salary, paid in installments; (ii) his incentive cash bonus earned under the Company's Annual Cash Incentive Plan for the fiscal year prior to the year of termination but not yet paid as of the date of termination; and (iii) an amount equal to one times his annual bonus for such year at the target performance level for the fiscal year in which the termination occurred, if he had remained employed during the entire performance period, payable at the same time as the bonus would otherwise be payable. Mr. Becker would also forfeit any unvested options (including any options included in the initial grant under the agreement), and any vested options would remain exercisable until the earlier of (x) one year following his termination of all service with the Company (both as an employee and member of the Board) (or, if later, one year from the end of the performance period for the performance-based options in the initial grant under the agreement) or (y) expiration of the option's term.

In the event Mr. Becker terminates his employment with “good reason,” or the Company terminates his employment without “cause,” on or within 12 months after a “change in control” (in addition to the items identified above under “Payments Made Upon Termination”), Mr. Becker would be entitled to: (i) 18 months base salary, paid in installments; (ii) his incentive cash bonus earned under the Company’s Annual Cash Incentive Plan for the fiscal year prior to the year of termination but not yet paid as of the date of termination; and (iii) 1.5 times his target annual bonus payable at the same time as the bonus would otherwise be payable. In addition, all unvested time-based options held by Mr. Becker (including any time-based options included in the initial grant under the agreement) would immediately vest and all unvested performance-based options held by Mr. Becker (including any performance-based options included in the initial grant under the agreement, if still outstanding) would remain eligible to vest based upon achievement of performance goals in accordance with the terms of the applicable award agreement (pro-rated based on actual days of employment (provided that for Mr. Becker’s initial grant of performance-based options under the agreement, if termination of employment occurs after December 11, 2018, no proration would occur)). All vested options will have the same post-termination exercise period as described in the immediately preceding paragraph.

In the event of Mr. Becker’s termination upon the Company’s non-renewal of the Becker Employment Agreement, such termination would be treated as a termination without “cause” other than in connection with a “change in control” and Mr. Becker would be entitled to the same benefits and payments described above with respect to his termination without “cause.”

In the Becker Employment Agreement, Mr. Becker has agreed to certain restrictive covenants during the employment term and for one year thereafter (or 18 months if Mr. Becker is terminated for any reason on or within 12 months following a “change in control”).

The Becker Employment Agreement defines “cause” to mean: (i) an act of theft, embezzlement, fraud or dishonesty; (ii) any willful misconduct or gross negligence; (iii) any violation of fiduciary duties; (iv) conviction of, or pleading nolo contendere or guilty to, a felony or misdemeanor that may cause damage to the Company or its reputation; (v) an uncured, material violation of the Company’s written policies, standards or guidelines; (vi) an uncured, willful failure or refusal to satisfactorily perform duties or responsibilities; and (vii) an uncured, material breach by Mr. Becker of the employment agreement or any other agreement with the Company. The employment agreement defines “good reason” to mean: (w) a material reduction by the Company of Mr. Becker’s base salary or target bonus opportunity as a percentage of his base salary, without his consent; (x) an uncured, material breach by the Company of the employment agreement; (y) the Company’s relocation of its principal executive offices, or requirement that Mr. Becker have his principal work location change which results in his principal work location being changed to a location in excess of 50 miles from the location of the Company’s current principal executive offices, in each case, without Mr. Becker’s consent; or (z) the failure by a successor to all or substantially all of the Company’s assets to assume the employment agreement either contractually or by operation of law. The employment agreement defines a “change in control” to mean a change in control under the 2014 Plan.

The following table shows the potential payments upon termination or change of control of the Company for Mr. Becker, as of the fiscal year ended June 30, 2020.

	Termination Without Good Reason or Involuntary Termination with Cause	Termination With Good Reason or Involuntary Termination Without Cause Without Change in Control	Termination With Good Reason or Involuntary Termination Without Cause With Change in Control	Disability	Death
<b>Short Term Incentive:</b>	\$ —	\$ —	\$ —	\$ —	\$ —
Annual Cash Incentive	—	—	—	—	—
<b>Long-Term Incentive</b>	—	—	—	—	—
Stock Options	—	—	—	—	—
Restricted Stock Awards			77,780 (1)	77,780 (1)	77,780 (1)
<b>Benefits &amp; Perquisites:</b>	—	—	—	—	—
Health & Welfare Benefits	—	—	—	—	—
Life Insurance Proceeds	—				300,000
<b>Cash Severance</b>	—	1,500,000	2,250,000	—	—
Total	\$ —	\$ 1,500,000	\$ 2,327,780	\$ 77,780	\$ 377,780

(1) Assumes that performance conditions for awards are met following termination.

## Stacie R. Shirley

The following table shows the potential payments upon termination or change of control of the Company for Ms. Shirley, the Company's Chief Financial Officer, as of the fiscal year ended June 30, 2020.

	<u>Voluntary Termination</u>	<u>Involuntary Termination Without Cause</u>	<u>Change in Control (1)</u>	<u>Voluntary Termination or With Good Reason or Without Cause with Change in Control</u>	<u>Death</u>	<u>Disability</u>
<b>Short Term Incentive:</b>	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Annual Cash Incentive	—	—	—	—	—	—
<b>Long-Term Incentive</b>	—	—	—	—	—	—
Stock Options	—	—	—	—	—	—
Restricted Stock Awards			363	17,297	17,297	17,297
<b>Benefits &amp; Perquisites:</b>	—	—	—	—	—	—
Health & Welfare Benefits	—	12,825	—	19,237	—	—
Life Insurance Proceeds	—	—	—	—	300,000	—
Outplacement Amounts	—	4,000	—	4,000	—	—
<b>Cash Severance</b>	—	—	—	—	—	—
Severance (2)	—	639,000	—	852,000	—	—
Retention (2)	—	—	—	—	—	—
<b>Total</b>	<u>\$ —</u>	<u>\$ 655,825</u>	<u>\$ 363</u>	<u>\$ 892,534</u>	<u>\$ 317,297</u>	<u>\$ 17,297</u>

- (1) For awards issued prior to November 16, 2016, immediately prior to change in control, awards held by the named executive officer will automatically vest and become exercisable.
- (2) Payments triggered by termination of the executive will not be payable unless the executive (or the executive's successors or assigns) has executed and timely delivered to the Company a release of claims in the form as is reasonably satisfactory to the Company and any applicable revocation periods have expired.

## Trent E. Taylor

The following table shows the potential payments upon termination or change of control of the Company for Mr. Taylor, the Company's CIO and Executive Vice President, Supply Chain and Inventory Management, as of the fiscal year ended June 30, 2020

	<u>Voluntary Termination With Good Reason or Involuntary Termination Without Cause with Change in Control</u>	<u>Death</u>	<u>Disability</u>
<b>Short Term Incentive:</b>	\$ —	\$ —	\$ —
Annual Cash Incentive	—	—	—
<b>Long-Term Incentive</b>	—	—	—
Stock Options	—	—	—
Restricted Stock Awards	—	86	18,287
<b>Benefits &amp; Perquisites:</b>	—	—	—
Health & Welfare Benefits	—	14,374	—
Life Insurance Proceeds	—	—	300,000
Outplacement Amounts	—	4,000	—
<b>Cash Severance</b>	—	—	—
Severance (2)	—	555,000	—
Retention (2)	—	—	—
<b>Total</b>	<u>\$ —</u>	<u>\$ 573,374</u>	<u>\$ 86</u>
	<u>\$ 783,848</u>	<u>\$ 318,287</u>	<u>\$ 18,287</u>

- (1) For awards issued prior to November 16, 2016, immediately prior to change in control, awards held by the named executive officer will automatically vest and become exercisable.

- (2) Payments triggered by termination of the executive will not be payable unless the executive (or the executive's successors or assigns) has executed and timely delivered to the Company a release of claims in the form as is reasonably satisfactory to the Company and any applicable revocation periods have expired.

## DIRECTOR COMPENSATION

The table below summarizes the compensation paid to each non-employee director of the Company for the fiscal year ended June 30, 2020.

	<b>Fees Earned or Paid in Cash (1)</b>	<b>Stock Awards (2) (3)</b>	<b>Option Awards</b>	<b>Non- Equity Incentive Plan</b>	<b>Change Pension Value and Non- Qualified Deferred Earnings</b>	<b>All Other Compensation</b>	<b>Total</b>
Terry Burman	\$ 140,625	\$ 91,000	\$ —	\$ —	\$ —	\$ —	\$ 231,625
James T. Corcoran	76,875	52,000	—	—	—	—	128,875
Barry S. Gluck	74,375	52,000	—	—	—	—	126,375
Frank M. Hamlin	77,500	52,000	—	—	—	—	129,500
Reuben E. Sloane (4)	70,000	52,000	—	—	—	—	122,000
Sherry M. Smith	82,500	52,000	—	—	—	—	134,500
Richard S. Willis	96,875	52,000	—	—	—	—	148,875

- (1) This column includes annual cash retainers for board and committee service, committee chair service and, in the case of Mr. Burman, independent Chairman service.
- (2) This column represents the grant date fair value of the respective equity awards computed in accordance with FASB ASC Topic 718. The amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Refer to note (1)(l) and note (6) herein for additional information on the valuation assumptions used in the calculation of grant date fair value for stock awards included in the table. The value of the stock awards is calculated using the closing price of the Common Stock on the date the awards were made to each director. The closing stock price represents the grant date fair value of the stock awards under the 2014 Plan (as amended).
- (3) On November 20, 2019, the Company granted each director 32,912 shares of restricted stock under the 2014 Plan having a grant date fair value of \$52,000 all of which are scheduled to vest on November 20, 2020. In addition, on November 20, 2019, the Company granted Mr. Burman 24,684 shares of restricted stock under the 2014 Plan having a grant date fair value of \$39,000, all of which are scheduled to vest on November 20, 2020. This represented a special restricted stock grant in connection with his service as independent Chairman of the Board.
- (4) Mr. Sloane was elected to serve as a director of the Company effective as of June 1, 2019.

The non-employee directors had the following outstanding equity awards at the end of the 2020 fiscal year.

	<b>Number of Outstanding Options Exercisable</b>	<b>Number of Outstanding Options Unexercisable</b>	<b>Compensation Unvested Stock Award</b>
Terry Burman	20,000	—	\$ 57,596
James T. Corcoran	—	—	32,912
Barry S. Gluck	—	—	32,912
Frank M. Hamlin	—	—	32,912
Reuben E. Sloane	—	—	32,912
Sherry M. Smith	—	—	32,912
Richard S. Willis	20,000	—	32,912

In September 2019, the Company adopted the following compensation program for non-employee directors (the “Director Compensation Plan”):

	<b>Board Fee</b>	<b>Audit Committee Fee</b>	<b>Compensation Committee Fee</b>	<b>Nominating and Governance Committee Fee</b>
Annual Retainer	\$ 60,000	\$ 10,000	\$ 7,500	\$ 7,500
Annual Chairman Fee	65,000	20,000	15,000	10,000
Annual Restricted Stock Grant - Value	80,000	—	—	—
Annual Chair Restricted Stock Grant - Value	60,000	—	—	—

\* As discussed above, the grant date fair value of the awards granted in fiscal year 2020 was \$52,000.

