

TUESDAY MORNING CORPORATION
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
(Unaudited)

GAAP Selling, general and administrative expenses to Non-GAAP Adjusted Selling, general and administrative expenses:

The following table reconciles selling, general, and administrative expenses, the most directly comparable GAAP financial measure, to adjusted selling, general, and administrative expenses, a non-GAAP financial measure:

(unaudited - in thousands)

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>March 31,</i>		<i>March 31,</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Selling, general, and administrative expenses (GAAP)	\$ 74,515	\$ 75,730	\$ 237,028	\$ 232,678
Non-GAAP adjustments:				
Compensation	—	(606)	—	(2,160)
Legal, consulting, and recruiting	—	(1,596)	—	(2,679)
Adjusted Selling, general, and administrative expenses (non-GAAP)	<u>\$ 74,515</u>	<u>\$ 73,528</u>	<u>\$ 237,028</u>	<u>\$ 227,839</u>

GAAP Operating Income/(Loss) to Non-GAAP Adjusted Operating Income/(Loss):

The following table reconciles operating income/(loss), the most directly comparable GAAP financial measure, to adjusted operating income/(loss) a non-GAAP financial measure:

(unaudited - in thousands)

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>March 31,</i>		<i>March 31,</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Operating income/(loss) (GAAP)	\$ (2,115)	\$ (7,629)	\$ 16,352	\$ (1,812)
Non-GAAP adjustments:				
Adjustment to cost of sales:				
Inventory write-down and merchandise category exit	—	—	—	1,810
Adjustments to selling, general and administrative expenses:				
Compensation	—	606	—	2,160
Legal, consulting, and recruiting	—	1,596	—	2,679
Adjusted operating income/(loss) (non-GAAP)	<u>\$ (2,115)</u>	<u>\$ (5,427)</u>	<u>\$ 16,352</u>	<u>\$ 4,837</u>

GAAP Net Income/(Loss) to Non-GAAP Adjusted Net Income/(Loss):

The following table reconciles net income/(loss) from continuing operations, the most directly comparable GAAP financial measure, to adjusted net income/(loss) from continuing operations, a non-GAAP financial measure:

(in thousands)

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>March 31,</i>		<i>March 31,</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net income/(loss) from continuing operations (GAAP)	\$ (2,804)	\$ (8,428)	\$ 14,625	\$ (2,763)
Non-GAAP adjustments:				
Inventory write-down and merchandise category exit, net of tax ⁽²⁾	—	—	—	1,023
Compensation, net of tax ⁽¹⁾⁽²⁾	—	534	—	1,220
Legal, consulting, and recruiting, net of tax ⁽¹⁾⁽²⁾	—	1,407	—	1,513
Deferred tax asset valuation allowance	—	828	—	2,727
Adjusted net income/(loss) from continuing operations (non-GAAP)	<u>\$ (2,804)</u>	<u>\$ (5,659)</u>	<u>\$ 14,625</u>	<u>\$ 3,720</u>

⁽¹⁾ The effective tax rate utilized in this non-GAAP adjusted net income/(loss) from continuing operations reconciliation is 11.9% for the three months ended March 31, 2014. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014.

⁽²⁾ The effective tax rate utilized in this non-GAAP adjusted net income/(loss) from continuing operations reconciliation is 43.5% for the nine months ended March 31, 2014. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014.

GAAP Diluted Income/(Loss) Per Share From Continuing Operations to Non-GAAP Adjusted Diluted Income/(Loss) Per Share From Continuing Operations:

The following table reconciles diluted income/(loss) per share from continuing operations, the most directly comparable GAAP financial measure, to adjusted diluted income/(loss) per share from continuing operations, a non-GAAP financial measure:

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>March 31,</i>		<i>March 31,</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Diluted income/(loss) per share from continuing operations (GAAP)	\$ (0.06)	\$ (0.20)	\$ 0.33	\$ (0.06)
Non-GAAP adjustments:				
Inventory write-down and merchandise category exit, net of tax ⁽²⁾	—	—	—	0.02
Compensation, net of tax ⁽¹⁾⁽²⁾	—	0.01	—	0.03
Legal, consulting, and recruiting, net of tax ⁽¹⁾⁽²⁾	—	0.04	—	0.04
Deferred tax asset valuation allowance	—	<u>0.02</u>	—	<u>0.06</u>
Adjusted diluted income/(loss) per share from continuing operations (non-GAAP)	<u>\$ (0.06)</u>	<u>\$ (0.13)</u>	<u>\$ 0.33</u>	<u>\$ 0.09</u>

⁽¹⁾ The effective tax rate utilized in this non-GAAP adjusted diluted net income/(loss) per share from continuing operations reconciliation is 11.9% for the three months ended March 31, 2014. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014.

⁽²⁾ The effective tax rate utilized in this non-GAAP adjusted diluted net income/(loss) per share from continuing operations reconciliation is 43.5% for the nine months ended March 31, 2014. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014.

RESULTS OF OPERATIONS

The following tables set forth certain financial information from our consolidated statements of operations for the three and nine months ended March 31, 2015 and the corresponding periods in fiscal 2014. In addition to our reported results, we have also provided adjusted (non-GAAP) financial information to provide readers with additional information comparing our core results between the three and nine months ended March 31, 2015 and the corresponding periods in fiscal 2014.

