

## **TUESDAY MORNING CORPORATION AUDIT COMMITTEE CHARTER**

### **Purpose**

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Tuesday Morning Corporation (the “Company”) to oversee the Company's accounting and financial reporting processes and the audits and reviews of, and other attestation services related to, the Company’s financial statements. In that regard, the Committee is to assist the Board in fulfilling its responsibility to oversee the integrity of the Company’s financial statements, the Company’s compliance with applicable legal and regulatory requirements, the independent accountant’s qualifications and independence, the performance of the Company’s internal audit function and independent accountant, and the approval of related party transactions. The Committee shall provide a forum for communication among the Company’s independent accountant, management, the internal auditing department, and the Board. The Committee shall make regular reports to the Board and shall prepare the report required by the rules and regulations promulgated by the Securities and Exchange Commission (the “SEC”) to be included in the Company’s annual proxy statement.

In discharging its duties and responsibilities, the Committee is authorized to investigate any matter within the scope of its duties and responsibilities or as otherwise delegated by the Board, with full access to all books, records, facilities and personnel of the Company.

The Committee shall review and reassess the adequacy of this Charter at least annually and recommend any proposed changes to the Board for approval.

### **Composition and Membership**

1. The Committee will be comprised of not less than three Board members.
2. The Board appoints Committee members and may appoint a Committee Chairman from among those members. If a Chairman is not designated by the Board or is not present at a particular meeting, the members of the Committee may designate a Chair by majority vote of the Committee membership in attendance. Each Committee member shall serve at the pleasure of the Board for such term as the Board may decide or until such Committee member is no longer a Board member.
3. Each Committee member shall meet the independence criteria of the (1) applicable rules of The NASDAQ Stock Market, Inc. (“NASDAQ”), as such requirements are interpreted by the Board, and as may be established by the Board or an appropriate committee of the Board, and (2) Securities Exchange Act of 1934, as amended (the “Exchange Act”). No member of the Committee shall have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years.
4. Each Committee member shall be able to read and understand fundamental financial statements, including a company’s balance sheet, income statement and cash flow statement. Additionally, at least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. The Board shall determine whether at least one member has such financial sophistication. The designation or identification of a person as having such financial sophistication shall not (a) impose on such person any duties, obligations or liabilities that are

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greater than the duties, obligations and liabilities imposed on such person as a member of the Committee and the Board in the absence of such designation or identification, or (b) affect the duties, obligations or liabilities of any other member of the Committee or the Board. At least one member of the Committee shall be an “audit committee financial expert” as defined by the rules and regulations promulgated by the SEC.

5. No Committee member shall simultaneously serve on the audit committee of more than three public companies (including the Company) unless the Board determines that such simultaneous service would not impair the ability of such member to effectively serve on the Committee.
6. The Committee may delegate any of its functions to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decision of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.
7. Each Committee member shall receive as compensation from the Company only those forms of compensation as are not prohibited by Section 301 of the Sarbanes-Oxley Act of 2002 and the rules and listing requirements promulgated thereunder by the SEC and NASDAQ, respectively. Permitted compensation includes (a) director’s fees (which includes all forms of compensation paid to directors of the Company for service as a director or member of a committee of the Board) and/or (b) fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company provided that such compensation is not contingent in any way on continued service.

### **Meetings**

The Committee shall meet at least quarterly and more frequently as necessary or appropriate. Special meetings of the Committee may be called on two hours notice by the Chairman of the Board or the Committee Chairman. A majority of the Committee shall constitute a quorum, and the Committee shall act only on the affirmative vote of a majority of the members present at a meeting at which a quorum is present. The Committee may also act by unanimous written consent without a meeting. The Committee shall meet periodically in separate executive sessions as appropriate with the Company’s management, internal auditors and independent accountants. The Committee may request any officer or employee of the Company or the Company’s outside counsel or independent accountant, or any other persons whose presence the Committee believes to be necessary or appropriate, to attend a meeting (including an executive session) of the Committee or to meet with any members of, or advisors to, the Committee.

