

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 in this press release 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 Ended</i>		<i>Six Months Ended</i>	
	<i>December 31,</i>		<i>December 31,</i>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net income/(loss) (GAAP)	\$ 8,430	\$ 18,944	\$ (426)	\$ 12,804
Depreciation and amortization	5,393	3,825	9,976	7,477
Interest expense, net	403	206	658	627
Income tax provision/(benefit)	<u>312</u>	<u>1,077</u>	<u>11</u>	<u>1,012</u>
EBITDA	\$ 14,538	\$ 24,052	\$ 10,219	\$ 21,920
Share-based compensation expense (1)	1,578	880	2,316	944
Cease-use rent expense	166	436	473	589

Phoenix distribution center related expenses (2)	1,087	924	2,137	1,680
Other strategic initiatives (3)	—	205	—	205
Gain on sale of assets	<u>(185)</u>	<u>—</u>	<u>(371)</u>	<u>—</u>
Adjusted EBITDA (non-GAAP)	<u>\$ 17,184</u>	<u>\$ 26,497</u>	<u>\$ 14,774</u>	<u>\$ 25,338</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.
- (2) Adjustment includes only certain expenses related to the Phoenix distribution center preparation, ramp up and post go-live activities, including incremental detention costs and certain consulting costs. The prior year adjustment also includes rent and operating costs prior to operations commencing at the distribution center.
- (3) Adjustment includes certain expenses related to customer research and store prototype development.