

TUESDAY MORNING CORPORATION
NON-GAAP FINANCIAL MEASURES
(Unaudited)

The Company defines EBITDA as net income/(loss) before interest, income taxes, depreciation, and amortization. Adjusted EBITDA reflects further adjustments to EBITDA to eliminate the impact of certain items, including certain non-cash items and other items that the Company does not believe are representative of its core operating performance. This measure is not a presentation made in accordance with GAAP. Adjusted EBITDA should not be considered as an alternative to net income or loss as a measure of operating performance. In addition, Adjusted EBITDA is not presented as, and should not be considered as, an alternative to cash flows as a measure of liquidity. Adjusted EBITDA should not be considered in isolation, or as a substitute for analysis of the Company's results as reported under GAAP and should not be construed as an inference that the Company's future results will be unaffected by such adjustments. The Company believes it is useful for investors to see these EBITDA and Adjusted EBITDA measures that management uses to evaluate the Company's operating performance. These non-GAAP financial measures are included to supplement the Company's financial information presented in accordance with GAAP and because the Company uses these measures to monitor and evaluate the performance of its business as a supplement to GAAP measures and believes the presentation of these non-GAAP measures enhances investors' ability to analyze trends in the Company's business and evaluate the Company's performance. EBITDA and Adjusted EBITDA are also frequently used by analysts, investors and other interested parties to evaluate companies in the Company's industry. The non-GAAP measures presented may not be comparable to similarly titled measures used by other companies.

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

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

<i>(unaudited - in thousands)</i>	<i>Three Months</i>		<i>Twelve Months</i>	
	<i>Ended June 30,</i>		<i>Ended June 30,</i>	
	2016	2015	2016	2015
Net income/(loss) (GAAP)	\$ (3,851)	\$ (4,240)	\$ 3,713	\$ 10,385
Depreciation and amortization	4,629	3,312	16,010	12,426
Interest expense, net	155	348	977	1,420
Income tax provision/(benefit)	(93)	(239)	263	31
EBITDA	\$ 840	\$ (819)	\$ 20,963	\$ 24,262
Share-based compensation expense (1)	1,245	1,456	3,115	5,361
Cease-use rent expense	175	—	3,200	—

Phoenix distribution center related expenses	1,386	288	4,457	288
Other strategic initiative related expenses	767	57	1,250	57
Gain on sale of assets	(2,515)	—	(2,515)	—
Adjusted EBITDA (non-GAAP)	<u>\$ 1,898</u>	<u>\$ 982</u>	<u>\$ 30,470</u>	<u>\$ 29,968</u>

- (1) Charges related to share-based compensation programs, which vary from period to period depending on volume and vesting timing of awards. The Company adjusts for these charges to facilitate comparisons from period to period.