Under the Director Compensation Plan, non-employee directors receive reimbursement for their out-of-pocket expenses incurred in attending Board and committee meetings and the standard 20% discount on merchandise purchases that is provided to all of our employees.

As an employee of the Company, Mr. Becker does not receive any additional compensation in connection with his service as a member of the Board of Directors of the Company.

For fiscal 2020, the Compensation Committee chose to use the same modifier applied to the full market value of the awards given to employee LTI-eligible participants. As a result, the grant date fair values of the fiscal 2020 awards granted to each director were significantly less than the approved market-based equity compensation level. These awards of restricted stock vest one year from grant date. If the director begins service on or prior to July 31 during the first year of service, the director will receive a full year grant of LTI equity. If the director begins service after July 31 during the first year of service, the director will receive one-half of the flat share amount of a restricted stock award. The Company expects to return to making grants at the standard annual grant value of \$80,000 in the near future.

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

### **Equity Compensation Plan Information**

The following table provides information about our common stock that may be issued upon the exercise of options under equity compensation plans approved by stockholders as of the fiscal year ended June 30, 2020. We do not have any equity compensation plans that were not approved by our stockholders.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (thousands)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column) (thousands)</b>
Equity Compensation Plans Approved by Security Holders	2,695	\$ 5.33	2,837
Equity Compensation Plans Not Approved by Security Holders	—	—	—
<b>Total</b>	<b>2,695</b>	<b>\$ 5.33</b>	<b>2,837</b>

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our Common Stock by (1) each person (or group of affiliated persons) who is known by us to own beneficially more than 5% of the Common Stock outstanding on June 30, 2020 (based upon SEC filings), (2) each of our directors, (3) each of our NEOs and (4) all of our directors and executive officers as a group. The Company has determined beneficial ownership in accordance with the rules and regulations of the SEC. Unless otherwise indicated, to the Company's knowledge, each stockholder has sole voting and dispositive power with respect to the securities beneficially owned by that stockholder. Except as described in the footnotes below, beneficial ownership was determined as of June 30, 2020. On June 30, 2020, there were 47,340,652 shares of Common Stock outstanding.

	Shares Beneficially Owned	
	Number	Percent
Delta Value Group LLC. (1) 902 Broadway, 6th Floor New York, New York 10010	3,848,385	8.1%
Steven R. Becker (2)	2,789,007	5.9%
Terry Burman (3)	426,328	*
James T. Corcoran (4)	427,880	*
Barry S. Gluck (5)	96,580	*
Frank M. Hamlin (6)	100,675	*
Reuben E. Slone (7)	110,996	*
Sherry M. Smith (8)	92,825	*
Richard S. Willis (9)	123,048	*
Stacie R. Shirley (10)	312,252	*
Trent E Taylor (11)	198,923	*
All directors and executive officers as a group (12 persons)	5,154,341	10.8%

\* Denotes ownership of less than 1.0%.

- (1) Based on information set forth in the Schedule 13D filed with the SEC on February 13, 2020 by Delta Value Group LLC, ("DVG") has the sole power to vote 3,848,385 shares of Common Stock.
- (2) Represents 1,069,960 shares of Common Stock held directly, 678,086 shares that may be acquired upon the exercise of options that are currently exercisable, 277,439 unvested shares of time-vesting restricted stock and 763,522 unvested shares of performance-based restricted stock. Shares of Common Stock held directly include shares held by Western Family Value I, L.P. ("WFV I"). Western Family Value, LLC ("WFV") is the general partner of WFV I and may be deemed to beneficially own securities owned by WFV I. Mr. Becker is the sole member of WFV and may be deemed to beneficially own securities owned by WFV. Mr. Becker disclaims beneficial ownership of the securities owned by WFV I and WFV, except to the extent of the pecuniary interest of Mr. Becker in such securities.
- (3) Represents 348,732 shares of Common Stock held directly, 20,000 shares that may be acquired upon the exercise of options that are currently exercisable and 57,596 unvested shares of restricted stock.
- (4) Represents 91,168 shares of Common Stock held directly and 32,912 unvested shares of restricted stock. Also represents 303,800 shares of Common Stock held by PMCP I, LP. James T. Corcoran is the sole member of PMCP GP, LLC, which is the General Partner of PMCP I, LP, and therefore may be deemed to be the beneficial owner of all shares held directly by PMCP I, LP. Mr. Corcoran expressly disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.
- (5) Represents 63,668 shares of Common Stock held directly and 32,912 unvested shares of restricted stock.
- (6) Represents 67,763 shares of Common Stock held directly and 32,912 unvested shares of restricted stock.
- (7) Represents 78,084 shares of Common Stock held directly and 32,912 unvested shares of restricted stock.

- (8) Represents 59,913 shares of Common Stock held directly and 32,912 unvested shares of restricted stock.
- (9) Represents 70,136 shares of Common Stock held directly, 20,000 shares that may be acquired upon the exercise of options that are currently exercisable and 32,912 unvested shares of restricted stock.
- (10) Represents 79,401 shares of Common Stock held directly, 124,745 shares that may be acquired upon the exercise of options that are currently exercisable, 81,280 unvested shares of time-vesting restricted stock and 26,826 unvested shares of performance-based restricted stock.
- (11) Represents 25,467 shares of Common Stock held directly, 63,821 shares that may be acquired upon the exercise of options that are currently exercisable, 82,809 unvested shares of time-vesting restricted stock and 26,826 unvested shares of performance-based restricted stock.

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

#### **Director Independence**

The Board of Directors has evaluated the independence of the Company's directors under the independence standards promulgated by Nasdaq. For a director to be considered independent under these standards, the Board must determine that the director does not have any direct or indirect material relationship with the Company which would interfere with the exercise of independent judgment in carrying out his or her responsibilities as a director. Based on the independence standards prescribed by Nasdaq, our Board has affirmatively determined that seven of the eight current directors are independent. Mr. Becker is not independent due to his relationship with the Company as Chief Executive Officer.

#### **Policy and Procedures with Respect to Related Party Transactions**

The Company has adopted a written policy governing the review, approval or ratification of "Related Party Transactions," as described below (the "Policy").

##### ***Related Party Transactions***

For the purposes of the Policy, a "Related Party Transaction" is a transaction or any material amendment to a transaction, including, but not limited to, any financial transaction, agreement, arrangement or relationship (including any indebtedness or guarantee of indebtedness), or any series of similar transactions, agreements, arrangements or relationships, in which the Company was, is or will be a participant, and the amount involved exceeds \$120,000, and in which any Related Party had, has or will have a direct or indirect material interest (subject to certain exceptions).

For purposes of the Policy, a "Related Party" is: (i) any person who is, or at any time since the beginning of the Company's last fiscal year was, an executive officer, a director, or a nominee for director of the Company; (ii) any person who, at the time of the occurrence or existence of the Related Party Transaction, is the beneficial owner of more than 5% of any class of the Company's voting securities; or (iii) any "immediate family member" (as defined in the Policy) of any of the foregoing persons and any person (other than a tenant or employee) sharing the household of any of the foregoing persons.

##### ***Approval Procedures***

The Policy requires that when the Company or a Related Party proposes to engage in a transaction that is potentially a Related Party Transaction, the following steps will be taken:

- The Related Party will submit the matter for review by the Company's General Counsel prior to entering into the transaction.
- The General Counsel will then assess whether the proposed transaction is a Related Party Transaction for purposes of the Policy. If the General Counsel determines that the proposed transaction is a Related Party Transaction, the proposed Related Party Transaction will be submitted to the Audit Committee for consideration or, in those instances in which that is not practicable or desirable, to the Chair of the Audit Committee (who will possess delegated authority to act on behalf of the Committee). The Audit Committee, or when submitted to the Chair, the Chair, will consider the relevant facts and circumstances of the Related Party Transaction. No member of the Audit Committee will participate in any review, consideration or approval of any Related Party Transaction in which he or she or any immediate family member, directly or indirectly, is involved.

- The Audit Committee (or the Chair) will approve or ratify only those Related Party Transactions that the Audit Committee (or the Chair) believes are fair to the Company and that are determined to be in, or are not inconsistent with, the best interests of the Company and its stockholders. The Audit Committee or Chair, as applicable, shall convey the decision to the General Counsel, who shall convey the decision to the Related Party and appropriate persons within the Company.
- In the event it is not practicable to present any Related Party Transaction to the Audit Committee or the Chair prior to entering into such Related Party Transaction, it may be presented to the General Counsel for approval or be preliminarily entered into subject to ratification by the Audit Committee; provided, however, that if the Audit Committee or the Chair does not ratify the Related Party Transaction, the Company will take all reasonable efforts or actions to cancel or terminate it.

### ***Ratification Procedures***

In the event any Related Party Transaction is not reported to the Audit Committee or the Chair or approved pursuant to the above described process prior to the Company entering into such Related Party Transaction, the following steps will be taken:

- The Related Party Transaction will be submitted to the Audit Committee or Chair, and the Audit Committee or Chair will consider all of the relevant facts and circumstances available to the Audit Committee or the Chair. No member of the Audit Committee will participate in any review, consideration or approval of any Related Party Transaction in which he or she or any immediate family member directly or indirectly is involved.
- Based on the conclusions reached with respect to the standards set forth above concerning approval of Related Party Transactions, the Audit Committee or the Chair will evaluate all options, including but not limited to ratification, amendment or termination of the Related Party Transaction.

### ***Disclosure***

Under the Policy, all Related Party Transactions that are required to be disclosed in the Company's filings with the SEC, as required by the Securities Act of 1933, as amended, and the Exchange Act and related rules and regulations, will be so disclosed in accordance with such laws, rules and regulations. Furthermore, all Related Party Transactions will be disclosed to the Board of Directors following approval or ratification, as the case may be, of a Related Party Transaction.

### **Report of the Company's Related Party Transactions**

The Company did not participate in any Related Party Transactions during the fiscal year ended June 30, 2020.

### **Item 14. Principal Accountant Fees and Services**

#### **Audit Fees**

The aggregate fees billed by Ernst & Young for professional services rendered for the audit of the Company's annual financial statements, including the audit of the Company's internal control over financial reporting and the review of the financial statements included in the Company's Quarterly Reports on Form 10-Q for fiscal 2020 and fiscal 2019 were \$916,195 and \$983,000, respectively.

#### **Audit-Related Fees**

The aggregate fees billed by Ernst & Young for audit-related services rendered for both fiscal years ended June 30, 2020 and June 30, 2019 were \$2,165. Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees." The services for both fiscal 2020 and fiscal 2019 were comprised solely of the Company's subscription to on-line research.

## **Tax Fees**

The aggregate fees billed by Ernst & Young for tax-related services rendered for both fiscal years ended June 30, 2020 and June 30, 2019 were \$0. Tax fees consist of fees billed for tax services that are unrelated to the audit of our consolidated financial statements and include assistance regarding federal, state and local tax compliance, approved tax planning and other tax advice.

