

**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:

*(in thousands)*

	<i>Three Months Ended</i>		<i>Twelve Months Ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Selling, general, and administrative expenses (GAAP)	\$ 77,529	\$ 78,058	\$ 310,205	\$ 315,933
<b>Non-GAAP adjustments:</b>				
Store reorganization and clean-up	(983)	(957)	(983)	(2,082)
Compensation	(470)	849	(2,630)	(4,523)
Vacation policy change	1,843	—	1,843	—
Legal, consulting, recruiting, and e-commerce obligations	<u>(107)</u>	<u>(1,440)</u>	<u>(2,785)</u>	<u>(6,674)</u>
Adjusted Selling, general, and administrative expenses (non-GAAP)	<u>\$ 77,812</u>	<u>\$ 76,510</u>	<u>\$ 305,650</u>	<u>\$ 302,654</u>

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

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

*(in thousands)*

	<i>Three Months Ended</i>		<i>Twelve Months Ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Operating loss (GAAP)	\$ (6,242)	\$ (11,284)	\$ (8,053)	\$ (56,495)
<b>Non-GAAP adjustments:</b>				
<b>Adjustments to cost of sales:</b>				
Inventory write-down and merchandise category exit	3,455	1,939	5,265	43,748
<b>Adjustments to selling, general and administrative expenses:</b>				
Store reorganization and clean-up	983	957	983	2,082
Compensation	470	(849)	2,630	4,523
Vacation policy change	(1,843)	—	(1,843)	—
Legal, consulting, recruiting, and e-commerce obligations	<u>107</u>	<u>1,440</u>	<u>2,785</u>	<u>6,674</u>
Adjusted operating income/(loss) (non-GAAP)	<u>\$ (3,070)</u>	<u>\$ (7,797)</u>	<u>\$ 1,767</u>	<u>\$ 532</u>

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

The following table reconciles net 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 June 30,</i>		<i>Twelve Months Ended June 30,</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net loss (GAAP)	<u>\$ (7,414)</u>	<u>\$ (15,583)</u>	<u>\$ (10,176)</u>	<u>\$ (56,376)</u>
<b>Non-GAAP adjustments:</b>				
Inventory write-down and merchandise category exit, net of tax <sup>(1)(2)</sup>	2,512	1,205	3,288	27,469
Store reorganization and clean-up, net of tax <sup>(1)(2)</sup>	714	595	614	1,307
Compensation, net of tax <sup>(1)(2)</sup>	341	(527)	1,642	2,840
Vacation policy change, net of tax <sup>(1)</sup>	(1,340)	—	(1,151)	—
Legal, consulting, and recruiting, net of tax <sup>(1)(2)</sup>	78	895	1,740	4,193
Disposal of systems, net of tax <sup>(1)(2)</sup>	501	2,514	430	3,504
Deferred tax asset valuation allowance	1,221	5,457	3,946	16,222
Adjusted net income/(loss) (non-GAAP)	<u>\$ (3,387)</u>	<u>\$ (5,444)</u>	<u>\$ 333</u>	<u>\$ (841)</u>

(1) The effective tax rate utilized in this non-GAAP adjusted net loss reconciliation is 27.3% for the three months ended June 30, 2014 and 37.9% for the three months ended June 30, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$20.2 million as of June 30, 2014 and \$16.2 million as of June 30, 2013.

(2) The effective tax rate utilized in this non-GAAP adjusted net income/(loss) reconciliation is 37.6% for the twelve months ended June 30, 2014 and 37.2% for the twelve months ended June 30, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$20.2 million as of June 30, 2014 and \$16.2 million as of June 30, 2013.

## **GAAP Diluted Loss Per Share to Non-GAAP Adjusted Diluted Income/(Loss) Per Share:**

The following table reconciles diluted 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 June 30,</i>		<i>Twelve Months Ended June 30,</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Diluted loss per share (GAAP)	\$ (0.17)	\$ (0.37)	\$ (0.24)	\$ (1.33)
<b>Non-GAAP adjustments:</b>				
Inventory write-down and merchandise category exit, net of tax <sup>(1)(2)</sup>	0.06	0.03	0.08	0.65
Store reorganization and clean-up, net of tax <sup>(1)(2)</sup>	0.01	0.01	0.02	0.03
Compensation, net of tax <sup>(1)(2)</sup>	0.01	(0.01)	0.04	0.07
Vacation policy change, net of tax <sup>(1)</sup>	(0.03)	—	(0.03)	—
Legal, consulting, and recruiting, net of tax <sup>(1)(2)</sup>	—	0.03	0.04	0.10
Disposal of systems, net of tax <sup>(1)(2)</sup>	0.01	0.06	0.01	0.08
Deferred tax asset valuation allowance	0.03	0.12	0.09	0.38
Adjusted diluted income/(loss) (non-GAAP)	<u>\$ (0.08)</u>	<u>\$ (0.13)</u>	<u>\$ 0.01</u>	<u>\$ (0.02)</u>

