

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>Twelve Months Ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Selling, general, and administrative expenses (GAAP)	\$ 77,234	\$ 77,529	\$ 314,263	\$ 310,205
Non-GAAP adjustments:				
Store reorganization and clean-up	—	(983)	—	(983)
Compensation	—	(470)	—	(2,630)
Vacation policy change	—	1,843	—	1,843
Legal, consulting, recruiting, and e-commerce obligations	<u>—</u>	<u>(107)</u>	<u>—</u>	<u>(2,785)</u>
Adjusted selling, general, and administrative expenses (non-GAAP)	<u>\$ 77,234</u>	<u>\$ 77,812</u>	<u>\$ 314,263</u>	<u>\$ 305,650</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>Twelve Months Ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Operating income/(loss) (GAAP)	\$ (3,997)	\$ (6,242)	\$ 12,356	\$ (8,053)
Non-GAAP adjustments:				
Adjustment to cost of sales:				
Inventory write-down and merchandise category exit	—	3,455	—	5,265
Adjustments to selling, general and administrative expenses:				
Store reorganization and clean-up	—	983	—	983
Compensation	—	470	—	2,630
Vacation policy change	—	(1,843)	—	(1,843)
Legal, consulting, recruiting, and e-commerce obligations	<u>—</u>	<u>107</u>	<u>—</u>	<u>2,785</u>
Adjusted operating income/(loss) (non-GAAP)	\$ <u>(3,997)</u>	\$ <u>(3,070)</u>	\$ <u>12,356</u>	\$ <u>1,767</u>

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

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

(unaudited - in thousands)

	<i>Three Months Ended</i>		<i>Twelve Months Ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	2015	2014	2015	2014
Net income/(loss) (GAAP)	\$ (4,240)	\$ (7,414)	\$ 10,385	\$ (10,176)
Non-GAAP adjustments:				
Inventory write-down and merchandise category exit	—	3,455	—	5,265
Store reorganization and clean-up	—	983	—	983
Compensation	—	470	—	2,630
Vacation policy change	—	(1,843)	—	(1,843)
Legal, consulting, recruiting, and e-commerce obligations	—	107	—	2,785
Disposal of systems	—	689	—	689
Tax effect of non-GAAP adjustments ⁽¹⁾	—	166	—	—
Adjusted net income/(loss) (non-GAAP)	\$ (4,240)	\$ (3,387)	\$ 10,385	\$ 333

- (1) The Company calculated the tax effect of non-GAAP adjustments by applying an applicable estimated jurisdictional tax rate to each specific non-GAAP item after consideration of the Company's valuation allowance. The effective tax rate utilized in this non-GAAP Adjusted net income/(loss) reconciliation is (4.3%) for the three months ended June 30, 2014 and 0.0% for the twelve months ended June 30, 2014. This rate is inclusive of a deferred tax asset valuation allowance of \$20.2 million as of June 30, 2014.

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

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

(unaudited)

	<i>Three Months Ended June 30,</i>		<i>Twelve Months Ended June 30,</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Diluted income/(loss) per share (GAAP)	\$ (0.10)	\$ (0.17)	\$ 0.24	\$ (0.24)
Non-GAAP adjustments:				
Inventory write-down and merchandise category exit	—	0.08	—	0.13
Store reorganization and clean-up	—	0.02	—	0.02
Compensation	—	0.01	—	0.06
Vacation policy change	—	(0.04)	—	(0.04)
Legal, consulting, recruiting, and e-commerce obligations	—	—	—	0.06
Disposal of systems	—	0.02	—	0.02
Tax effect of non-GAAP adjustments ⁽¹⁾	—	—	—	—
Adjusted diluted income/(loss) per share (non-GAAP)	<u>\$ (0.10)</u>	<u>\$ (0.08)</u>	<u>\$ 0.24</u>	<u>\$ 0.01</u>

- (1) The Company calculated the tax effect of non-GAAP adjustments by applying an applicable estimated jurisdictional tax rate to each specific non-GAAP item after consideration of the Company's valuation allowance. The effective tax rate utilized in this non-GAAP Adjusted diluted income/(loss) per share reconciliation is (4.3%) for the three months ended June 30, 2014 and 0.0% for the twelve months ended June 30, 2014. This rate is inclusive of a deferred tax asset valuation allowance of \$20.2 million as of June 30, 2014.