Tuesday Morning Corporation
Supplemental Schedules
Reconciliation of GAAP and Non-GAAP Adjusted Results
(unaudited)
(\$ in thousands)

<i>Q3 Fiscal 2015</i>						
	<i>Adjustments*</i>					
GAAP Net Income/ (Loss)	Inventory Adj.	Compensation	All Other	Total	Adjusted Non-GAAP Net Income/ (Loss)	<i>% of Sales</i>
Net Sales	\$ 189,726				\$ 189,726	
Cost of Sales	\$ 117,326				\$ 117,326	61.8%
Gross Profit	\$ 72,400				\$ 72,400	38.2%
Selling, General & Administrative Expenses	\$ 74,515				\$ 74,515	39.3%
Operating Income/(Loss)	\$ (2,115)				\$ (2,115)	(1.1)%
Other Expense	\$ 753				\$ 753	0.4%
Income/(Loss) Before Tax	\$ (2,868)				\$ (2,868)	(1.5)%
Income Tax Provision/(Benefit)	\$ (64)				\$ (64)	(0.0)%
Net Income/(Loss)	\$ (2,804)				\$ (2,804)	(1.5)%

<i>Q3 Fiscal 2014</i>						
	<i>Adjustments*</i>					
GAAP Net Income/ (Loss)	Inventory Adj.	Compensation	All Other	Total	Adjusted Non-GAAP Net Income/ (Loss)	<i>% of Sales</i>
Net Sales	\$ 182,765				\$ 182,765	
Cost of Sales	\$ 114,664				\$ 114,664	62.7%
Gross Profit	\$ 68,101				\$ 68,101	37.3%
Selling, General & Administrative Expenses	\$ 75,730	\$ (606)	\$ (1,596)	\$ (2,202)	\$ 73,528	40.2%
Operating Income /(Loss)	\$ (7,629)	\$ 606	\$ 1,596	\$ 2,202	\$ (5,427)	(3.0)%
Other Expense	\$ 359				\$ 359	0.2%
Income/(Loss) Before Tax	\$ (7,988)	\$ 606	\$ 1,596	\$ 2,202	\$ (5,786)	(3.2)%
Income Tax Provision/(Benefit)	\$ 440	\$ 72	\$ (639)	\$ (567)	\$ (127)	(0.1)%
Net Income/(Loss)	\$ (8,428)	\$ 534	\$ 2,235	\$ 2,769	\$ (5,659)	(3.1)%

***Adjustment Notes:**

Compensation – Severance, stock compensation, sign on bonuses related to senior management restructuring program.

All Other – Write-off of assets related to exited internet business, legal costs related to former CEO lawsuit and recognition of Deferred Tax Allowance.

Tuesday Morning Corporation
Supplemental Schedules
Reconciliation of GAAP and Non-GAAP Adjusted Results
(unaudited)
(\$ in thousands)

<i>Q3 YTD Fiscal 2015</i>							
<i>Adjustments*</i>							
	GAAP Net Income/ (Loss)	Inventory Adj.	Compensation	All Other	Total	Adjusted Non-GAAP Net Income/ (Loss)	<i>% of Sales</i>
Net Sales	\$ 693,335					\$ 693,335	
Cost of Sales	\$ 439,955					\$ 439,955	63.5%
Gross Profit	\$ 253,380					\$ 253,380	36.5%
Selling, General & Administrative Expenses	\$ 237,028					\$ 237,028	34.2%
Operating Income	\$ 16,352					\$ 16,352	2.4%
Other Expense	\$ 1,457					\$ 1,457	0.2%
Income Before Tax	\$ 14,895					\$ 14,895	2.1%
Income Tax Provision	\$ 270					\$ 270	0.0%
Net Income	\$ 14,625					\$ 14,625	2.1%

<i>Q3 YTD Fiscal 2014</i>							
<i>Adjustments*</i>							
	GAAP Net Income/ (Loss)	Inventory Adj.	Compensation	All Other	Total	Adjusted Non-GAAP Net Income/ (Loss)	<i>% of Sales</i>
Net Sales	\$ 652,214					\$ 652,214	
Cost of Sales	\$ 421,348	\$ (1,810)			\$ (1,810)	\$ 419,538	64.3%
Gross Profit	\$ 230,866	\$ 1,810			\$ 1,810	\$ 232,676	35.7%
Selling, General & Administrative Expenses	\$ 232,678		\$ (2,160)	\$ (2,679)	\$ (4,839)	\$ 227,839	34.9%
Operating Income /(Loss)	\$ (1,812)	\$ 1,810	\$ 2,160	\$ 2,679	\$ 6,649	\$ 4,837	0.7%
Other Expense	\$ 1,030					\$ 1,030	0.2%
Income/(Loss) Before Tax	\$ (2,842)	\$ 1,810	\$ 2,160	\$ 2,679	\$ 6,649	\$ 3,807	0.6%
Income Tax Provision /(Benefit)	\$ (79)	\$ 787	\$ 940	\$ (1,561)	\$ 166	\$ 87	0.0%
Net Income/(Loss)	\$ (2,763)	\$ 1,023	\$ 1,220	\$ 4,240	\$ 6,483	\$ 3,720	0.6%

***Adjustment Notes:**

Inventory Adj. – Reduction in retail inventory value to exit certain categories and reduce clearance inventory levels.

Compensation – Severance, stock compensation, sign on bonuses related to senior management restructuring program.

All Other – Write-off of assets related to exited internet business, legal costs related to former CEO lawsuit and recognition of Deferred Tax Allowance.