(1) The effective tax rate utilized in this non-GAAP adjusted net loss reconciliation is 27.3% for the three months ended June 30, 2014 and 37.9% for the three months ended June 30, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$20.2 million as of June 30, 2014 and of \$16.2 million as of June 30, 2013.

(2) The effective tax rate utilized in this non-GAAP adjusted net income/(loss) reconciliation is 37.6% for the twelve months ended June 30, 2014 and 37.2% for the twelve months ended June 30, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$20.2 million as of June 30, 2014 and \$16.2 million as of June 30, 2013.

## **RESULTS OF OPERATIONS**

The following tables set forth certain financial information from our consolidated statements of operations for the fourth quarter and the twelve months ended June 30, 2014 and the corresponding periods in fiscal 2013. 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 fourth quarter and the twelve months ended June 30, 2014 and the corresponding periods in fiscal 2013.

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

	<i>Fiscal 2014</i>							Adjusted Non- GAAP Net Income/ (Loss)    % of Sales	
	<i>Adjustments*</i>								
	GAAP Net Income/ (Loss)	Inventory Adj.	Store Re-org & Clean- up	Compensation	Vacation Policy Change	All Other	Total		
Net Sales	\$ 864,844							\$ 864,844	
Cost of Sales	\$ 562,692	\$ (5,265)					\$ (5,265)	\$ 557,427	64.5%
Gross Profit	\$ 302,152	\$ 5,265					\$ 5,265	\$ 307,417	35.5%
Selling, General & Administrative Expenses	\$ 310,205		\$ (983)	\$ (2,630)	\$ 1,843	\$ (2,785)	\$ (4,555)	\$ 305,650	35.3%
Operating Income/(Loss)	\$ (8,053)	\$ 5,265	\$ 983	\$ 2,630	\$ (1,843)	\$ 2,785	\$ 9,820	\$ 1,767	0.2%
Other (Income)/Expense	\$ 2,082					(689)	\$ (689)	\$ 1,393	0.2%
Income/(Loss) Before Tax	\$ (10,135)	\$ 5,265	\$ 983	\$ 2,630	\$ (1,843)	\$ 3,474	\$ 10,509	\$ 374	0.0%
Income Tax Provision/(Benefit)	\$ 41	\$ 1,977	\$ 369	\$ 988	\$ (692)	\$ (2,642)	\$ —	\$ 41	0.0%
Net Income/(Loss)	\$ (10,176)	\$ 3,288	\$ 614	\$ 1,642	\$ (1,151)	\$ 6,116	\$ 10,509	\$ 333	0.0%

	<i>Fiscal 2013</i>							Adjusted Non- GAAP Net Income/ (Loss)    % of Sales	
	<i>Adjustments*</i>								
	GAAP Net Income/ (Loss)	Inventory Adj.	Store Re-org & Clean- up	Compensation	Vacation Policy Change	All Other	Total		
Net Sales	\$ 838,314							\$ 838,314	
Cost of Sales	\$ 578,876	\$ (43,748)					\$ (43,748)	\$ 535,128	63.8%
Gross Profit	\$ 259,438	\$ 43,748					\$ 43,748	\$ 303,186	36.2%
Selling, General & Administrative Expenses	\$ 315,933		\$ (2,082)	\$ (4,523)		\$ (6,674)	\$ (13,279)	\$ 302,654	36.1%
Operating Income/(Loss)	\$ (56,495)	\$ 43,748	\$ 2,082	\$ 4,523		\$ 6,674	\$ 57,027	\$ 532	0.1%
Other (Income)/Expense	\$ 6,913					(5,580)	\$ (5,580)	\$ 1,333	0.2%
Income/(Loss) Before Tax	\$ (63,408)	\$ 43,748	\$ 2,082	\$ 4,523		\$ 12,254	\$ 62,607	\$ (801)	-0.1%
Income Tax Provision/(Benefit)	\$ (7,032)	\$ 16,279	\$ 775	\$ 1,683		\$ (11,665)	\$ 7,072	\$ 40	0.0%
Net Income/(Loss)	\$ (56,376)	\$ 27,469	\$ 1,307	\$ 2,840		\$ 23,919	\$ 55,535	\$ (841)	-0.1%

