TUESDAY MORNING CORP/DE
Form 10-Q
October 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 0-19658

TUESDAY MORNING CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**75-2398532**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

6250 LBJ Freeway

Dallas, Texas 75240

(Address, including zip code, of principal executive offices)

(972) 387-3562

(Registrant s telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

Class	**Outstanding at October 25, 2012**
Common Stock, par value $0.01 per share	42,497,014

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Forward-Looking Statements

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

Readers are referred to Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended June 30, 2012 for examples of risks, uncertainties and events that could cause our actual results to differ materially from the expectations expressed in our forward-looking statements. These risks, uncertainties and events also include, but are not limited to, the following:

- *uncertainties regarding our ability to open stores and relocate existing stores in new and existing markets and operate these stores on a profitable basis;*
- *conditions affecting consumer spending and consumer confidence and the impact, depth and duration of current economic conditions;*
- *increased or new competition;*
- *our ability to operate information systems and implement new technologies effectively;*
- *our ability to safeguard our customers personal information and other secure data;*
- *our ability to continue to attract buying opportunities and anticipate customer demand;*
- *loss of or disruption in our centralized distribution center;*
- *our freight costs and thus our cost of goods sold are impacted by changes in fuel prices;*
- *loss or departure of one or more members of our senior management or other key management personnel;*
- *our ability to generate strong cash flows from our operations;*
- *an increase in the cost or a disruption in the flow of our imported products;*
- *our success in implementing our marketing, advertising and promotional efforts;*

- *our ability to attract and retain quality sales, distribution center and other associates in large numbers;*
- *seasonal and quarterly fluctuations; and*
- *fluctuations in our comparable store results.*

The forward-looking statements made in this Form 10-Q relate only to events as of the date on which the statements were made. Except as may be required by law, we undertake no obligation to update our forward-looking statements to reflect events and circumstances after the date on which the statements were made or to reflect the occurrence of unanticipated events.

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Tuesday Morning Corporation

Consolidated Balance Sheets

September 30, 2012 (unaudited) and June 30, 2012

(In thousands, except for per share data)

		September 30, 2012		June 30, 2012
ASSETS				
Current assets:				
Cash and cash equivalents	$	10,001	$	39,740
Inventories		331,721		265,630
Prepaid expenses and other current assets		16,756		11,357
Deferred income taxes		1,149		535
Total current assets		359,627		317,262
Property and equipment, net		75,692		75,771
Deferred financing costs		2,452		2,603
Other assets		1,570		1,531
Total Assets	$	439,341	$	397,167
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$	127,379	$	98,009
Accrued liabilities		36,353		30,295
Income taxes payable		46		19
Total current liabilities		163,778		128,323
Revolving credit facility		12,500		
Deferred rent		3,133		3,262
Income tax payable - non current		584		578
Deferred income taxes		4,756		4,813
Total Liabilities		184,751		136,976
Commitments and contingencies				
Stockholders equity:				
Preferred stock, par value $0.01 per share, authorized 10,000,000 shares; none issued or outstanding				
Common stock, par value $0.01 per share, authorized 100,000,000 shares; 44,205,183 shares issued and 42,482,639 shares outstanding at September 30, 2012 and 43,436,404 shares issued and 41,721,537 shares outstanding at June 30, 2012		442		434

Additional paid-in capital		212,540		211,358
Deferred compensation on restricted stock		(867)		(1,029)
Retained earnings		48,613		55,574
Accumulated other comprehensive loss		(4)		(54)
Less: 1,722,544 common shares in treasury, at cost, at September 30, 2012 and 1,714,867 common shares at June 30, 2012 in treasury, at cost		(6,134)		(6,092)
Total Stockholders Equity		254,590		260,191
Total Liabilities and Stockholders Equity	$	439,341	$	397,167

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

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Tuesday Morning Corporation

Consolidated Statements of Operations (unaudited)

(In thousands, except for per share data)

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
Net sales	$	172,795	$	170,653
Cost of sales		107,889		105,680
Gross profit		64,906		64,973
Selling, general and administrative expenses		75,790		73,471
Operating loss		(10,884)		(8,498)
Other income (expense):				
Interest expense		(422)		(797)
Other income, net		58		42
		(364)		(755)
Loss before income taxes		(11,248)		(9,253)
Income tax benefit		(4,287)		(3,563)
Net loss	$	(6,961)	$	(5,690)
Loss Per Share				
Net loss per common share:				
Basic	$	(0.17)	$	(0.13)
Diluted	$	(0.17)	$	(0.13)
Weighted average number of common shares:				
Basic		41,764		42,711
Diluted		41,764		42,711
Dividends per common share	$		$	