## **All Other Fees**

Excluding the audit fees, audit-related fees and tax fees mentioned above, there were no other fees billed by Ernst & Young during the fiscal years ended June 30, 2020 and June 30, 2019, respectively.

## **Pre-Approval Policies and Procedures**

The Audit Committee has adopted a policy that requires advance approval of all audit fees, audit-related fees, tax services and other services performed by our independent registered public accounting firm. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that year (and except for items exempt from pre-approval under applicable laws and rules), the Audit Committee must approve the permitted service before the independent registered public accounting firm is engaged to perform it. The Audit Committee has delegated to the Chairman of the Audit Committee authority to approve permitted services provided that the Chairman reports any decisions to the Committee at its next scheduled meeting. All audit and non-audit services for the fiscal year ended June 30, 2020 were pre-approved by the Audit Committee.

## 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

<b>Exhibit No.</b>	<b>Description</b>
3.1.1	<a href="#">Certificate of Incorporation of Tuesday Morning Corporation (the “Company”) (incorporated by reference to Exhibit 3.1 to the Company’s Registration Statement on Form S-4 (File No. 333-46017) filed with the Securities and Exchange Commission (the “Commission” on February 10, 1998)</a>
3.1.2	<a href="#">Certificate of Amendment to the Certificate of Incorporation of the Company dated March 25, 1999 (incorporated by reference to Exhibit 3.3 to the Company’s Registration Statement on Form S-1/A (File No. 333-74365) filed with the Commission on March 29, 1999)</a>
3.1.3	<a href="#">Certificate of Amendment to the Certificate of Incorporation of the Company dated May 7, 1999 (incorporated by reference to Exhibit 3.1.3 to the Company’s Form 10-Q (File No. 000-19658) filed with the Commission on May 2, 2005)</a>
3.2	<a href="#">Amended and Restated By-laws of the Company effective as of September 16, 2014 (incorporated by reference to Exhibit 3.2 to the Company’s Form 8-K (File No. 000-19658) filed with the Commission on September 19, 2014)</a>
4.1	<a href="#">Description of Securities (incorporated by reference to Exhibit 4.1 to the Company’s Form 10-K (File No. 000-19658) filed with the Commission on August 22, 2019)</a>
4.2	<a href="#">Interim Order (A) Establishing Notification and Hearing Procedures for Certain Transfers of, and Declarations of Worthlessness with Respect to, Equity Securities and (B) Granting Related Relief (incorporated by reference to Exhibit 4.1 to the Company’s Form 8-K (File No. 000-19658) as filed with the Commission on June 1, 2020)</a>
10.1.1	<a href="#">Credit Agreement, dated as of August 18, 2015, by and among Tuesday Morning, Inc., each of the subsidiary guarantors, the Company, TMI Holdings, Inc., the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo, National Association, as Syndication Agent (incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K (File No. 000-19658) filed with the Commission on August 19, 2015)</a>
10.1.2	<a href="#">Guarantee and Collateral Agreement, dated as of August 18, 2015, by and among the Company, TMI Holdings, the Borrower and certain subsidiaries of the Borrower and any other subsidiary who may become a party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to the Company’s Form 8-K (File No. 000-19658) filed with the Commission on August 19, 2015)</a>
10.1.3	<a href="#">Second Amendment to Credit Agreement, dated as of January 29, 2019, by and among Tuesday Morning, Inc., each of the subsidiary guarantors, the Company, TMI Holdings, Inc., the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo, National Association, as Syndication Agent (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q (File No. 000-19658) filed with the Commission on January 31, 2019)</a>
10.1.4	<a href="#">Limited Forbearance Agreement (incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K (File No. 000-19658) filed with the Commission on May 15, 2020)</a>
10.2†	<a href="#">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)</a>
10.3.1†	<a href="#">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)</a>
10.3.2†	<a href="#">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)</a>
10.3.3†	<a href="#">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)</a>
10.4†	<a href="#">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)</a>
10.5†	<a href="#">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)</a>

Exhibit No.	Description
10.6†	<a href="#">Form of Restricted Stock Award Agreement under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on March 3, 2009)</a>
10.7†	<a href="#">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)</a>
10.8†	<a href="#">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)</a>
10.9†	<a href="#">Form of Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on May 8, 2014)</a>
10.10†	<a href="#">Form of Performance Based Nonqualified Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on May 8, 2014)</a>
10.11†	<a href="#">Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on September 19, 2014)</a>
10.12.1†	<a href="#">Composite Copy of Tuesday Morning Corporation 2014 Long-Term Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) as filed with the Commission on November 22, 2016)</a>
10.12.2†	<a href="#">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)</a>
10.13†	<a href="#">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)</a>
10.14†	<a href="#">Form of Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on November 14, 2014)</a>
10.15†	<a href="#">Form of Restricted Stock Award Agreement for Directors under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on November 14, 2014)</a>
10.16.1†	<a href="#">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)</a>
10.16.2†	<a href="#">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)</a>
10.17†	<a href="#">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)</a>
10.18†	<a href="#">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)</a>
10.19†	<a href="#">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)</a>

Exhibit No.	Description
10.20†	<a href="#">Form of Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on October 29, 2015)</a>
10.21†	<a href="#">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)</a>
10.22†	<a href="#">Form of Retention Agreement (Executive Officers other than Chief Executive Officer) (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on May 3, 2018)</a>
10.23	<a href="#">Amended and Restated Agreement, dated as of July 24, 2019, by and among Tuesday Morning Corporation, Jeereddi II, LP, Purple Mountain Capital Partners LLC and the entities and natural persons set forth in the signature pages thereto (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) as filed with the Commission on July 25, 2019)</a>
10.24†	<a href="#">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)</a>
10.25†	<a href="#">Form of Non-Qualified Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (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)</a>
10.26†	<a href="#">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)</a>
10.27†	<a href="#">Form of Performance-Based Restricted Stock Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (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)</a>
10.28†	<a href="#">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)</a>
10.29†	<a href="#">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)</a>
10.30†	<a href="#">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)</a>
10.31†	<a href="#">Senior Secured Super Priority Debtor-in-Possession Credit Agreement, among the Company and its subsidiaries, JPMorgan Chase Bank, N.A., as administrative agent, for itself and other lenders (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on June 1, 2020)</a>
10.32	<a href="#">Senior Secured Super Priority Debtor-In-Possession Delayed Draw Term Loan Agreement, among the Company and its subsidiaries and the Franchise Group, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-19658) filed with the Commission on July 13, 2020)</a>
10.33†	<a href="#">Amended and Restated Consulting 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 9, 2019)</a>
10.34†	<a href="#">Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q (File No. 000-19658) filed with the Commission on November 5, 2019)</a>
21.1	<a href="#">Subsidiaries of the Company</a>
23.1	<a href="#">Consent of Independent Registered Public Accounting Firm</a>
31.1	<a href="#">Certification by the Chief Executive Officer of the Company Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification by the Chief Financial Officer of the Company Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>

<b>Exhibit No.</b>	<b>Description</b>
32.1	<a href="#"><u>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</u></a>
32.2	<a href="#"><u>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</u></a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

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† 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 14, 2020

By: /s/ STEVEN R. BECKER  
Steven R. Becker  
*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.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ STEVEN R. BECKER</u> Steven R. Becker	Chief Executive Officer (Principal Executive Officer) and Director	September 14, 2020
<u>/s/ STACIE R. SHIRLEY</u> Stacie R. Shirley	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	September 14, 2020
<u>/s/ KELLY J. MUNSCH</u> Kelly J. Munsch	Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)	September 14, 2020
<u>/s/ TERRY BURMAN</u> Terry Burman	Chairman of the Board	September 14, 2020
<u>/s/ JAMES T. CORCORAN</u> James T. Corcoran	Director	September 14, 2020
<u>/s/ BARRY S. GLUCK</u> Barry S. Gluck	Director	September 14, 2020
<u>/s/ FRANK M. HAMLIN</u> Frank M. Hamlin	Director	September 14, 2020
<u>/s/ REUBEN E. SLONE</u> Reuben E. Slone	Director	September 14, 2020
<u>/s/ SHERRY M. SMITH</u> Sherry M. Smith	Director	September 14, 2020
<u>/s/ RICHARD S WILLIS</u> Richard S Willis	Director	September 14, 2020

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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<a href="#"><u>Consolidated Statements of Operations for the fiscal years ended June 30, 2020, 2019, and 2018</u></a>	F-4
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## **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, 2020 and 2019, the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2020, 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, 2020, 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 September 14, 2020 expressed an adverse opinion thereon.

### **The Company's Ability to Continue as a Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the COVID-19 pandemic has had an adverse effect on the Company's business operations, financial condition, results of operations, liquidity and cash flow; the Company has filed for Chapter 11 bankruptcy protection; and the Company has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### **Adoption of ASU No. 2016-02**

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for accounting for leases effective July 1, 2019 due to the adoption of Accounting Standards Update ("ASU") No. 2016-02, *Leases* (Topic 842).

### **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.

/s/ Ernst & Young LLP

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

Dallas, Texas  
September 14, 2020

**Tuesday Morning Corporation**

(Debtor-in-Possession)

**Consolidated Balance Sheets**

(In thousands, except share and per share data)

	June 30,	
	2020	2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 46,676	\$ 11,395
Inventories	114,905	237,895
Prepaid expenses	6,353	5,388
Other current assets	7,210	1,822
Total Current Assets	175,144	256,500
Property and equipment, net	68,635	110,146
Operating lease right of-use assets	258,433	—
Deferred financing costs	—	994
Other assets	3,178	2,881
Total Assets	\$ 505,390	\$ 370,521
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Debtor-in-possession financing	\$ 100	—
Accounts payable	5,514	91,251
Accrued liabilities	33,942	45,923
Operating lease liabilities	—	—
Total Current Liabilities	39,556	137,174
Operating lease liabilities — non-current	—	—
Borrowings under revolving credit facility	—	34,650
Deferred rent	—	23,551
Asset retirement obligation — non-current	1,213	3,002
Other liabilities — non-current	1,347	835
Total Liabilities not subject to compromise	42,116	199,212
Liabilities subject to compromise	456,339	—
Total Liabilities	498,455	199,212
Commitments and contingencies		
Stockholders' equity		
Preferred stock, par value \$0.01 per share, authorized 10,000,000 shares; none issued or outstanding	—	—
Common stock, par value \$0.01 per share, authorized 100,000,000 shares; 49,124,313 shares issued and 47,340,652 shares outstanding at June 30, 2020 and 48,466,930 shares issued and 46,683,269 shares outstanding at June 30, 2019	455	465
Additional paid-in capital	244,021	241,456
Retained deficit	(230,729)	(63,800)
Less: 1,783,661 common shares in treasury, at cost, at June 30, 2020 and 1,783,661 common shares in treasury, at cost, at June 30, 2019	(6,812)	(6,812)
Total Stockholders' Equity	6,935	171,309
Total Liabilities and Stockholders' Equity	\$ 505,390	\$ 370,521