### **Experts and Advisors**

The Committee may engage, retain, obtain the advice of, compensate and terminate any consultant, independent legal counsel, experts or other advisors (accounting, financial, legal or otherwise) that the Committee believes to be necessary or appropriate in performing the duties set forth in this Charter. The Committee may also utilize the services of the Company’s regular inside and outside counsel or other advisors to the Company. The Company shall provide the appropriate funding, in such amounts as the Committee deems necessary or appropriate, for payment of compensation to such advisors, for payment of compensation to the independent accountant engaged for the purpose of preparing or issuing an audit report or performing other audit, review and attestation services for the Company and for the payment of ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

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The Committee will be responsible for the appointment, compensation and oversight of the work of such advisors. The Committee will take into consideration the following factors in determining the independence of such advisors: (i) the provision of other services to the Company by the advisor; (ii) the amount of fees paid by the Company as a percentage of total revenue of the advisor; (iii) the policies and procedures of the advisor that are designed to prevent conflicts of interest; (iv) any business or personal relationship of the advisor with a member of the Committee; and (v) any stock of the Company owned by the advisor.

### **Duties and Responsibilities**

The Committee is responsible for overseeing the accounting and financial reporting processes of the Company and the audits of the Company's financial statements. Management is responsible for the preparation, presentation and integrity of the Company's financial statements and for the appropriateness of the accounting and reporting policies that are used by the Company. The independent accountants are responsible for auditing the Company's financial statements and for reviewing the Company's interim financial statements.

In carrying out its responsibilities, the Committee will be responsible for the oversight of the Company's independent accountants, the internal audit function, the financial reporting process, and the requirements surrounding legal and regulatory compliance, and the approval of related party transactions, as described below.

#### **1. Independent Accountants**

The Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the registered public accounting firm employed by the Company (including resolution of disagreements between management and the independent accountant regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Company (the "independent accountants"). The independent accountants are ultimately accountable to the Board and the Committee and shall report directly to the Committee. In carrying out its responsibilities, the Committee shall:

- have the sole authority and responsibility to retain, evaluate, and, when appropriate, replace the independent accountants;
- at least annually, obtain and review a report by the independent accountants regarding the independent accountants' internal controls and independence, including a description of (i) the independent accountants' internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review, peer review of the accounting firm (or similar procedures as prescribed by the Public Company Accounting Oversight Board (the "PCAOB")), or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the accounting firm, and (iii) any steps taken to deal with any such issues;
- review and discuss with the independent accountants any other matters required to be discussed with the independent accountants, or reports required to be provided by the independent accountants, pursuant to applicable auditing standards, the rules and standards of the PCAOB, and the rules of the SEC.

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- in order to assess the independent accountants' independence, at least annually, obtain and review a formal written statement by the independent accountants delineating all relationships between the independent accountants and the Company or any of its subsidiaries;
- actively engage in a dialogue with the independent accountants with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent accountants and take, or recommend that the full board take, appropriate action to oversee the independence of the outside auditor;
- oversee resolution of disagreements between management and the independent accountants regarding financial reporting;
- at least annually, evaluate, and report to the full Board on, the performance, qualifications and independence of the Company's independent accountants and the lead partner for the Company's account, including a review and evaluation of the lead partner's rotation schedule;
- pre-approve all auditing services, internal control-related services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent accountant, subject to the *de minimis exceptions* for non-audit services in accordance with Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit. Approval by the Committee of a non-audit service shall be disclosed in the reports filed by the Company with the SEC or otherwise as required by law and SEC rules and regulations. Committee pre-approval of audit and non-audit services will not be required if the engagement for the services is entered into pursuant to pre-approval policies and procedures established by the Committee regarding the Company's engagement of the independent accountant;
- discuss with the independent accountant material issues on which the national office of the independent accountant was consulted by the Company's audit team;
- recommend to the Board policies for the Company's hiring of employees or former employees of the independent accountants, which includes the restrictions set forth in Section 206 of the Sarbanes-Oxley Act of 2002 and any applicable SEC rules and regulations; and
- review and discuss with the independent accountants the (i) plans for, and the scope of, the annual audit and other examinations, including the adequacy of staffing and compensation and (ii) any significant risks identified during the auditor's risk assessment procedures.