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

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Tuesday Morning Corporation

Statement of Comprehensive Income (Loss) (unaudited)

(In thousands, except for per share data)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
Net loss	$ (6,961)	$ (5,690)
Other Comprehensive Income:		
Foreign currency translation adjustments	50	66
Less: Reclassification adjustment for losses included in net income	(1)	
Other Comprehensive Income, before tax	49	66
Less: Income tax expense related to items of other comprehensive income	19	25
Comprehensive Loss	$ (6,931)	$ (5,649)

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

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Tuesday Morning Corporation

Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	Three Months Ended September 30, 2012	2011
Net cash flows from operating activities:		
Net loss	$ (6,961)	$ (5,690)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,608	3,973
Amortization of financing fees	151	255
Deferred income taxes	(671)	(170)
Loss on disposal of assets	85	118
Stock-based compensation	196	419
Other non-cash items	50	66
Change in operating assets and liabilities:		
Inventories	(66,098)	(41,930)
Prepaid and other assets	(5,438)	(457)
Accounts payable	23,989	36,557
Accrued liabilities	6,057	980
Deferred rent	(129)	(98)
Income taxes payable	33	(28)
Net cash used in operating activities	(45,128)	(6,005)
Net cash flows from investing activities:		
Capital expenditures	(3,614)	(2,482)
Net cash used in investing activities	(3,614)	(2,482)
Net cash flows from financing activities:		
Repayments under revolving credit facility	(35,515)	(40,896)
Proceeds under revolving credit facility	48,015	54,396
Change in cash overdraft	5,381	(18,107)
Excess tax benefit from the exercise of employee stock options	(275)	38
Purchases of treasury stock	(42)	(1,180)
Proceeds from the exercise of stock options	1,439	3
Net cash provided by (used in) financing activities	19,003	(5,746)
Net decrease in cash and cash equivalents	(29,739)	(14,233)
Cash and cash equivalents, beginning of period	39,740	19,400
Cash and cash equivalents, end of period	$ 10,001	$ 5,167

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

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Tuesday Morning Corporation

Notes to Consolidated Financial Statements (unaudited)

1. Basis of presentation The unaudited consolidated interim financial statements included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. These financial statements include all adjustments, consisting only of those of a normal recurring nature, which, in the opinion of management, are necessary to present fairly the results of the interim periods presented and should be read in conjunction with the consolidated financial statements and notes thereto in our Form 10-K for the year ended June 30, 2012. Due to the seasonal nature of our business, the results of operations for the quarter are not indicative of the results to be expected for the entire fiscal year.

The balance sheet at June 30, 2012 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in our Form 10-K for the year ended June 30, 2012. We operate our business as a single operating segment.

2. Stock-based compensation We have established the Tuesday Morning Corporation 1997 Long-Term Equity Incentive Plan, as amended (the 1997 Plan), the Tuesday Morning Corporation 2004 Long-Term Equity Incentive Plan, as amended (the 2004 Plan), and the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan, as amended (the 2008 Plan), which allow for the granting of stock-based compensation, including stock options and restricted stock to directors, officers and key employees of, and certain other key individuals who perform services for the Company, and its subsidiaries. Equity awards may no longer be granted under the 1997 Plan as such plan terminated pursuant to its terms in December 2007) but existing options granted under the plan may still be exercisable. Equity awards may be subject to forfeiture if certain performance requirements are not met under the 2004 and 2008 Plans.

Performance Shares and Performance Units. As of September 30, 2012, there were 60,000 performance shares and 60,000 performance units outstanding. Each performance share represents a contingent right to receive one share of common stock and each performance unit represents a contingent right to receive $8.00 in cash. As such, performance units are accounted for as a liability award. The performance shares and performance units vest in one-third tranches over a three year period, subject to the Company s achievement of a performance target during an applicable performance period. Any unvested performance shares and performance units at the end of the performance period are rolled over and become eligible to vest in subsequent performance periods. Any performance shares and performance units that are unvested as of the close of business on October 31, 2015 will lapse and be forfeited as of such time.