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

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

	Fiscal Years Ended June 30,		
	2020	2019	2018
Net sales	\$ 874,895	\$ 1,007,246	\$ 1,006,332
Cost of sales	590,025	654,931	665,358
Gross profit	284,870	352,315	340,974
Selling, general and administrative expenses	330,572	362,840	361,924
Restructuring, impairment, and abandonment charges	113,492	—	—
Operating loss before interest, reorganization and other expense	(159,194)	(10,525)	(20,950)
Other income/(expense):			
Interest expense	(3,845)	(2,461)	(2,061)
Reorganization items, net	(3,619)	—	—
Other income (expense), net	551	792	934
Loss before income taxes	(166,107)	(12,194)	(22,077)
Income tax provision/(benefit)	221	246	(139)
Net loss	<u>\$ (166,328)</u>	<u>\$ (12,440)</u>	<u>\$ (21,938)</u>
<b>Earnings Per Share</b>			
Net loss per common share:			
Basic	\$ (3.68)	\$ (0.28)	\$ (0.50)
Diluted	\$ (3.68)	\$ (0.28)	\$ (0.50)
Weighted average number of common shares:			
Basic	45,208	44,719	44,282
Diluted	45,208	44,719	44,282

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

**Tuesday Morning Corporation**  
**(Debtor-in-Possession)**  
**Consolidated Statements of Stockholders' Equity**  
**(In thousands)**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>		<b>Retained Earnings (Deficit)</b>		<b>Treasury Stock</b>		<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>							
<b>Balance at June 30, 2017</b>	<b>45,121</b>	<b>\$ 469</b>	<b>\$ 234,604</b>		<b>\$ (29,422)</b>		<b>\$ (6,812)</b>		<b>\$ 198,839</b>
Net loss	—	—	—		(21,938)		—		(21,938)
Shares issued or canceled in connection with employee stock incentive plans and related tax effect	741	—	—		—		—		—
Shares issued in connection with exercises of employee stock options	3	—	4		—		—		4
Share-based compensation expense	—	—	3,349		—		—		3,349
<b>Balance at June 30, 2018</b>	<b>45,865</b>	<b>\$ 469</b>	<b>\$ 237,957</b>		<b>\$ (51,360)</b>		<b>\$ (6,812)</b>		<b>\$ 180,254</b>
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
<b>Balance at June 30, 2019</b>	<b>46,683</b>	<b>\$ 465</b>	<b>\$ 241,456</b>		<b>\$ (63,800)</b>		<b>\$ (6,812)</b>		<b>\$ 171,309</b>
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
<b>Balance at June 30, 2020</b>	<b>47,341</b>	<b>\$ 455</b>	<b>\$ 244,021</b>		<b>\$ (230,729)</b>		<b>\$ (6,812)</b>		<b>\$ 6,935</b>

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

**Tuesday Morning Corporation**  
**(Debtor-in-Possession)**  
**Consolidated Statements of Cash Flows**  
**(In thousands)**

	Years Ended June 30,		
	2020	2019	2018
<b>Cash flows from operating activities:</b>			
Net loss	\$ (166,328)	\$ (12,440)	\$ (21,938)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	27,019	26,127	25,671
Loss on impairment and abandonment of assets	105,158	—	—
Amortization of financing costs	1,606	276	315
Loss on disposal of assets	46	7	82
Gain on sale-leaseback transaction	—	—	(371)
Stock-based compensation	2,720	3,536	3,433
Deferred income taxes	311	307	(565)
Construction allowances from landlords	1,312	1,491	8,568
Change in operating assets and liabilities:			
Inventories	122,825	(3,578)	(12,543)
Prepaid and other current assets	(2,547)	483	559
Lease assets and liabilities	2,941	—	—
Accounts payable	2,726	(873)	22,612
Accrued liabilities	(3,105)	4,954	(300)
Deferred rent	—	(823)	1,280
Other liabilities—non-current	(814)	100	368
Net cash provided by operating activities	<u>93,870</u>	<u>19,567</u>	<u>27,171</u>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(15,825)	(16,044)	(30,764)
Purchase of intellectual property	(27)	(299)	(42)
Proceeds from sales of assets	1,950	31	83
Net cash used in investing activities	<u>(13,902)</u>	<u>(16,312)</u>	<u>(30,723)</u>
<b>Cash flows from financing activities:</b>			
Proceeds under revolving credit facility	308,506	229,190	195,500
Repayments under revolving credit facility	(343,056)	(233,020)	(187,520)
Change in cash overdraft	(4,996)	3,213	(1,026)
Proceeds from the exercise of employee stock options	—	8	4
Payments on finance/capital leases	(224)	(162)	(159)
Payments of financing costs	(4,917)	(599)	—
Net cash provided by/(used in) financing activities	<u>(44,687)</u>	<u>(1,370)</u>	<u>6,799</u>
Net increase in cash and cash equivalents	35,281	1,885	3,247
Cash and cash equivalents, beginning of period	11,395	9,510	6,263
Cash and cash equivalents, end of period	<u>\$ 46,676</u>	<u>\$ 11,395</u>	<u>\$ 9,510</u>
<b>Supplemental cash flow information:</b>			
Interest paid	\$ 2,141	\$ 2,140	\$ 1,615
Income taxes paid/(refunded)	(104)	212	285
Finance/capital lease obligations incurred	—	253	350
Cash paid for reorganization expenses	75	—	—

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

## TUESDAY MORNING CORPORATION

(DEBTOR-IN-POSSESSION)

### NOTES TO 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 685 discount retail stores in 39 states as of June 30, 2020 (714 and 726 stores at June 30, 2019 and 2018, respectively). We distribute periodic circulars and direct mail that keep customers familiar with Tuesday Morning.

##### ***COVID-19 Pandemic***

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

On March 25, 2020, we 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 have gradually reopened as allowed by state and local jurisdictions, and all but two of our stores had re-opened by the end of the fiscal year. The scope and duration of this pandemic and the related disruption to our business and financial impacts cannot be reasonably estimated at this time.

##### ***Voluntary Petitions for Reorganization under Chapter 11***

On May 27, 2020 (the “Petition Date”), we filed voluntary petition (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 are being jointly administered for procedural purposes.

##### ***Significant Bankruptcy Court Actions***

We will continue 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. On May 28, 2020, at the first-day hearings of the Chapter 11 Cases, the Bankruptcy Court granted relief in conjunction with various motions intended to ensure our ability to continue our ordinary operations after the Petition Date. The Bankruptcy Court’s Orders granting such relief, entered on May 28, 2020 and May 29, 2020, authorized us to, among other things, pay certain pre-petition employee and retiree expenses and benefits, use our existing cash management system, maintain and administer customer programs, pay certain critical and foreign vendors and pay certain pre-petition taxes and related fees. In addition, the Bankruptcy Court issued orders approving, among other things, (1) our entry into the 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 provides for a super priority secured debtor-in-possession revolving credit facility in an aggregate amount of up to \$100 million (the “DIP ABL Facility”), and (2) our use of cash collateral in accordance with the terms of the DIP ABL Credit Agreement. See Note 3 to the Consolidated Financial Statements for additional information regarding the DIP ABL Facility.

These orders are significant because they allow us to operate our businesses in the normal course.

The Bankruptcy Court has issued orders designed to assist us in preserving certain tax attributes by establishing, among other things, notification and hearing procedures (the “Procedures”) relating to proposed transfers of its common stock and the taking of worthless stock deductions. The Procedures, among other things, restrict transfers involving, and require notice of the holdings of and proposed transactions by any person or “entity” (as defined the applicable U.S. Treasury Regulations) owning or seeking to acquire ownership of 4.5% or more of the Company’s common stock. The Bankruptcy Court orders provide that any actions in violation of the Procedures (including the notice requirements) would be null and void ab initio, and (a) the person or entity making such a transfer would be required to take remedial actions specified by us to appropriately reflect that such transfer of our common stock is null and void ab initio and (b) the person or entity making such a declaration of worthlessness with respect to our common stock would be required to file an amended tax return revoking such declaration and any related deduction to reflect that such declaration is void ab initio.

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, 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. We also expect to close our Phoenix, Arizona distribution center in early fiscal 2021. In the fiscal year ended June 30, 2020, we recorded impairment, and abandonment charges of \$105.2 million, related to our permanent closure plans.

On July 10, 2020, in accordance with a final order issued by the Bankruptcy Court 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. (the “Lender”). Pursuant to the DIP DDTL Agreement, the Lender agreed to lend us up to an aggregate principal amount of \$25 million in the form of delayed draw term loans (the “DIP Term Facility”). See Note 12 for additional information.

### ***De-listing***

On May 27, 2020, the Company received a letter from the Listing Qualifications Department staff of The Nasdaq Stock Market (“Nasdaq”) notifying it that, as a result of the Chapter 11 Cases and in accordance with Nasdaq Listing Rules 5101, 5110(b) and IM-5101-1, Nasdaq determined that the Company’s common stock will be delisted from Nasdaq. On June 8, 2020, trading of the Company’s common stock on Nasdaq was suspended. On July 1, 2020, Nasdaq filed a Form 25 with the SEC to delist the Company’s common stock. The Company’s common stock now trades over the counter in the OTC Pink Market under the symbol “TUESQ”.

### ***Going Concern***

Our operating loss for the fiscal year ended June 30, 2020 was \$159.2 million.

The COVID-19 pandemic and the resulting store closures severely reduced our revenues and operating cash flows during the third and fourth quarters of our fiscal year ended June 30, 2020. As described further above, on May 27, 2020, we commenced the Chapter 11 Cases in the Bankruptcy Court. The filing of the Chapter 11 Cases constituted an event of default that caused our obligations under the Pre-Petition ABL Credit Agreement to become immediately due and payable. We believe that any efforts to enforce such payment obligations under the Pre-Petition ABL Credit Agreement were stayed as a result of the filing of the Chapter 11 Cases, and the creditors’ rights of enforcement with respect to the Pre-Petition ABL Credit Agreement are subject to the applicable provisions of the Bankruptcy Code and the Bankruptcy Court orders modifying the stay, including the order of the Bankruptcy Court approving the DIP ABL Facility.

Cash and cash equivalents and forecasted cash flows from operations are not expected to be sufficient to meet the Company’s obligations that will mature over the next 12 months. Although we are seeking to address our liquidity concerns through the Chapter 11 Cases, the approval of a plan of reorganization or the sale of all or substantially all of our assets is not within our control and uncertainty remains as to whether the Bankruptcy Court will approve a plan of reorganization or a sale of all or substantially all of our assets.

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The consolidated financial statements do not include any adjustments that would result if the Company was unable to realize its assets and settle its liabilities as a going concern in the ordinary course of business. We have concluded that our financial condition and our projected operating results, our need to satisfy certain financial and other covenants in our debtor-in-possession financing, our need to implement a restructuring plan and receive new financing, and the risks and uncertainties surrounding the COVID-19 pandemic and the Chapter 11 Cases raise substantial doubt as to our ability to continue as a going concern. We believe that our plans, already implemented and continuing to be implemented, will mitigate the conditions and events that have raised substantial doubt about the entity’s ability to continue as a going concern. However, due to the uncertainty around the scope and duration of the COVID-19 pandemic and the related disruption to our business and financial impacts, and because our plans, including those in connection with the Chapter 11 Cases, are not yet finalized, fully executed, or approved by the Bankruptcy Court, they cannot be deemed probable of mitigating this substantial doubt.