**2. Internal Audit**

The internal audit function shall report jointly to the Chairman of the Committee and either the Chief Executive Officer or the Chief Financial Officer of the Company. In carrying out its responsibilities with respect to oversight of the Company's internal audit function, the Committee shall:

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- review and approve the proposed scope and plan of the work to be done by the Company's internal audit group, the coordination of such plans with the independent accountants, and the budget and staffing of the Company's internal audit function;
- review with the independent accountants the responsibilities, budget and staffing of the Company's internal audit function;
- review and discuss with management, the independent accountants and the Company's internal audit group (i) the adequacy and effectiveness of the Company's system of internal controls, including management's assessment thereof, and (ii) related recommendations of the independent accountants and management responses;
- assure that appropriate procedures are established for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- review the appointment and replacement of the senior internal auditing executive; and
- discuss with the independent accountant and management the internal audit department responsibilities, budget and staffing.

### **3. Financial Reporting**

In carrying out its responsibilities with respect to oversight of the Company's financial reporting, the Committee shall:

- review and discuss with management and the independent accountants the Company's annual audited financial statements and disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K;
- review and discuss with management and the independent accountant the Company's quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent accountant's review of the quarterly financial statements and disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations." For the purpose of reviewing the quarterly financial statements and related Form 10-Q, the Chairman or designee of the Committee may represent the entire Committee;
- review the scope and results of the independent accountants' audit of the Company's annual financial statements, accompanying footnotes and its report thereon, including any significant changes required in the independent accountants' audit plans;
- discuss with the independent accountants the matters required to be discussed by Auditing Standard No. 1301, "Communications with Audit Committees", issued by the PCAOB, as modified or superseded from time to time;

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- review and discuss with management and the independent accountants major issues regarding accounting principles and financial statement presentations, including matters such as (i) the selection, application and disclosure of critical accounting policies, (ii) the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies, (iii) the effects of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company, and (iv) other significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including the effects of alternative treatments of financial information in accordance with generally accepted accounting principles ("GAAP");
- review and discuss with management and the independent accountants earnings releases, as well as financial information and the use of any pro forma or adjusted non-GAAP formulation, and earnings guidance provided to analysts and rating agencies;
- discuss with management and the independent accountants the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements;
- review and discuss with management, the internal audit staff, and the independent accountants the adequacy of the Company's policies and procedures designed to respond to and mitigate risk;
- review related party transactions on an ongoing basis, and approve or ratify all such transactions;
- discuss with management (including the senior internal audit executive) and the independent accountant the Company's internal controls report and the independent accountant's attestation of the report prior to the filing of the Company's Form 10-K;
- periodically consult with the independent accountant, outside the presence of management, about internal controls and the quality of the Company's financial statements;
- review disclosures made to the Committee by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company internal controls; and
- ensure that a public announcement of the Company's receipt of an audit opinion that contains a going concern qualification is made promptly.

#### **4. Compliance with Legal, Regulatory Requirements, and Ethical Standards**

In carrying out its responsibilities with respect to oversight of the Company's compliance with legal and regulatory requirements, the Committee shall:

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- review with the Company's management and the independent accountant any correspondence with regulators or governmental agencies and any reports which raise material issues regarding the Company's financial statements or accounting policies;
- obtain from the independent accountant assurance that Section 10A(b) of the Exchange Act has not been implicated;
- review and discuss, as appropriate, any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting;
- oversee and conduct activities with respect to the Company's Code of Conduct to the extent that the Board delegates such authority to the Committee; and
- discuss with internal or external legal counsel (i) legal matters that may have a material impact on the Company's financial statements or the Company's business and (ii) policies, procedures, systems, and the Code of Conduct to ensure compliance with applicable laws, rules, regulations, and ethical standards.