Stock Options. The 1997 Plan authorized grants of options to purchase up to 4,800,000 shares of authorized, but unissued common stock. The 2004 Plan and the 2008 Plan authorize grants of options to purchase up to 2,000,000, and 2,500,000 shares, respectively, of authorized, but unissued common stock. At our upcoming 2012 annual meeting of stockholders, our stockholders are being asked to vote on an amendment to the 2008 plan to increase the number of shares of common stock available for awards under the 2008 plan to 5,365,000. Stock options are awarded with a strike price at a fair market value equal to the average of the high and low trading prices of our common stock on the date of grant under the 1997 Plan and the 2004 Plan. Stock options are awarded with a strike price at a fair market value equal to the closing price of our common stock on the date of the grant under the 2008 Plan.

Options granted under the 1997 Plan and the 2004 Plan typically vest over periods of one to five years and expire ten years from the date of grant while options granted under the 2008 Plan typically vest over periods of one to three years and expire ten years from the date of grant. Options granted under the 2004 Plan and the 2008 Plan may have certain performance requirements in addition to service terms. If the performance conditions are not satisfied, the options are forfeited.

As of September 30, 2012, there are 500,000 performance stock options with a weighted average grant value of $5.56 under the 2004 Plan and 300,000 performance stock options with a weighted average grant value of $5.59 under the 2008 Plan. The performance stock options generally vest as follows: (i) options to purchase the first one-third tranche of shares of common stock will vest if the weighted-average closing price per share of the common stock for 90 consecutive trading days (the Trailing Trading Price) equals or exceeds $7.50 per share, (ii) options to purchase the second one-third tranches of shares of common stock will vest if the Trailing Trading Price equals or exceeds $10.00 per share, and (iii) options to purchase the third one-third tranches of shares of common stock will vest if the Trailing Trading Price equals or exceeds $12.50 per share. Any stock options that have not vested before the third anniversary of the grant date will generally terminate at such time; provided, that if the second tranche of stock options vest because the Trailing Trading Price for such options is met, then the remaining stock options will generally terminate if not vested by the fourth anniversary of the grant date.

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The exercise prices of stock options outstanding on September 30, 2012 range between \$0.63 and \$35.23, which represents market value on the grant date. There were 142,243 and 99,808 shares available for grant under the 2004 Plan and the 2008 Plan at September 30, 2012, respectively.

Restricted Stock. 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 price at the date of award. As of September 30, 2012, there were 181,806 shares of restricted stock outstanding with vesting periods of one to three years and a weighted average grant date fair value of \$3.91 per share under the 2004 Plan and 2008 Plan.

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

	Three Months Ended September 30,			
		2012		**2011**
Total cost of stock-based compensation during the period	$	190	$	364
Amounts capitalized in ending inventory		(100)		(166)
Amounts recognized in expense previously capitalized		106		221
Amounts charged against income for the period before tax	$	196	$	419

3. Comprehensive income or loss Comprehensive income or loss is defined as net income or loss plus the change in equity during a period from transactions and other events, excluding those resulting from investments by and distributions to stockholders. We account for foreign currency forward contracts as cash flow hedges in accordance with ASC 815 (formerly SFAS No. 133), Accounting for Derivative Instruments and Hedging Activities. Changes in the fair value of the contracts that are considered to be effective are recorded in other comprehensive income or loss until the hedged item is recorded in earnings. Effective cash flow hedges are reclassified out of other comprehensive income or loss and into cost of sales when the hedged inventory is sold. Ineffective cash flow hedges are recorded in other income or loss and were not material for the periods presented. The effect of foreign exchange contracts on our financial position or results of operations has historically been immaterial. Comprehensive loss for the quarters ended September 30, 2012 and 2011 was \$6.9 million and \$5.6 million, respectively.

4. Commitments and contingencies

A lawsuit was brought against us in 2008 by 34 employees in California Superior Court, County of Orange alleging claims concerning overtime and meal and rest periods. Discovery has been completed. Of the 34 plaintiffs, the Company has settled 11 cases representing the store manager plaintiffs and dismissals were filed with respect to such cases on May 29, 2012. The Company has also settled 4 of the assistant manager cases and dismissals for such cases are pending. The remaining 19 cases concern hourly employees alleging meal and rest break claims and trial dates for these remaining cases have been set for February 2013.

In December 2008, a class action lawsuit was filed by hourly, non-exempt employees in the California Superior Court, County of Los Angeles, alleging claims related to meal and rest period violations. The parties are presently conducting discovery. The court has certified the class on a limited issue relating to the use of on-duty meal period agreements.