### ***Bankruptcy Accounting***

The consolidated financial statements have been 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 Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 852, “Reorganizations” (“ASC 852”). ASC 852 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. Accordingly, certain expenses, gains and losses that are realized or incurred in the bankruptcy proceedings are recorded in reorganization items on our consolidated statements of operations. In addition, pre-petition unsecured and under-secured obligations that may be impacted by the bankruptcy reorganization process have been classified as liabilities subject to compromise on our consolidated balance sheet as of June 30, 2020.



As of June 30, 2020, these liabilities were reported at the amounts expected to be allowed as claims by the Bankruptcy Court. 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. For specific discussion on balances of liabilities subject to compromise and reorganization items, see below. The accompanying consolidated financial statements 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.

#### *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 as well as certain insurance, tax, and principal and interest payments. We have been paying and intend to continue to pay undisputed post-petition claims in the ordinary course of business. With respect to pre-petition claims, we notified all known claimants of the deadline to file a proof of claim with the Bankruptcy Court. Our liabilities subject to compromise represent the estimate as of June 30, 2020 of claims expected. 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. Liabilities subject to compromise in our condensed consolidated balance sheet include the following as of June 30, 2020 (in thousands):

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	<u><u>\$ 456,339</u></u>

#### *Restructuring, Impairment and Abandonment Charges*

Restructuring, impairment, and abandonment charges total \$113.5 million for the fiscal year ended June 30, 2020, and include the following (in thousands):

Restructuring costs:	
Professional fees	\$ 5,212
Severance and compensation related costs	3,122
Total restructuring costs	<u><u>\$ 8,334</u></u>
Impairment costs:	
Store long-lived assets	\$ 11,656
Distribution center long-lived assets	16,794
Operating lease right-of-use assets	51,626
Total impairment costs	<u><u>\$ 80,076</u></u>
Abandonment costs:	
Accelerated recognition of operating lease right-of-use assets	25,082
Total abandonment costs	<u><u>\$ 25,082</u></u>
Total restructuring, impairment and abandonment costs	<u><u>\$ 113,492</u></u>

## **Reorganization Items**

Reorganization items included in our consolidated statement of operations represent amounts incurred from the Petition Date onward directly resulting from the Chapter 11 Cases and consist of professional fees of \$3.6 million.

Cash paid for reorganization items during the fiscal year ended June 30, 2020 was less than \$0.1 million and related to professional fees. As of June 30, 2020, \$3.5 million of professional fees were unpaid and accrued in Accrued Expenses in the accompanying Consolidated Balance Sheet.

## **Accounting Pronouncement Recently Adopted**

In February 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases (Topic 842)” (“ASC 842”). ASC 842 requires entities (“lessees”) that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASC 842, a right-of-use asset and lease liability is recorded for all leases, whether operating or finance, while the income statement will reflect lease expense for operating leases and amortization/interest expense for finance leases. In addition, ASC 842 requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases.

We adopted ASC 842 effective July 1, 2019 on a modified retrospective basis. We elected the transition option that allows entities to only apply the standard at the adoption date and not apply the provisions to comparative periods; therefore, prior periods were not restated. This transition option allows the recognition of a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption rather than the earliest period presented. Our adoption of the standard resulted in a cumulative effect adjustment to retained earnings of \$0.6 million, as of July 1, 2019. The adoption of the standard resulted in the recognition of operating lease assets of approximately \$350 million and liabilities of approximately \$375 million as of July 1, 2019.

We elected certain practical expedients permitted under the transition guidance, including the package of practical expedients, which allows us to not reassess whether existing contracts contain leases, the lease classification of existing leases, or initial direct costs for existing leases. We elected not to separate lease and non-lease components for new and modified leases and not to recognize a right-of-use asset and a lease liability for leases with an initial term of 12 months or less. We did not elect the hindsight practical expedient. The adoption of the standard did not materially impact our consolidated net income or liquidity, and did not have an impact on debt-covenant compliance under our current revolving credit agreement.

See Note 7 for additional information.

## **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 entities of the Company were included in the filing of the Chapter 11 Cases and all entities are included in our consolidated financial statements, thus separate condensed combined financial statements of the entities in the reorganization proceedings are not required. 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 loss in any period. We do not present a separate statement of comprehensive income, as we have no other comprehensive income items. Our fiscal year ended on June 30, 2020, which we refer to as fiscal 2020.
- (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, 2020 and 2019, credit card receivables from third party consumer credit card providers were \$3.7 million and \$9.7 million, respectively. Such receivables generally are collected within one week of the balance sheet date.
- (d) *Inventories*—Inventories, consisting of finished goods, are stated at the lower of cost or market using the retail inventory method for store inventory and the specific identification method for warehouse inventory. We have a perpetual inventory system that tracks on-hand inventory and inventory sold at a SKU level. Inventory is relieved and cost of sales is recorded based on the current cost of the item sold. Buying, distribution, freight and certain other costs are capitalized as part of inventory and are charged to cost of sales as the related inventory is sold. We charged \$97.8 million, \$106.6 million, and \$109.1 million, of such capitalized inventory costs to cost of sales for the fiscal years ended June 30, 2020, 2019, and 2018, respectively. We have capitalized \$22.3 million and \$32.9 million of such costs in inventory at June 30, 2020 and 2019, respectively.

Stores generally 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. In the second half of fiscal 2020, due to the impact of the COVID-19 pandemic including our temporary store closures, we conducted physical inventories at a portion of our stores sufficient to validate the existence of inventory in our stores and the accuracy of our estimated shrink reserve rate. 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.

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

- (e) *Property and Equipment*—Property and equipment are recorded at cost less accumulated depreciation. Buildings, 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**

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

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

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

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

Our results of operations included the impact of the enactment of the Tax Cuts and Jobs Act of 2017 (“TCJA”), which was signed into law on December 22, 2017. The TCJA made significant and complex changes to U.S. tax law including, but not limited to, (i) reducing the U.S. federal corporate tax rate from 35% to 21%; (ii) eliminating the corporate alternative minimum tax (“AMT”) and providing a refund mechanism for existing AMT credits; (iii) creating a new limitation on the deductibility of interest expense; (iv) changing rules related to uses and limitation of net operating loss carryforwards created in tax years beginning after December 31, 2017; and (v) significant acceleration of depreciation expense. As a result of the adoption of the TCJA upon enactment during fiscal year 2018, the blended statutory federal tax rate for fiscal 2018 was 27.2% with the statutory rate of 21% for fiscal 2019 and beyond.

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 includes 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 is not expected to 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 intend to defer qualified payroll taxes and claim the employee retention credit. At this point in time, the amount of the credit is still being evaluated.

- (h) *Self-Insurance Reserves*—We use a combination of insurance and self-insurance plans to provide for the potential liabilities associated with workers’ compensation, general liability, property insurance, director and officers’ liability insurance, vehicle liability and employee health care benefits. Our stop loss limits per claim are \$500,000 for workers’ compensation, \$250,000 for general liability, and \$150,000 for medical. Liabilities associated with the risks that are retained by us are estimated, in part, by historical claims experience, severity factors and the use of loss development factors 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 \$8.4 million, \$1.3 million, and \$0.9 million, respectively, at June 30, 2020, and \$8.2 million, \$1.1 million, and \$0.9 million, respectively, at June 30, 2019.

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 \$2.7 million, \$3.3 million and \$8.7 million, respectively, for the fiscal year ended June 30, 2020, \$2.1 million, \$2.3 million and \$7.9 million, respectively, for the fiscal year ended June 30, 2019, and \$5.3 million, \$2.9 million and \$6.4 million, respectively, for the fiscal year ended June 30, 2018.

- (i) *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”), adopted in the first quarter of fiscal 2019, required a change in presentation of the sales return reserve on our Consolidated Balance Sheet, which we previously presented net of the estimated value of returned merchandise, but is now being presented on a gross basis. In the first quarter of fiscal 2019, we recorded an immaterial adjustment to present the reserve on a gross basis, increasing “Accrued Liabilities” and recording the corresponding returns asset, as evaluated for impairment, in “Other Assets,” in the Consolidated Balance Sheet. No impairment of the returns asset was indicated or recorded for the fiscal year ended June 30, 2020.

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 \$0.8 million, \$0.4 million and \$0.6 million for the fiscal years ended June 30, 2020, 2019 and 2018, respectively. The gift card liability is included in “Accrued Liabilities” in the Consolidated Balance Sheet at June 30, 2020.

- (j) *Advertising*—Costs for direct mail, television, radio, newspaper, digital and other media are expensed as the advertised events take place. Advertising expenses for the fiscal years ended June 30, 2020, 2019, and 2018 were \$18.6 million, \$26.5 million, and \$27.2 million, respectively. We do not receive consideration from vendors to support our advertising expenditures. As of June 30, 2020, prepaid advertising was approximately \$146,000, compared to \$177,000 at June 30, 2019.
- (k) *Financial Instruments*—The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The only financial instrument we carry is our revolving credit facility. See Note 3.
- (l) *Share-Based Compensation*—The fair value of each stock option granted during the fiscal years ended June 30, 2020, 2019 and 2018 was estimated at the date of grant using a Black-Scholes option pricing model.

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

These valuation inputs were as shown below. In fiscal 2020, stock options were granted in the first fiscal quarter only.

	Fiscal Years Ended June 30,		
	2020	2019	2018
Weighted average risk-free interest rate	2.4%	2.3 - 2.9%	1.7 - 2.5%
Expected life of options (years)	4.6	3.8 - 5.0	3.8 - 4.9
Expected stock volatility	64.8%	49.0 - 64.8%	60.0 - 63.3%
Expected dividend yield	0.0%	0.0%	0.0%

(m) *Net Loss Per Common Share*—Basic net loss per common share for the fiscal years ended June 30, 2020, 2019, and 2018, was calculated by dividing net loss by the weighted average number of common shares outstanding for each period. Diluted net loss per common share for the fiscal years ended June 30, 2020, 2019, and 2018, was calculated by dividing net loss by the weighted average number of common shares including the impact of dilutive common stock equivalents (unless anti-dilutive). See Note 9.

(n) *Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of*—Long-lived assets, principally property and equipment and leasehold improvements, as well as lease right-of-use assets subsequent to the adoption of ASC 842, 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. 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. 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 2 and Note 7 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.

As of June 30, 2020, the carrying value of the intellectual property was \$1.6 million and no impairment was identified or recorded.

(p) *Cease-use Liability*—Prior to the adoption of ASC 842, amounts in "Accrued liabilities" and "Other liabilities – non-current" in the Consolidated Balance Sheets include the current and long-term portions, respectively, of accruals for the net present value of future minimum lease payments, net of estimated sublease income, attributable to closed stores with remaining lease obligations. The cease-use liability was \$2,000 at June 30, 2019, and was all classified as short-term. Expenses related to store closings are included in "Selling, general and administrative expenses" in the Consolidated Statements of Operations.

