

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>Nine Months Ended</i>	
	<i>March 31,</i>		<i>March 31,</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Selling, general, and administrative expenses (GAAP)	\$ 75,730	\$ 77,891	\$ 232,678	\$ 237,875
Non-GAAP adjustments:				
Store reorganization and clean-up	—	—	—	(1,125)
Compensation	(606)	(3,907)	(2,160)	(5,594)
Legal, consulting, and recruiting	<u>(1,596)</u>	<u>(932)</u>	<u>(2,679)</u>	<u>(5,012)</u>
Adjusted Selling, general, and administrative expenses (non-GAAP)	<u>\$ 73,528</u>	<u>\$ 73,052</u>	<u>\$ 227,839</u>	<u>\$ 226,144</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>Nine Months Ended</i>	
	<i>March 31,</i>		<i>March 31,</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Operating loss (GAAP)	\$ (7,629)	\$ (11,734)	\$ (1,812)	\$ (45,211)
Non-GAAP adjustments:				
Adjustment reducing cost of sales:				
Inventory write-down	–	–	1,810	41,809
Adjustments reducing selling, general and administrative expenses:				
Store reorganization and clean-up	–	–	–	1,125
Compensation	606	3,907	2,160	5,594
Legal, consulting, and recruiting	<u>1,596</u>	<u>932</u>	<u>2,679</u>	<u>5,012</u>
Adjusted operating income/(loss) (non-GAAP)	\$ <u>(5,427)</u>	\$ <u>(6,895)</u>	\$ <u>4,837</u>	\$ <u>8,329</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 March 31,</i>		<i>Nine Months Ended March 31,</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net loss (GAAP)	\$ (8,428)	\$ (12,366)	\$ (2,763)	\$ (40,793)
Non-GAAP adjustments:				
Inventory write-down, net of tax ⁽²⁾	–	–	1,023	26,343
Store reorganization and clean-up, net of tax ⁽²⁾	–	–	–	709
Compensation, net of tax ⁽¹⁾⁽²⁾	534	2,415	1,220	3,477
Legal, consulting, and recruiting, net of tax ⁽¹⁾⁽²⁾	1,407	577	1,513	3,147
Disposal of systems, net of tax ⁽¹⁾⁽²⁾	–	92	–	965
Deferred tax asset valuation allowance	828	4,433	2,727	10,756
Adjusted net income/(loss) (non-GAAP)	<u>\$ (5,659)</u>	<u>\$ (4,849)</u>	<u>\$ 3,720</u>	<u>\$ 4,604</u>

(1) The effective tax rate utilized in this non-GAAP adjusted net income/(loss) reconciliation is 11.9% for the three months ended March 31, 2014 and 38.2% for the three months ended March 31, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014 and of \$10.8 million as of March 31, 2013.

(2) The effective tax rate utilized in this non-GAAP adjusted net income/(loss) reconciliation is 43.5% for the nine months ended March 31, 2014 and 37.1% for the nine months ended March 31, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014 and of \$10.8 million as of March 31, 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 March 31,</i>		<i>Nine Months Ended March 31,</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Diluted loss per share (GAAP)	\$ (0.20)	\$ (0.29)	\$ (0.06)	\$ (0.97)
Non-GAAP adjustments:				
Inventory write-down, net of tax ⁽²⁾	–	–	0.02	0.63
Store reorganization and clean-up, net of tax ⁽²⁾	–	–	–	0.02
Compensation, net of tax ⁽¹⁾⁽²⁾	0.01	0.07	0.03	0.08
Legal, consulting, and recruiting, net of tax ⁽¹⁾⁽²⁾	0.04	0.01	0.04	0.07
Disposal of systems, net of tax ⁽¹⁾⁽²⁾	–	0.00	–	0.02
Deferred tax asset valuation allowance	0.02	0.10	0.06	0.26
Adjusted diluted income/(loss) (non-GAAP)	\$ <u>(0.13)</u>	\$ <u>(0.11)</u>	\$ <u>0.09</u>	\$ <u>0.11</u>

(1) The effective tax rate utilized in this non-GAAP adjusted diluted income/(loss) per share reconciliation is 11.9% for the three months ended March 31, 2014 and 38.2% for the three months ended March 31, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014 and of \$10.8 million as of March 31, 2013.

(2) The effective tax rate utilized in this non-GAAP adjusted diluted income/(loss) per share reconciliation is 43.5% for the nine months ended March 31, 2014 and 37.1% for the nine months ended March 31, 2013. This rate is inclusive of a deferred tax asset valuation allowance of \$18.9 million as of March 31, 2014 and of \$10.8 million as of March 31, 2013.

RESULTS OF OPERATIONS

The following tables set forth certain financial information from our consolidated statements of operations for the third quarter and the nine months ended March 31, 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 third quarter and the nine months ended March 31, 2014 and the corresponding periods in fiscal 2013.