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, 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 fourth quarter and the twelve months ended June 30, 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>Q4 Fiscal 2015</i>									
	GAAP Net Income/ (Loss)	<i>Adjustments</i>						GAAP Net Income/ (Loss) % of Sales	
		Inventory Adj.	Store Re-org & Clean- up	Compensation	Vacation Policy Change	All Other	Total		
Net Sales	\$ 213,030							\$ 213,030	
Cost of Sales	\$ 139,793						\$ —	\$ 139,793	65.6%
Gross Profit	\$ 73,237						\$ —	\$ 73,237	34.4%
Selling, General & Administrative Expenses	\$ 77,234						\$ —	\$ 77,234	36.3%
Operating Income /(Loss)	\$ (3,997)						\$ —	\$ (3,997)	-1.9%
Other Expense	\$ 482						\$ —	\$ 482	0.2%
Income/(Loss) Before Tax	\$ (4,479)						\$ —	\$ (4,479)	-2.1%
Income Tax Provision/(Benefit)	\$ (239)						\$ —	\$ (239)	-0.1%
Net Income/(Loss)	\$ (4,240)						\$ —	\$ (4,240)	-2.0%

<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					\$ (166)	\$ (166)	\$ (46)	0.0%
Net Income/(Loss)	\$ (7,414)	\$ 3,455	\$ 983	\$ 470	\$ (1,843)	\$ 962	\$ 4,027	\$ (3,387)	-1.6%

***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
Reconciliation of GAAP and Non-GAAP Adjusted Results
(unaudited)
(\$ in thousands)

<i>Fiscal 2015</i>									
	GAAP Net Income	<i>Adjustments</i>					GAAP Net Income	<i>% of Sales</i>	
		Inventory Adj.	Store Re-org & Clean- up	Compensation	Vacation Policy Change	All Other			Total
Net Sales	\$ 906,365						\$ 906,365		
Cost of Sales	\$ 579,746					\$ —	\$ 579,746	64.0%	
Gross Profit	\$ 326,619					\$ —	\$ 326,619	36.0%	
Selling, General & Administrative Expenses	\$ 314,263					\$ —	\$ 314,263	34.7%	
Operating Income	\$ 12,356					\$ —	\$ 12,356	1.4%	
Other Expense	\$ 1,940					\$ —	\$ 1,940	0.2%	
Income Before Tax	\$ 10,416					\$ —	\$ 10,416	1.1%	
Income Tax Provision/(Benefit)	\$ 31					\$ —	\$ 31	0.0%	
Net Income/(Loss)	\$ 10,385					\$ —	\$ 10,385	1.1%	

<i>Fiscal 2014</i>									
	GAAP Net Income/ (Loss)	<i>Adjustments*</i>						Adjusted Non- GAAP Net Income	<i>% of Sales</i>
		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 Income/(Loss) Before Tax	\$ 2,082					\$ (689)	\$ (689)	\$ 1,393	0.2%
	\$ (10,135)	\$ 5,265	\$ 983	\$ 2,630	\$ (1,843)	\$ 3,474	\$ 10,509	\$ 374	0.0%
Income Tax Provision/(Benefit)	\$ 41					\$ —	\$ —	\$ 41	0.0%
Net Income/(Loss)	\$ (10,176)	\$ 5,265	\$ 983	\$ 2,630	\$ (1,843)	\$ 3,474	\$ 10,509	\$ 333	0.0%

***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.