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

We record the net present value of the ARO liability and also record a related capital asset, in an equal amount, for leases which contractually result in an ARO. 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 \$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 at June 30, 2020. Our ARO liability, which totaled \$3.1 million as of June 30, 2019 was comprised of a \$0.1 million short-term portion included in accrued liabilities and a \$3.0 million long-term portion included in “Asset retirement obligation—non-current” on our Consolidated Balance Sheet at June 30, 2019.

- (s) **Leases**— We conduct substantially all operations from leased facilities, with the exception of the corporate headquarters in Dallas and the Dallas warehouse, distribution and retail complex, which are owned facilities. The other warehouse facility and all other retail store locations are under operating leases that will expire over the next 1 to 11 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 operating and finance leases that expire generally within 60 months. As discussed in Note 7, we adopted 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.

- (t) **Legal Proceedings**— Information related to the Chapter 11 Cases that were filed on May 27, 2020 is included in Note 1 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.

- (u) **Recent Accounting Pronouncements**

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 will adopt ASC 326 in the first quarter of fiscal 2021. The adoption is not expected to have a material impact to our consolidated financial statements.

## **(2) PROPERTY AND EQUIPMENT**

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

	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
Land	\$ 6,628	\$ 6,628
Buildings and building improvements	43,215	41,794
Furniture and fixtures	63,755	63,857
Equipment	68,909	67,754
Software	50,691	47,214
Leasehold improvements	65,281	61,802
Assets under capital lease	1,223	783
	299,702	289,832
Less accumulated depreciation	(231,067)	(179,686)
<b>Net property and equipment</b>	<b>\$ 68,635</b>	<b>\$ 110,146</b>

In the fourth quarter of fiscal 2020, we recorded impairment charges of \$28.5 million for property and equipment related to our permanent store and Phoenix distribution center closing plans, as well as for our Dallas distribution center retrofit project which was cancelled as a result of the COVID-19 impact to our business.

### (3) DEBT

We are party to a credit agreement which 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 is secured by a lien on substantially all of our assets.

On May 14, 2020, we entered into a Limited Forbearance Agreement (the “Forbearance Agreement”) with the lenders under the Pre-Petition ABL Credit Agreement.

Under the terms of the Forbearance Agreement, the lenders under the Pre-Petition ABL Credit Agreement agreed to not exercise remedies under the Pre-Petition ABL Credit Agreement and applicable law through May 26, 2020 (or earlier, if certain events occurred) based on the event of default resulting from our suspension of the operation of our business in the ordinary course and other events of default that may arise during the forbearance period as a result of failing to meet our obligations under certain agreements.

Pursuant to the Forbearance Agreement, the commitment of the lenders under the Pre-Petition ABL Credit Agreement was permanently reduced from \$180 million to \$130 million and new swingline loans were not advanced. During the forbearance period, the lenders were not obligated to fund further loans or issue or renew letters of credit under the Pre-Petition ABL Credit Agreement. The Forbearance Agreement required loan repayments of \$10 million under the Pre-Petition ABL Credit Agreement, and the application of unrestricted and unencumbered cash balances in excess of \$32 million to the repayment of outstanding borrowings under the Pre-Petition ABL Credit Agreement. The Forbearance Agreement also required daily cash sweeps to the Company’s main concentration account, a deposit account control agreement over such account, the imposition of additional reporting obligations, including a business plan, cash flow forecasts and working capital plan, and adherence to such cash flow forecasts, subject to certain permitted variances. The Forbearance Agreement also required the Company to retain a liquidation consultant and financial advisor. The Forbearance Agreement ended on May 26, 2020.

As of June 30, 2020, we had \$0.1 million remaining outstanding under the Pre-Petition ABL Credit Agreement. The filing of the Chapter 11 Cases on May 27, 2020, was an event of default under the Pre-Petition ABL Credit Agreement, making all amounts outstanding under the existing Pre-Petition ABL Credit Agreement immediately due and payable. As of June 30, 2020, all outstanding borrowings under the existing agreement are reflected as a current liability in the Consolidated Balance Sheet. As discussed in Note 1, we believe that any efforts to enforce such payment obligations under the Pre-Petition ABL Credit Agreement were stayed as a result of the filing of the Chapter 11 Cases, and the creditors’ rights of enforcement with respect to the Pre-Petition ABL Credit Agreement are subject to the applicable provisions of the Bankruptcy Code and any Bankruptcy Court orders modifying the stay, including the orders of the Bankruptcy Court approving the DIP ABL Facility.

The fair value of the Company’s debt approximated its carrying amount as of June 30, 2020.

As no availability remains under the Pre-Petition ABL Credit Agreement, unused commitment fees and interest charges ceased.

At June 30, 2019, we had \$34.7 million of borrowings outstanding under the Pre-Petition ABL Agreement, \$11.5 million of outstanding letters of credit and availability of \$65.0 million. Letters of credit under the Revolving Credit Facility are generally for self-insurance purposes. Interest expense for fiscal 2019 from the Pre-Petition ABL Agreement of \$2.5 million was comprised of interest of \$1.7 million, commitment fees of \$0.5 million, and the amortization of financing fees of \$0.3 million. Interest expense from the Pre-Petition ABL Credit Agreement of \$2.1 million for fiscal 2018 was comprised of interest of \$1.3 million, commitment fees of \$0.4 million, and the amortization of financing fees of \$0.4 million.

## DIP ABL Facility

On May 29, 2020, we entered into the DIP ABL Credit Agreement. The Lenders under the DIP ABL Facility are the existing lenders under the Pre-Petition ABL Credit Agreement.

The DIP ABL Credit Agreement includes conditions precedent, representations and warranties, affirmative and negative covenants, and events of default customary for financings of this type and size. The DIP ABL Credit Agreement requires us to, among other things, maintain certain minimum liquidity requirements, and receive approval of a plan of reorganization or sale of substantially all our assets through the Chapter 11 process pursuant to certain agreed upon deadlines. On September 8, 2020, the lenders under the DIP ABL Facility agreed to extend the deadline contained in the court order approving the DIP ABL Credit Agreement for filing a plan of reorganization or motion to sell substantially all of our assets to September 17, 2020. On September 9, 2020, the committee for the unsecured creditors in the Chapter 11 Cases filed an objection with the Bankruptcy Court asserting the extension was not valid. The Company believes the objection is without merit and intends to vigorously oppose the objection.

Under the terms of the DIP ABL Credit Agreement, amounts available for advances are subject to a borrowing base generally consistent with the borrowing base under the Pre-Petition ABL Credit Agreement, subject to certain agreed upon exceptions. The DIP ABL Credit Agreement requires that all proceeds of advances under the DIP ABL Facility be used only for ordinary course general corporate and working capital purposes, costs of administration of the Chapter 11 Cases, certain professional fees and fees and expenses relating to the DIP ABL Facility, in each case, in accordance with a cash flow budget that will be updated periodically, subject to certain permitted variances. The DIP ABL Credit Agreement requires that all cash received by us (other than proceeds of the DIP ABL Facility) be applied to repay outstanding amounts under the Pre-Petition ABL Credit Agreement. As of June 30, 2020, we had no amounts outstanding under the DIP ABL Facility, \$8.8 million of outstanding letters of credit and approximately \$33.0 million of borrowing capacity available under the DIP ABL Facility.

The commitments of the lenders under the DIP ABL Facility terminate and outstanding borrowings under the DIP ABL Facility mature at the earliest of the date which is one hundred eighty (180) days after the Petition Date; the date of consummation of the sale of all or substantially all of our assets; the effective date of a plan of reorganization; or upon the occurrence of an event of default under the DIP ABL Credit Agreement or such other date as the outstanding borrowings under the DIP Facility are accelerated.

See Note 11 for additional discussion on dividend restrictions under the DIP ABL Facility and the Pre-Petition ABL Credit Agreement.

See Note 12 for information regarding the DIP Term Facility.

## (4) ACCRUED LIABILITIES

Accrued liabilities not subject to compromise consisted of the following (in thousands):

	June 30,	
	2020	2019
Sales and use tax	\$ 5,027	\$ 3,452
Self-insurance reserves	10,631	10,248
Wages, benefits and payroll taxes	2,303	12,429
Property taxes	1,809	1,655
Freight and distribution	1,620	6,222
Capital expenditures	—	884
Utilities	791	1,056
Advertising	69	61
Deferred rent	—	2,418
Gift card liability	1,281	1,894
Asset retirement obligation	1,598	55
Reorganization expenses	3,544	—
Other expenses	5,269	5,549
Total accrued liabilities	\$ 33,942	\$ 45,923

Liabilities subject to compromise are discussed in Note 1 above and are not included in this table of accrued liabilities.

## (5) INCOME TAXES

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

	Current	Deferred	Total
Fiscal Year Ended June 30, 2020			
Federal	\$ (286)	\$ 306	\$ 20
State and local	<u>196</u>	<u>5</u>	<u>201</u>
Total	<u><u>\$ (90)</u></u>	<u><u>\$ 311</u></u>	<u><u>\$ 221</u></u>
Fiscal Year Ended June 30, 2019			
Federal	\$ (286)	\$ 303	\$ 17
State and local	<u>225</u>	<u>4</u>	<u>229</u>
Total	<u><u>\$ (61)</u></u>	<u><u>\$ 307</u></u>	<u><u>\$ 246</u></u>
Fiscal Year Ended June 30, 2018			
Federal	\$ —	\$ (568)	\$ (568)
State and local	<u>426</u>	<u>3</u>	<u>429</u>
Total	<u><u>\$ 426</u></u>	<u><u>\$ (565)</u></u>	<u><u>\$ (139)</u></u>

A reconciliation between income taxes computed at the statutory federal income tax rate of 21% in fiscal 2020 and 2019, the blended statutory federal income tax rate of 27.2% in fiscal 2018 and income taxes recognized in the Consolidated Statements of Operations was as follows (in thousands):

	Fiscal Year Ended June 30,		
	2020	2019	2018
Federal income tax benefit computed at statutory rate	(34,883)	\$ (2,561)	\$ (6,005)
State income taxes, net of related federal tax benefit	159	181	314
Increase in federal valuation allowance	34,586	2,291	5,182
Federal tax credits	(91)	(294)	(200)
Stock option expiration/deficiencies	620	548	586
Federal tax rate change	—	—	(19)
Other, net	<u>(170)</u>	<u>81</u>	<u>3</u>
Provision/(benefit) for income taxes	<u><u>\$ 221</u></u>	<u><u>\$ 246</u></u>	<u><u>\$ (139)</u></u>

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities for the fiscal years ended June 30, 2020 and 2019, all of which are classified as non-current in our Consolidated Balance Sheets, were comprised of the following (in thousands):

	June 30,	
	2020	2019
<b>Deferred tax assets:</b>		
Other payroll and benefits	\$ 189	\$ 2,093
Inventory reserves	1,516	172
Self-insurance reserves	2,620	2,526
Share-based compensation	1,648	1,968
Other current assets	1,288	2,424
Deferred rent	—	5,895
Operating lease liabilities	87,073	—
Property and equipment	3,208	—
Disallowable interest expense	942	—
Net operating loss and tax credits	38,096	27,358
Other noncurrent assets	191	10
<b>Total gross deferred tax assets</b>	<b>\$ 136,771</b>	<b>\$ 42,446</b>
<b>Deferred tax liabilities:</b>		
Inventory costs	\$ 4,371	\$ 5,609
Prepaid supplies	1,174	1,329
Operating lease - right of use	63,694	—
Property and equipment	—	7,761
<b>Total gross deferred tax liabilities</b>	<b>69,239</b>	<b>14,699</b>
Valuation allowance	(67,626)	(27,531)
<b>Net deferred tax asset/(liability)</b>	<b>\$ (94)</b>	<b>\$ 216</b>

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 2018, as a result of the TCJA enactment, the federal component of deferred taxes was remeasured at 21%, the tax rate at which they are expected to turn in future years. The valuation allowance offsetting these deferred taxes was reduced accordingly. The valuation allowance previously recorded against our AMT credits of \$571,000 was removed to reflect that they will be refunded pursuant to the TCJA beginning on our fiscal year 2019 tax return. Further, federal deferred tax liabilities related to the amortization of trademarks for tax purposes, which are not considered for purposes of the valuation allowance computation, were reduced by \$21,000 during fiscal 2019, resulting in a tax benefit of that amount. In fiscal 2020, the deferred tax asset valuation allowance increased \$40.1 million, due to our operating loss for fiscal 2020. In March 2020, Congress passed the CARES Act. Pursuant to this legislation, the remaining AMT credits of \$286,000 were reclassified from deferred tax assets to a current tax receivable in fiscal 2020.