(in thousands, except for per share data, percentages and ratios)

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)	GAAP	Non-GAAP Adjustments	Adjusted (Non- GAAP)
Net sales	\$ 182,765	—	\$ 182,765	\$ 178,073	—	\$ 178,073
Percent increase from prior year	2.6%	—	2.6%	3.1%	—	3.1%
Comparable store sales increase ⁽¹⁾	6.4%	—	6.4%	2.8%	—	2.8%
Gross profit	\$ 68,101	—	\$ 68,101	\$ 66,157	—	\$ 66,157
Selling, general and administrative expenses ⁽²⁾	\$ 75,730	\$ (2,202)	\$ 73,528	\$ 77,891	\$ (4,839)	\$ 73,052
Operating income/(loss) ⁽³⁾	\$ (7,629)	\$ 2,202	\$ (5,427)	\$ (11,734)	\$ 4,839	\$ (6,895)
Interest income	\$ 5	—	\$ 5	\$ 2	—	\$ 2
Interest expense	\$ (360)	—	\$ (360)	\$ (384)	—	\$ (384)
Other income/(expense), net	\$ (4)	—	\$ (4)	\$ (140)	\$ 148	\$ 8
Income tax provision/(benefit)	\$ 440	\$ (567)	\$ (127)	\$ 110	\$ (2,530)	\$ (2,420)
Net income/(loss) ⁽³⁾	\$ (8,428)	\$ 2,769	\$ (5,659)	\$ (12,366)	\$ 7,517	\$ (4,849)
Diluted income/(loss) per share ⁽³⁾	\$ (0.20)	\$ 0.06	\$ (0.13)	\$ (0.29)	\$ 0.18	\$ (0.11)
Ratios as a percent of net sales:						
Gross profit	37.3%	—	37.3%	37.2%	—	37.2%
Selling, general and administrative expenses	41.4%	(1.2%)	40.2%	43.7%	(2.7%)	41.0%
Operating income/(loss)	(4.2%)	1.2%	(3.0%)	(6.6%)	2.7%	(3.9%)

(1) Stores are included in the comparable store sales calculation at the beginning of the quarter following the anniversary date of the store opening. A store that relocates within the same geographic market or modifies its available retail space is still considered the same store for purposes of this computation.

(2) See the preceding “Reconciliation of Non-GAAP Financial Measures” section for details on these adjustments. The components of the adjustments to selling, general and administrative expenses are set forth in the preceding tables.

(3) See the preceding “Reconciliation of Non-GAAP Financial Measures” section for a discussion of these non-GAAP measures and reconciliation to their most directly comparable GAAP financial measures and further information on their uses and limitations.

(in thousands, except for per share data, percentages and ratios)

	Nine Months Ended March 31, 2014			Nine Months Ended March 31, 2013		
	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)
Net sales	\$ 652,214	—	\$ 652,214	\$ 636,179	—	\$ 636,179
Percent increase from prior year	2.5%	—	2.5%	3.2%	—	3.2%
Comparable store sales increase ⁽¹⁾	5.7%	—	5.7%	3.7%	—	3.7%
Gross profit ⁽²⁾	\$ 230,866	\$ 1,810	\$ 232,676	\$ 192,664	\$ 41,809	\$ 234,473
Selling, general and administrative expenses ⁽²⁾	\$ 232,678	\$ (4,839)	\$ 227,839	\$ 237,875	\$ (11,731)	\$ 226,144
Operating income/(loss) ⁽³⁾	\$ (1,812)	\$ 6,649	\$ 4,837	\$ (45,211)	\$ 53,540	\$ 8,329
Interest income	\$ 20	—	\$ 20	\$ 2	—	\$ 2
Interest expense	\$ (1,129)	—	\$ (1,129)	\$ (1,292)	—	\$ (1,292)
Other income/(expense), net	\$ 79	—	\$ 79	\$ (1,349)	\$ 1,535	\$ 186
Income tax provision/(benefit)	\$ (79)	\$ 166	\$ 87	\$ (7,057)	\$ 9,678	\$ 2,621
Net income/(loss) ⁽³⁾	\$ (2,763)	\$ 6,483	\$ 3,720	\$ (40,793)	\$ 45,397	\$ 4,604
Diluted income/(loss) per share ⁽³⁾	\$ (0.06)	\$ 0.15	\$ 0.09	\$ (0.97)	\$ 1.08	\$ 0.11
Ratios as a percent of net sales:						
Gross profit	35.4%	0.3%	35.7%	30.3%	6.6%	36.9%
Selling, general and administrative expenses	35.7%	(0.7%)	34.9%	37.4%	(1.8%)	35.5%
Operating income/(loss)	(0.3%)	1.0%	0.7%	(7.1%)	8.4%	1.3%

(1) Stores are included in the comparable store sales calculation at the beginning of the quarter following the anniversary date of the store opening. A store that relocates within the same geographic market or modifies its available retail space is still considered the same store for purposes of this computation.

(2) See the preceding “Reconciliation of Non-GAAP Financial Measures” section for details on these adjustments. The adjustment to gross profit and the components of the adjustments to selling, general and administrative expenses are set forth in the preceding tables.

(3) See the preceding “Reconciliation of Non-GAAP Financial Measures” section for a discussion of these non-GAAP measures and reconciliation to their most directly comparable GAAP financial measures and further information on their uses and limitations.