In July 2009, a lawsuit alleging failure to pay overtime compensation was filed in Alabama by a former store manager. The plaintiff sought to certify a class action made up current and former store managers. In fiscal 2010, we filed a request with the court to deny this motion. The court has not ruled, and no trial date has been set.

In July 2012, a discrimination claim was filed with the Equal Employment Opportunity Commission by our former CEO. The Company believes this charge is without merit and intends to vigorously defend this matter.

We intend to vigorously defend all pending actions. We do not believe these or any other legal proceedings pending or threatened against us would have a material adverse effect on our financial condition or results of operations.

In October 2012, the Company s EVP and COO was terminated without cause. Payment will be made in accordance with the amended employment agreement, and recognized in the second fiscal quarter of 2013.

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5. Loss per common share - The following table sets forth the computation of basic and diluted loss per common share:

(in thousands, except for per share data)	Three Months Ended September 30, 2012		2011	
Net loss	$	(6,961)	$	(5,690)
Less: Income to participating securities				
Net loss attributable to common shares	$	(6,961)	$	(5,690)
Weighted average number of common shares outstanding - basic		41,764		42,711
Effect of dilutive stock equivalents				
Weighted average number of common shares outstanding - dilutive		41,764		42,711
Net loss per common share - basic	$	(0.17)	$	(0.13)
Net loss per common share - diluted	$	(0.17)	$	(0.13)

Options representing rights to purchase 948,065 shares and 1,842,635 shares of common stock of at September 30, 2012 and September 30, 2011, respectively, were not included in the diluted loss per share calculation because the assumed exercise of such options would have been anti-dilutive.

6. Revolving credit facility We have a credit agreement providing for an asset-based, five-year senior secured revolving credit facility (the Revolving Credit Facility) in the amount of up to $180.0 million. Our indebtedness under the Revolving Credit Facility is secured by a lien on substantially all of our assets. On November 17, 2011, we entered into a third amendment to the Revolving Credit Facility. This amendment, among other things, extended the maturity date of the Revolving Credit Facility from December 15, 2013 to November 17, 2016 and removed the clean down provision. The Revolving Credit Facility contains certain restrictive covenants, which affect, among others, our ability to incur liens or incur additional indebtedness, sell assets or merge or consolidate with any other entity. In addition, we are currently required to maintain availability under the Revolving Credit Facility of not less than $18.0 million. As of September 30, 2012, we were in compliance with all required covenants. Interest expense of $0.4 million for the quarter ended September 30, 2012 was due primarily to commitment fees of $0.2 million, interest expense of $0.1 million, and the amortization of financing fees of $0.1 million.

At September 30, 2012, we had $12.5 million outstanding under the Revolving Credit Facility, $8.1 million of outstanding letters of credit and availability of $159.4 million under the Revolving Credit Facility. Letters of credit under the Revolving Credit Facility are primarily for self-insurance purposes. We incur commitment fees of up to 0.375% on the unused portion of the Revolving Credit Facility. Any borrowing under the Revolving Credit Facility incurs interest at LIBOR or the prime rate, depending on the type of borrowing, plus an applicable margin. These rates are increased or reduced as our average daily availability changes.

7. Income taxes Tuesday Morning Corporation or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, Tuesday Morning Corporation is no longer subject to U.S. state and local income tax examinations by tax authorities for years before 2007. The Internal Revenue Service has concluded an examination of the Company for all tax years ended on or before June 30, 2009. The effective tax rates for the quarters ended September 30, 2012 and September 30, 2011 were 38.1% and 38.5%, respectively. The effective tax rate was lower in the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 due to a decrease in expected permanent tax differences for fiscal 2013.

8. Cash and cash equivalents Credit card receivables of $8.5 million and $8.8 million at September 30, 2012 and June 30, 2012, respectively, from MasterCard, Visa, Discover and American Express, as well as highly liquid investments with an original maturity date of

three months or less, are considered to be cash equivalents.

9. Recent accounting pronouncements **-** In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The Amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Specifically, the amendments clarify the intent around applying existing fair value measurements and disclosure requirements, as well as, those that change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. These amendments are to be applied prospectively for annual periods beginning after December 15, 2011, and early application is not permitted. Due to the level of immateriality of the Level 1, 2 and 3 assets and liabilities that are addressed with these amendments, the Company does not believe that any of these amendments will have a material effect on its consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05 *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This standard eliminated the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The preparer is given the option to present all nonowner changes in stockholders equity

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in a single continuous statement of comprehensive income or in two separate but consecutive statements. This alternative presentation of comprehensive income is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As this accounting standard update became effective for the Company as of July 1, 2012 the Company has adopted a two statement approach, and included a Statement of Comprehensive Income and associated disclosures, herein.