We have federal net operating loss carryforwards of \$139.6 million. These losses can only be carried forward and utilized to offset future taxable income. Of this carryforward amount, \$73.7 million will expire in fiscal years 2033 through 2037 if not utilized before then. The remaining \$65.9 million can be carried forward indefinitely, due to provisions of the TCJA. Additionally, we have tax effected state net operating loss carryforwards of \$5.4 million, which will expire throughout fiscal years 2020 through 2040 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 2014. The Internal Revenue Service has concluded an examination of the Company for years ending on or before June 30, 2010.

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

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

The balance of taxes, interest, and penalties at June 30, 2020, that if recognized, would affect the effective tax rate is \$311,000. We classify and recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the fiscal years ended June 30, 2020, 2019 and 2018, we recognized \$11,000, \$9,000, and \$7,000 in interest, respectively. No interest or penalties were paid in the tax years ended June 30, 2020, 2019, and 2018.

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, 2020.

## (6) SHARE-BASED INCENTIVE PLANS

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

On September 16, 2014, our Board of Directors adopted the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (the “2014 Plan”), and the 2014 Plan was approved by our stockholders at the 2014 annual meeting of stockholders on November 12, 2014. The 2014 Plan became effective on September 16, 2014, and the maximum number of shares reserved for issuance under the 2014 Plan, as amended, is 6.1 million shares plus any awards under the 2008 Plan (i) that were outstanding on September 16, 2014, and, on or after September 16, 2014, are forfeited, expired or are cancelled, and (ii) any shares subject to such awards that, on or after September 16, 2014 are used to satisfy the exercise price or tax withholding obligations with respect to such awards. Our Board of Directors also approved the termination of the Company’s ability to grant new awards under the 2008 Plan, effective upon the date of stockholder approval of the 2014 Plan, and no new awards will be made under the 2008 Plan. On September 22, 2016, our Board of Directors adopted amendments to the 2014 Plan, which were approved at the 2016 Annual Meeting of Stockholders, to increase the number of shares of our common stock available for issuance under the 2014 Plan and to make additional amendments to the 2014 Plan to, among other things, remove liberal share recycling, reduce the number of shares exempt from minimum vesting, and eliminate discretion to accelerate vesting upon a change in control. On August 22, 2017, our Board of Directors adopted a Second Amendment to the 2014 Plan that modified the minimum vesting provisions as they apply to non-employee directors.

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

On November 16, 2016, our stockholders approved amendments to the 2014 Plan to increase the number of shares of the Company's common stock available for issuance under the 2014 Plan by 2,500,000 shares and to make additional amendments to the 2014 Plan, including (i) reducing the percentage of shares exempt from the minimum vesting requirements under the 2014 Plan, (ii) adding a clawback policy, (iii) generally eliminating the discretion of the Board of Directors to accelerate the vesting of outstanding and unvested awards upon a change of control and (iv) providing that certain shares surrendered in payment of the exercise price of awards or withheld for tax withholding would count against the shares available under the 2014 Plan.

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

Options granted under the 2008 Plan and the 2014 Plan typically vest over periods of one to four years and expire ten years from the date of grant. Options granted under the 2008 Plan and the 2014 Plan may have certain performance requirements in addition to service terms. If the performance conditions are not satisfied, the options are forfeited. The exercise prices of stock options outstanding on June 30, 2020, range between \$1.64 per share and \$20.91 per share. The 2008 Plan terminated as to new awards as of September 16, 2014. There were 2.8 million shares available for grant under the 2014 Plan at June 30, 2020.

Following is a summary of transactions relating to the 2008 Plan and 2014 Plan options for the fiscal years ended June 30, 2020, 2019, and 2018 (share amounts and aggregate intrinsic value in thousands):

	<u>Number of Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Options Outstanding at June 30, 2017	3,516	7.02	7.86	2
Granted during year	621	2.46		
Exercised during the year	(3)	1.24		
Forfeited or expired during year	(177)	7.21		
Options Outstanding at June 30, 2018	3,957	6.30	7.21	475
Granted during year	537	3.22		
Exercised during the year	(3)	2.10		
Forfeited or expired during year	(793)	7.38		
Options Outstanding at June 30, 2019	3,698	5.63	7.10	—
Granted during year	12	1.64		
Exercised during the year	—	—		
Forfeited or expired during year	(1,015)	6.22		
Options Outstanding at June 30, 2020	<u>2,695</u>	5.33	6.11	—
Options Exercisable at June 30, 2020	1,920	\$ 6.11	5.54	\$ —

The weighted average grant date fair value of stock options granted during the fiscal years ended June 30, 2020, 2019, and 2018, was \$0.83 per share, \$1.71 per share, and \$1.22 per share, respectively. There is no intrinsic value of vested unexercised options at June 30, 2020.

There were options to purchase zero, 3,105 and 3,000 shares of our common stock, which were exercised during the fiscal years ended June 30, 2020, 2019 and 2018, respectively. The aggregate intrinsic value of stock options exercised was \$0, \$1,800, and \$3,700 during the fiscal years ended June 30, 2020, 2019, and 2018, respectively. At June 30, 2020, we had \$0.7 million of total unrecognized share-based compensation expense related to stock options that is expected to be recognized over a weighted average period of 1.59 years.

The following table summarizes information about stock options outstanding at June 30, 2020:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
\$1.64 - \$2.10	195,671	7.09	\$ 2.03	105,383	\$ 2.07
\$2.45 - \$2.45	365,778	7.22	2.45	182,894	2.45
\$3.12 - \$3.12	18,750	6.32	3.12	11,250	3.12
\$3.25 - \$3.25	481,823	8.03	3.25	121,164	3.25
\$3.95 - \$5.59	169,803	4.70	4.66	137,301	4.74
\$5.64 - \$5.64	376,101	5.59	5.64	376,101	5.64
\$5.95 - \$5.95	342,825	4.56	5.95	342,825	5.95
\$6.58 - \$6.58	22,615	5.88	6.58	22,615	6.58
\$6.71 - \$6.71	387,117	6.15	6.71	290,683	6.71
\$7.90 - \$20.91	334,133	4.37	11.24	329,430	11.29
	<u>2,694,616</u>	<u>6.11</u>	<u>5.33</u>	<u>1,919,646</u>	<u>6.11</u>

**Restricted Stock Awards**—The 2008 Plan and the 2014 Plan authorize the grant of restricted stock awards to directors, officers, key employees and certain other key individuals who perform services for us and our subsidiaries. Equity awards may no longer be granted under the 2008 Plan, but restricted stock awards granted under the 2008 Plan are still outstanding. Restricted stock awards are not transferable, but bear certain rights of common stock ownership including voting and dividend rights. Shares are valued at the fair market value of our common stock at the date of award. Shares may be subject to certain performance requirements. If the performance requirements are not met, the restricted shares are forfeited. Under the 2008 Plan and the 2014 Plan, as of June 30, 2020, there were 1,979,480 shares of restricted stock and 1,309,305 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 \$2.43 and \$1.85 per share, respectively.

The following table summarizes information about restricted stock awards outstanding for the fiscal years ended June 30, 2020, 2019, and 2018 (share amounts in thousands):

	Number of Shares	Weighted-Average Fair Value at Date of Grant
Outstanding at June 30, 2017	1,090	\$ 6.57
Granted during year	981	2.44
Vested during year	(398)	6.81
Forfeited during year	(240)	4.94
Outstanding at June 30, 2018	1,433	\$ 3.95
Granted during year	1,037	3.09
Vested during year	(421)	4.59
Forfeited during year	(209)	3.63
Outstanding at June 30, 2019	1,840	\$ 3.36
Granted during year	1,480	1.63
Vested during year	(505)	3.55
Forfeited during year	(836)	2.38
Outstanding at June 30, 2020	<u>1,979</u>	<u>\$ 2.43</u>

**Performance-Based Restricted Stock Awards and Performance-Based Stock Option Awards.** As of June 30, 2020, there were 989,093 unvested performance-based restricted stock awards and performance-based stock options outstanding under the 2014 Plan, which are included in the respective stock option and restricted stock tables above.

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

	Fiscal Years Ended June 30,		
	2020	2019	2018
Amortization of share-based compensation during the period	\$ 2,555	\$ 3,488	\$ 3,349
Amounts capitalized in inventory	(681)	(1,114)	(1,280)
Amount recognized and charged to cost of sales	846	1,162	1,364
Amounts charged against income for the period before tax	<u>\$ 2,720</u>	<u>\$ 3,536</u>	<u>\$ 3,433</u>

## (7) OPERATING LEASES

We conduct substantially all operations from leased facilities, with the exception of the corporate headquarters in Dallas and the Dallas warehouse, distribution and retail complex, which are owned facilities. The other warehouse facility and all other retail store locations are under operating leases that will expire over the next 1 to 11 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 expire generally within 60 months.

As discussed in Note 1, we adopted 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.