**\*Adjustment Notes:**

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

**Store Re-org & Clean-up** - Costs to re-set store merchandise and organize store operations.

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

**Vacation Policy Change** - Change in vacation policy and related reduction in vacation pay accrual.

**All Other** – Write-off of Software and Fixturing related to exited apparel categories, store impairment charge, settlement and legal costs related to former CEO unfair termination lawsuit, consulting costs, and recognition of Deferred Tax Allowance.

**Tuesday Morning Corporation**

**Supplemental Schedules**  
**GAAP and Non-GAAP Adjusted Results**  
(\$ in thousands)

<i>Q4 Fiscal 2014</i>									
	GAAP Net Income/ (Loss)	<i>Adjustments*</i>						Adjusted Non- GAAP Net Income/ (Loss)    % of Sales	
		Inventory Adj.	Store Re-org & Clean- up	Compensation	Vacation Policy Change	All Other	Total		
Net Sales	\$ 212,630							\$ 212,630	
Cost of Sales	\$ 141,343	\$ (3,455)					\$ (3,455)	\$ 137,888	64.8%
Gross Profit	\$ 71,287	\$ 3,455					\$ 3,455	\$ 74,742	35.2%
Selling, General & Administrative Expenses	\$ 77,529		\$ (983)	\$ (470)	\$ 1,843	\$ (107)	\$ 283	\$ 77,812	36.6%
Operating Income /(Loss)	\$ (6,242)	\$ 3,455	\$ 983	\$ 470	\$ (1,843)	\$ 107	\$ 3,172	\$ (3,070)	-1.4%
Other (Income)/Expense	\$ 1,052					(689)	\$ (689)	\$ 363	0.2%
Income/(Loss) Before Tax	\$ (7,294)	\$ 3,455	\$ 983	\$ 470	\$ (1,843)	\$ 796	\$ 3,861	\$ (3,433)	-1.6%
Income Tax Provision/(Benefit)	\$ 120	\$ 943	\$ 269	\$ 129	\$ (503)	\$ (1,004)	\$ (166)	\$ (46)	0.0%
Net Income/(Loss)	\$ (7,414)	\$ 2,512	\$ 714	\$ 341	\$ (1,340)	\$ 1,800	\$ 4,027	\$ (3,387)	-1.6%

<i>Q4 Fiscal 2013</i>									
	GAAP Net Income/ (Loss)	<i>Adjustments*</i>						Adjusted Non- GAAP Net Income/ (Loss)    % of Sales	
		Inventory Adj.	Store Re-org & Clean- up	Compensation	Vacation Policy Change	All Other	Total		
Net Sales	\$ 202,134							\$ 202,134	
Cost of Sales	\$ 135,360	\$ (1,939)					\$ (1,939)	\$ 133,421	66.0%
Gross Profit	\$ 66,774	\$ 1,939					\$ 1,939	\$ 68,713	34.0%
Selling, General & Administrative Expenses	\$ 78,058		\$ (957)	\$ 849		\$ (1,440)	\$ (1,548)	\$ 76,510	37.9%
Operating Income /(Loss)	\$ (11,284)	\$ 1,939	\$ 957	\$ (849)		\$ 1,440	\$ 3,487	\$ (7,797)	-3.9%
Other (Income)/Expense	\$ 4,273					(4,045)	\$ (4,045)	\$ 228	0.1%
Income/(Loss) Before Tax	\$ (15,557)	\$ 1,939	\$ 957	\$ (849)		\$ 5,485	\$ 7,532	\$ (8,025)	-4.0%
Income Tax Provision /(Benefit)	\$ 26	\$ 734	\$ 362	\$ (322)		\$ (3,381)	\$ (2,607)	\$ (2,581)	-1.3%
Net Income/(Loss)	\$ (15,583)	\$ 1,205	\$ 595	\$ (527)		\$ 8,866	\$ 10,139	\$ (5,444)	-2.7%

**\*Adjustment Notes:**

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

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