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

The following discussion should be read in conjunction with our unaudited Consolidated Financial Statements and the notes thereto included in Item 1 of the Quarterly Report on Form 10-Q.

Business Overview

We operated 840 discount retail stores in 43 states as of September 30, 2012. We sell upscale, decorative home accessories, housewares, and famous maker gifts which we purchase at below wholesale prices. Our stores have periodic sales events that occur in each month except January and July. As we conduct physical inventories at all of our stores, we are normally closed for up to five days during the months of January and July, which traditionally have been weaker months for retailers. We purchase first quality, brand name merchandise at closeout prices and, in turn, sell it at prices significantly below those generally charged by department stores and specialty and catalog retailers. We do not sell seconds, irregulars, refurbished or factory rejects.

As a closeout retailer of home furnishings, we currently compete against a diverse group of retailers, including department and discount stores, specialty, catalog and e-commerce retailers, which sell, among other products, home furnishings 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.

Our ability to continuously attract buying opportunities for closeout merchandise, and to anticipate consumer demand as closeout merchandise becomes available, represents an uncertainty in our business. By their nature, specific closeout merchandise items are generally only available from manufacturers or vendors 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 are often for large quantities. Although we have many sources of merchandise and do not foresee any shortage of closeout merchandise in the near future, we cannot assure that manufacturers or vendors will continue to make desirable closeout merchandise available to us in quantities or on terms acceptable to us or that our buyers will continue to identify and take advantage of appropriate buying opportunities.

Under the retail inventory method, permanent markdowns result in cost reductions in inventory. We utilize promotional markdowns for specific marketing efforts used to drive higher sales volume and traffic for a specified period of time. Markdowns during the first quarter of fiscal 2013 were 5.1% of sales versus 5.0% of sales for the same period last year. If our sales forecasts are not achieved, we may be required to record additional markdowns that could exceed historical levels. The effect of a 0.5% markdown in the value of our inventory at September 30, 2012 would result in a decline in gross profit and earnings per share for the first quarter of fiscal 2013 of $1.7 million and $0.02, respectively. Under current economic conditions, forecasts can vary significantly from the actual results we achieve.

Net sales for the first quarter of fiscal 2013 were approximately $172.8 million, an increase of 1.3% compared to the same period last year. Comparable store sales for the quarter ended September 30, 2012, increased by 1.7% compared to the same period last year, which was primarily due to a 4.7% increase in average ticket offset by a 3.0% decrease in traffic. Net loss for the quarter was $7.0 million and loss per share was $0.17.

In September 2012, we named a new Chief Executive Officer. Future strategic decisions made by the new Chief Executive Officer may have a significant impact on our financial results in future quarters.

We opened 4 new stores and closed 16 existing stores during the first quarter of fiscal 2013. In addition, we relocated 14 existing stores during the first quarter of fiscal 2013.

Store Openings/Closings

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Fiscal Year Ended June 30, 2012
Stores open at beginning of period	852	861	861
Stores opened during the period	4	6	24
Stores closed during the period	(16)	(14)	(33)
Stores opened at end of period	840	853	852

Results of Operations

The following table sets forth certain financial information from our consolidated statements of operations expressed as a percentage of net sales. Our business is highly seasonal, with a significant portion of our net sales and most of our operating income generated in

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the quarter ending December 31, which includes the holiday season. There can be no assurance that the trends in sales or operating results will continue in the future.

	Three Months Ended September 30, 2012	2011
Net Sales	100.0%	100.0%
Cost of Sales	62.4	61.9
Gross Profit	37.6	38.1
Selling, general and administrative expenses	43.9	43.1
Operating loss	(6.3)	(5.0)
Net interest expense and other expense	(0.2)	(0.4)
Loss before income taxes	(6.5)	(5.4)
Income tax benefit	(2.5)	(2.1)
Net loss	(4.0)%	(3.3)%

Three Months Ended September 30, 2012

Compared to the Three Months Ended September 30, 2011

During the first quarter of fiscal 2013, net sales increased to $172.8 million from $170.7 million, an increase of $2.1 million or 1.3%, compared to the quarter ended September 30, 2011. The increase in first quarter sales was primarily due to a 1.7% increase in comparable store sales. The increase in comparable sales for the first quarter of fiscal 2013 was comprised of a 4.7% increase in average ticket offset by a 3.0% decrease in traffic.