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, 2020
Operating lease cost	\$ 94,318
Variable lease cost	24,014
Finance lease cost:	
Amortization of right-of-use assets	286
Interest on lease liabilities	29
Total lease cost	<u><u>\$ 118,647</u></u>

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

	As of June 30, 2020
<b>Weighted average remaining lease term (in years)</b>	
Operating leases	5.9
Finance leases	2.6
<b>Weighted average discount rate</b>	
Operating leases	5.8%
Finance leases	3.9%

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

	Year Ended June 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 90,983
Operating cash flows from finance leases	23
Financing cash flows from finance leases	224
Right-of-use assets obtained in exchange for operating lease liabilities	28,957

Maturities of lease liabilities were as follows as of June 30, 2020 (in thousands):

	Operating Leases	Finance Leases	Total
Fiscal year:			
2021	\$ 89,598	\$ 383	\$ 89,981
2022	78,074	236	78,310
2023	68,032	94	68,126
2024	58,480	10	58,490
2025	50,217	—	50,217
Thereafter	89,140	—	89,140
Total lease payments	<u>\$ 433,541</u>	<u>\$ 723</u>	<u>\$ 434,264</u>
Less: Interest	67,632	34	67,666
Total lease liabilities	<u>\$ 365,909</u>	<u>\$ 689</u>	<u>\$ 366,598</u>
Less: Current lease liabilities	71,097	363	71,460
Non-current lease liabilities	<u><u>\$ 294,812</u></u>	<u><u>\$ 326</u></u>	<u><u>\$ 295,138</u></u>

Current and non-current finance lease liabilities recorded in "Accrued liabilities" and "Other liabilities – non-current", respectively, on our consolidated balance sheet. As of June 30, 2020, 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, 2020, 2019, and 2018 was \$118.3 million, \$121.5 million, and \$118.3 million, respectively. Total lease cost in fiscal 2020 was \$118.6 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 \$118.6 million for fiscal 2020 excludes \$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. Additionally, circumstances indicated the carrying amount of assets for stores with no closure plans may not be recoverable. Accordingly, we measured for impairment using Level 3 fair value measurement inputs as described above in Note 1.

Contingent rent based on sales is not material to our financial statements.

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

We have a 401(k) profit sharing plan for the benefit of our full-time employees who become eligible after one month of service, and for our part-time employees who become eligible after both 12 months of service and a minimum of 1,000 hours worked. Under the plan, eligible employees may request us to deduct and contribute from 1% to 75% of their salary to the plan, subject to Internal Revenue Service Regulations. We match each participant's contribution up to 4% of participant's compensation. We expensed contributions of \$1.4 million, \$1.4 million, and \$1.3 million for the fiscal years ended June 30, 2020, 2019, and 2018, respectively.

## (9) EARNINGS PER COMMON SHARE

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

	Fiscal Year Ended June 30,		
	2020	2019	2018
Net loss	\$ (166,328)	\$ (12,440)	\$ (21,938)
Less: Income to participating securities	—	—	—
Net loss attributable to common shares	<u>\$ (166,328)</u>	<u>\$ (12,440)</u>	<u>\$ (21,938)</u>
Weighted average common shares outstanding—basic	45,208	44,719	44,282
Effect of dilutive stock equivalents	—	—	—
Weighted average common shares outstanding—dilutive	<u>45,208</u>	<u>44,719</u>	<u>44,282</u>
Net loss per common share—basic	\$ (3.68)	\$ (0.28)	\$ (0.50)
Net loss per common share—diluted	\$ (3.68)	\$ (0.28)	\$ (0.50)

For the years ended June 30, 2020, 2019 and 2018, all options representing the rights to purchase shares were not included in the diluted loss per share calculations, because the assumed exercise of such options would have been anti-dilutive.

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

A summary of our unaudited quarterly results is presented below for the years ended June 30, 2020 and 2019. Results are computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts presented may not equal the total computed for the year due to rounding. (In thousands, except per share amounts.)

	Quarters Ended			
	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020
Net sales	\$ 224,439	\$ 324,414	\$ 165,698	\$ 160,343
Gross profit	81,132	105,776	52,167	45,794
Operating income/(loss)	(8,651)	11,099	(30,647)	(130,996)
Net income/(loss)	(9,629)	10,937	(31,040)	(136,597)
Basic income/(loss) per share	\$ (0.21)	\$ 0.24	\$ (0.69)	\$ (3.01)
Diluted income/(loss) per share	\$ (0.21)	\$ 0.24	\$ (0.69)	\$ (3.01)

	Quarters Ended			
	September 30. 2018	December 31, 2018	March 31, 2019	June 30, 2019
Net sales	\$ 227,313	\$ 338,418	\$ 210,984	\$ 230,530
Gross profit	82,418	116,745	76,498	76,654
Operating income/(loss)	(7,588)	16,308	(7,811)	(11,434)
Net income/(loss)	(8,109)	16,006	(8,289)	(12,049)
Basic income/(loss) per share	\$ (0.18)	\$ 0.35	\$ (0.18)	\$ (0.27)
Diluted income/(loss) per share	\$ (0.18)	\$ 0.35	\$ (0.18)	\$ (0.27)

A significant portion of our net sales and net earnings are realized during the period from October through December while the increase in merchandise purchases in preparation for this holiday selling season occurs in prior months. Our results for the third and fourth quarters of fiscal 2020 were negatively impacted by the COVID-19 pandemic.

See Note 1 for a discussion of restructuring, impairment, abandonment and reorganization items impacting the quarter ended June 30, 2020.

#### (11) DIVIDEND RESTRICTIONS

The DIP ABL Facility and the Pre-Petition ABL Credit Agreement discussed in Note 3 restrict the ability of Tuesday Morning, Inc., the borrower under the DIP ABL Facility and the Pre-Petition ABL Credit Agreement and Tuesday Morning's principal operating subsidiary, to incur additional liens and indebtedness, make investments and dispositions, pay dividends (including to Tuesday Morning), or enter into certain other transactions, among other restrictions. As a consolidated deficit exists as of June 30, 2020, no retained earnings are free of limitation on the payment of dividends on that date.

At June 30, 2020, restricted net assets of consolidated subsidiaries were \$20.0 million.

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

	June 30, 2020	June 30, 2019
<b>ASSETS</b>		
Current assets:		
Accounts receivable from subsidiaries	\$ 32,514	\$ 30,049
Total current assets	<u>32,514</u>	<u>30,049</u>
Noncurrent assets:		
Investment in subsidiaries	(25,579)	141,260
Total noncurrent assets	<u>(25,579)</u>	<u>141,260</u>
Total Assets	<u><u>\$ 6,935</u></u>	<u><u>\$ 171,309</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable to subsidiaries	\$ —	\$ —
Total current liabilities	<u>—</u>	<u>—</u>
Noncurrent Liabilities		
Total Liabilities	<u>—</u>	<u>—</u>
Stockholders' equity:		
Common stock	455	465
Additional paid-in capital	244,021	241,456
Retained deficit	(230,729)	(63,800)
Less: Treasury stock	(6,812)	(6,812)
Total stockholders' equity	<u>6,935</u>	<u>171,309</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 6,935</u></u>	<u><u>\$ 171,309</u></u>

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

	Fiscal Years Ended June 30		
	2020	2019	2018
Net sales	\$ —	\$ —	\$ —
Cost of sales	—	—	—
Gross profit	—	—	—
Selling, general and administrative expenses	—	—	—
Operating income/(loss)	—	—	—
Other income/(expense):			
Interest expense	—	—	—
Other income/(expense), net	—	—	—
Income/(loss) before taxes	—	—	—
Income tax provision	—	—	—
Net loss of subsidiaries	(166,328)	(12,440)	(21,938)
Net loss	<u>\$ (166,328)</u>	<u>\$ (12,440)</u>	<u>\$ (21,938)</u>

**A. Basis of presentation**

In the condensed, parent company only financial statements, Tuesday Morning Corporation's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. These condensed parent company only financial statements should be read in conjunction with Tuesday Morning Corporation's consolidated financial statements. Condensed statements of cash flows were not presented because Tuesday Morning Corporation had no cash flow activities during fiscal 2020, fiscal 2019, or fiscal 2018.

**B. Guarantees and Restrictions**

As of June 30, 2020, Tuesday Morning, Inc. had \$33.0 million available credit on the DIP ABL Facility that provides commitments of up to \$100.0 million for revolving loans and letters of credit. Tuesday Morning Corporation, Tuesday Morning Inc. and the subsidiaries of Tuesday Morning, Inc. have guaranteed all obligations under the DIP ABL Facility. In the event of default under the DIP ABL Facility, Tuesday Morning Corporation, Tuesday Morning, Inc. and the subsidiaries of Tuesday Morning, Inc. will be directly liable to the debt holders. The DIP ABL Credit Agreement includes restrictions on the ability of Tuesday Morning Corporation, Tuesday Morning, Inc. and the subsidiaries of Tuesday Morning, Inc. to incur additional liens and indebtedness, make investments and dispositions, pay dividends or make other transactions, among other restrictions. Under the DIP ABL Facility, Tuesday Morning, Inc. may not pay any dividends to Tuesday Morning Corporation except to allow Tuesday Morning Corporation (i) to pay operating expenses in the ordinary course of business and other corporate overhead, legal, accounting and other professional fees and expenses and (ii) to pay franchise or similar taxes and other fees and expenses required in connection with the maintenance of its existence and its ownership of Tuesday Morning, Inc. and in order to permit Tuesday Morning Corporation to make payments (other than cash interest payments) which would otherwise be permitted to be paid by Tuesday Morning, Inc., in each case, in accordance with the approved budget under the DIP ABL Facility.

## **(12) SUBSEQUENT EVENT**

On July 10, 2020, in accordance with a final order issued by the Bankruptcy Court on that date (the “Final Order”), we entered into the DIP DDTL Agreement. Pursuant to the DIP DDTL Agreement, the Lender agreed to lend us up to an aggregate principal amount of \$25 million in the form of delayed draw term loans. The DIP Term Facility is guaranteed by certain of our subsidiaries and secured on a super priority basis by real estate assets owned by us (the “Real Estate Assets”), including our corporate headquarters and warehouse/distribution complex located in Dallas, Texas. The DIP Term Facility will mature on April 10, 2021, which maturity (unless accelerated subject to the terms set forth in the DIP DDTL Agreement) may be extended, subject to payment of an extension fee to the Lender, for an additional three months at our election. The DIP Term Facility will bear interest at a rate per annum based on 3-month LIBOR (with a 1.00% LIBOR floor), plus an interest rate margin of 5.0% (subject to further increase of 2.0% upon the occurrence of an event of default).

Under the terms of the DIP DDTL Agreement, so long as the Final Order is unstayed and is in full force and effect, we will be entitled to make borrowings under the DIP Term Facility in minimum increments of \$2.5 million subject to the satisfaction of certain additional conditions, including absence of defaults under the DIP Term Facility, delivery of notices of borrowing and the accuracy of the representations and warranties of us in the DIP DDTL Agreement.

Pursuant to the DIP DDTL Agreement, proceeds of borrowings under the DIP Term Facility must be used by us to: (1) repay obligations of us under (a) the DIP ABL Credit Agreement, and (b) the Pre-Petition ABL Credit Agreement; (2) fund general working capital; and (3) fund reasonable transaction costs and fees with respect to the DIP Term Facility, to the extent permitted by the applicable orders of the Bankruptcy Court and the DIP ABL Credit Agreement.

The DIP Term Facility includes conditions precedent, representations and warranties, affirmative and negative covenants, and events of default customary for financings of this type and size. We will be obligated to prepay amounts outstanding under the DIP Term Facility upon certain asset sales and casualty or condemnation events with respect to the Real Estate Assets.