Gross profit decreased $0.1 million or 0.1% to $64.9 million for the first quarter ended September 30, 2012 compared to $65.0 million for the same quarter last year. As a percentage of net sales, gross profit decreased to 37.6% for the quarter ended September 30, 2012 compared to 38.1% for the same quarter in fiscal 2012 due to higher freight costs, slightly higher markdowns and a small change in product mix.

Selling, general and administrative expenses increased $2.3 million, or 3.2%, to $75.8 million for the first quarter of fiscal 2013 from $73.5 million for the same quarter last year. Of the $2.3 million increase in selling, general and administrative expenses, approximately $1.5 million relates to non-recurring charges primarily for consulting, legal and recruitment. The remaining increase in selling, general and administrative expenses is primarily driven by an increase in store wages incurred for cleaning and organizing of certain stores. As a percentage of net sales, excluding non-recurring expenses related to one-time charges for consulting, legal and recruitment, selling, general and administrative expenses remained relatively flat at 43.0% in the first quarter of fiscal 2013 compared to 43.1% in the same quarter last year. Excluding non-recurring charges related to consulting, legal and recruitment, selling, general and administrative expenses, on a per store basis, were up 2.7% year over year.

The income tax benefit for the quarter ended September 30, 2012 was $4.3 million compared to $3.6 million for the same period last year. The effective tax rates for the quarters ended September 30, 2012 and September 30, 2011 were 38.1% and 38.5%, respectively. The effective tax rate was lower in the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 due to a decrease in expected permanent tax differences for fiscal 2013.

Liquidity and Capital Resources

We have financed our operations with funds generated from operating activities and borrowings under our revolving credit facility. Our borrowings have historically peaked during October as we build inventory levels prior to the holiday selling season. Given the seasonality of our business, the amount of borrowings under our revolving credit facility may fluctuate materially depending on various factors, including the time of year, our needs and the opportunity to acquire merchandise inventory. We have no off-balance sheet arrangements or transactions with unconsolidated, limited purpose or variable interest entities, nor do we have material transactions or commitments involving related persons or entities.

Net cash used in operating activities for the three months ended September 30, 2012 and 2011 was $45.1 million and $6.0 million, respectively. The $45.1 million of cash used in operating activities for the three months ended September 30, 2012 was primarily due to the result of an increase in inventory of $66.1 million, an increase in other assets of $5.4 million, net loss of $3.4 million excluding depreciation and amortization, largely offset by an increase in accounts payable and accrued liabilities of $24.0 million and $6.0 million, respectively. The increase in inventory was due to an increase in purchases in preparation for the holiday selling season and the timing of payments to vendors. There were no significant changes to our vendor payment policy during this time.

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Capital expenditures are principally associated with new store openings or relocations, existing store maintenance, or enhancements to warehouse and office equipment and systems, and totaled $3.6 million and $2.5 million for the three months ended September 30, 2012 and 2011, respectively. We expect to spend approximately $8.0 to $9.0 million for additional capital expenditures during the remainder of fiscal 2013, which will primarily include systems improvements, the opening of new stores, relocations of existing stores, enhancements of selected stores, fixtures for existing stores and purchases of equipment for our distribution center and corporate office.

On August 22, 2011, the Company s Board of Directors adopted a share repurchase program pursuant to which the Company is authorized to repurchase from time to time shares of Common Stock, up to a maximum of $5.0 million in aggregate purchase price for all such shares (the Repurchase Program). On January 20, 2012, the Company s Board of Directors increased the authorization for stock repurchases under the Repurchase Program from $5.0 million to a maximum of $10.0 million. The Repurchase Program does not have an expiration date and may be suspended or discontinued at any time. The Board will evaluate the Repurchase Program each year and there can be no assurances as to the number of shares of Common Stock the Company will repurchase. During the three-month period ended September 30, 2012, 7,677 shares were repurchased under the Repurchase Program at an average cost of $5.49 per share and for a total cost (excluding commissions) of approximately $42,000. All such shares were purchased by the Company in connection with the tax liability associated with the vesting of restricted stock awards under the Company s equity incentive plan.

We have a credit agreement providing for an asset-based, five-year senior secured Revolving Credit Facility (the Revolving Credit Facility) in the amount of up to $180.0 million. Our indebtedness under the credit facility is secured by a lien on substantially all of our assets. On November 17, 2011, we entered into a third amendment to the Revolving Credit Facility. This amendment, among other things, extended the maturity date of the Revolving Credit Facility from December 15, 2013 to November 17, 2016 and removed the clean down provision. The Revolving Credit Facility contains certain restrictive covenants, which affect, among others, our ability to incur liens or incur additional indebtedness, sell assets or merge or consolidate with any other entity. In addition, we are currently required to maintain availability under the Revolving Credit Facility of not less than $18.0 million. As of September 30, 2012, we were in compliance with all required covenants. Interest expense of $0.4 million for the quarter ended September 30, 2012 was due primarily to commitment fees of $0.2 million, interest expense of $0.1 million and the amortization of financing fees of $0.1 million.

At September 30, 2012, we had $12.5 million outstanding under the Revolving Credit Facility, $8.1 million of outstanding letters of credit and availability of $159.4 million under the Revolving Credit Facility subject to minimum availability requirements as discussed above. Letters of credit under the Revolving Credit Facility are primarily for self-insurance purposes. We incur commitment fees of 0.375% on the unused portion of the Revolving Credit Facility. Any borrowing under the Revolving Credit Facility incurs interest at LIBOR or the prime rate, depending on the type of borrowing, plus an applicable margin. These rates are increased or reduced as our average daily availability changes.

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The Amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Specifically, the amendments clarify the intent around applying existing fair value measurements and disclosure requirements, as well as, those that change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. These amendments are to be applied prospectively for annual periods beginning after December 15, 2011, and early application is not permitted. Due to the level of immateriality of the Level 1, 2 and 3 assets and liabilities that are addressed with these amendments, the Company does not believe that any of these amendments will have a material effect on its consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05 *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This standard eliminated the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The preparer is given the option to present all nonowner changes in stockholders equity in a single continuous statement of comprehensive income or in two separate but consecutive statements. This alternative presentation of comprehensive income is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As this accounting standard update became effective for the Company as of July 1, 2012 the Company has adopted a two statement approach, and included a Statement of Comprehensive Income and associated disclosures, herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, including changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market prices and rates, such as foreign currency exchange and interest rates. Based on our market risk sensitive instruments outstanding as of September 30, 2012, we have determined that there was no material market risk exposure to our consolidated financial position, results of operations or cash flows as of such date. Our market risk is discussed in more detail in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012. We do not enter into derivatives or other

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financial instruments for trading or speculative purposes. We have not been significantly affected by any changes in the foreign currency exchange rate or interest rate market risks since June 30, 2012. The effect of foreign exchange contracts on our financial position or results of operations has historically been, and continue to be, immaterial.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Based on our management s evaluation (with participation of our principal executive officer and our principal financial officer), our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of September 30, 2012 to ensure that information required to be disclosed by us in this Quarterly Report on Form 10-Q was (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and (2) accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure.

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

A lawsuit was brought against us in 2008 by 34 employees in California Superior Court, County of Orange alleging claims concerning overtime and meal and rest periods. Discovery has been completed. Of the 34 plaintiffs, the Company has settled 11 cases representing the store manager plaintiffs and dismissals were filed with respect to such cases on May 29, 2012. The Company has also settled 4 of the assistant manager cases and dismissals for such cases are pending. The remaining 19 cases concern hourly employees alleging meal and rest break claims and trial dates for these remaining cases have been set for February 2013.

In December 2008, a class action lawsuit was filed by hourly, non-exempt employees in the California Superior Court, County of Los Angeles, alleging claims related to meal and rest period violations. The parties are presently conducting discovery. The court has certified the class on a limited issue relating to the use of on-duty meal period agreements.

In July 2009, a lawsuit alleging failure to pay overtime compensation was filed in Alabama by a former store manager. The plaintiff sought to certify a class action made up current and former store managers.   In fiscal 2010, we filed a request with the court to deny this motion. The court has not ruled, and no trial date has been set.

In July 2012, a discrimination claim was filed with the Equal Employment Opportunity Commission by our former CEO. The Company believes this charge is without merit and intends to vigorously defend this matter.

We intend to vigorously defend all pending actions. We do not believe these or any other legal proceedings pending or threatened against us would have a material adverse effect on our financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes from our risk factors previously disclosed in   Item 1A. Risk Factors   of our Form 10-K for the fiscal year ended June 30, 2012.

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

Repurchases of equity securities during the three months ended September 30, 2012 are listed in the following table:

Period	Total Number of Sales Repurchased(1)		Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2) (3)
July 1 through July 31		$			$	3,908,454
August 1 through August 31	6,539	$	5.33	6,539	$	3,873,606
September 1 through September 30	1,138	$	6.42	1,138	$	3,866,311
Total	7,677	$	5.49	7,677	$	3,866,311

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

(2) Excludes commissions.

(3) On August 22, 2011, the Company s Board of Directors adopted a share repurchase program pursuant to which the Company is authorized to repurchase from time to time shares of Common Stock, up to a maximum of $5.0 million in aggregate purchase price for all such shares (the Repurchase Program). On January 20, 2012, the Company s Board of Directors increased the authorization for stock repurchases under the Repurchase Program from $5.0 million to a maximum of $10.0 million. The Repurchase Program does not have an expiration date and may be suspended or discontinued at any time. The Board will evaluate the Repurchase Program each year and there can be no assurances as to the number of shares of Common Stock the Company will repurchase. For the quarter ended September 30, 2012, 7,677 shares have been repurchased under the Repurchase Program for a total cost (excluding commissions) of approximately $42,000. All the shares were withheld by the Company in connection with the tax liability associated with the vesting of restricted stock awards under the Company s equity incentive plans.

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Item 6. Exhibits

Exhibit Number	Description
3.1.1	Certificate of Incorporation of Tuesday Morning Corporation (the Company) (incorporated by reference to Exhibit 3.1 to the Company s Registration Statement on Form S-4 (File No. 333-46017) as filed with the Securities and Exchange Commission (the Commission) on February 10, 1998)
3.1.2	Certificate of Amendment to the Certificate of Incorporation of the Company dated March 25, 1999 (incorporated by reference to Exhibit 3.3 to the Company s Registration Statement on Form S-1/A (File No. 333-74365) as filed with the Commission on March 29, 1999)
3.1.3	Certificate of Amendment to the Certificate of Incorporation of the Company dated May 7, 1999 (incorporated by reference to Exhibit 3.1.3 to the Company s Form 10-Q as filed with the Commission on May 2, 2005)
3.2	Amended and Restated By-laws of the Company dated December 14, 2006 (incorporated by reference to Exhibit 3.1 to the Company s Form 8-K as filed with the Commission on December 20, 2006)
10.1	Employment Agreement, dated September 1, 2012, between Tuesday Morning Corporation and Brady Churches (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K as filed with the Commission on September 7, 2012)
10.2	Form of Performance Incentive Stock Option Award Agreement 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 as filed with the Commission on September 7, 2012)
10.3	Form of Performance Non-Qualified Stock Option Award Agreement 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 as filed with the Commission on September 7, 2012)
10.4	Form of Performance Incentive Stock Option Award Agreement under the Tuesday Morning Corporation 2004 Long-Term Equity Incentive Plan(incorporated by reference to Exhibit 10.4 to the Company s Form 8-K as filed with the Commission on September 7, 2012)
10.5	Form of Performance Non-Qualified Stock Option Award Agreement under the Tuesday Morning Corporation 2004 Long-Term Equity Incentive Plan(incorporated by reference to Exhibit 10.5 to the Company s Form 8-K as filed with the Commission on September 7, 2012)
31.1	Certification by the Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer of the Company pursuant to 18 U.S.C §1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
32.2	Certification of the Chief Financial Officer of the Company pursuant to 18 U.S.C §1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Schema Document**
101.CAL	XBRL Taxonomy Calculation Linkbase Document**

101.DEF	XBRL Taxonomy Definition Linkbase Document**

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101.LAB	XBRL Taxonomy Label Linkbase Document**
101.PRE	XBRL Taxonomy Presentation Linkbase Document**

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

** These exhibits are furnished herewith. In accordance with Rule 406T of Regulation S-T, these exhibits are not deemed to be filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are not deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under theses sections.

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SIGNATURE

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

TUESDAY MORNING CORPORATION
(Registrant)

DATE:	October 29, 2012	By:	/s/ STEPHANIE BOWMAN Stephanie Bowman, Executive Vice President, Chief Financial Officer, Treasurer and Secretary

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