FORM 10Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarter Ended September 30, 1996 Commission File Number 0-19658

TUESDAY MORNING CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	75-2398532
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
14621 INWOOD RD., DALLAS, TEXAS	75244
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) (972) 387-3562

NONE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Common stock outstanding as of September 30, 1996: 7,869,086 shares

TUESDAY MORNING CORPORATION

PART 1 - FINANCIAL INFORMATION

Tuesday Morning Corporation and Subsidiaries
Consolidated Balance Sheets
Unaudited

ASSETS	Sept 30, 1996	Sept 30, 1995	Dec. 31, 1995
		(In Thousands)	

Current assets:			
Cash and cash equivalents	$ 599	$ 2,062	$ 6,276
Federal income tax receivable	96	1,730	-
Inventories	114,347	93,118	52,367
Prepaid expenses	2,627	1,379	993
Other current assets	211	550	458
Total current assets	117,880	98,839	60,094
Property, plant and equipment, at cost:			
Land	8,356	8,356	8,356
Buildings	13,285	12,955	12,989
Furniture and fixtures	17,138	15,815	15,584
Equipment	14,348	13,177	13,433
Leasehold improvements	2,093	1,924	1,967
	55,220	52,227	52,329
Less accumulated depreciation & amortization	(24,806)	(20,695)	(21,267)
Net property, plant and equipment	30,414	31,532	31,062
Other assets, at cost:			
Due from Officer	2,617	2,048	2,211
Other assets	757	930	876
Total Assets	$151,668	$133,349	$ 94,243
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current installments of mortgages	$ 1,021	$ 1,021	$ 1,021
Short term notes payable	-	138	-
Current installments of capital lease obligation	772	669	755
Accounts payable	31,097	24,699	12,707
Accrued expenses			
Sales tax	1,068	994	1,662
Other	3,324	2,584	2,467
Deferred income taxes	231	303	231
Due to officer	-	-	-
Federal income taxes payable	-	-	2,136
Total current liabilities	37,513	30,408	20,979
Mortgages on land, buildings and equipment	4,849	5,870	5,615
Long term notes payable	41,776	36,593	-
Long term capital lease obligation	433	1,270	1,007
Deferred income taxes	2,994	2,920	2,994
Shareholders' equity:			
Preferred stock of $1 par value per share. Authorized 2,000,000 shares,none issued	-	-	-
Common stock of $.01 par value per share. Authorized 20,000,000 shares; issued 8,143,586 shares at September 30, 1996 8,139,086 shares at September 30, 1995 8,143,586 shares at December 31, 1995	81	81	81
Additional paid-in capital	18,277	18,367	18,277
Retained earnings	47,773	40,007	47,318
Less: treasury stock 274,500 shares at September 30, 1996 299,500 shares at September 30, 1995 274,500 shares at December 31, 1995	(2,028)	(2,167)	(2,028)
Total shareholders' equity	64,103	56,288	63,648
Total Liabilities and Shareholders' Equity	$151,668	$133,349	$ 94,243

See accompanying notes to consolidated financial statements.

Tuesday Morning Corporation and Subsidiaries
Consolidated Statements of Operations
Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
	(In thousands, except per share data)		(In thousands, except per share data)	
Net sales	$ 48,537	$ 38,240	$138,563	$116,175
Cost of sales	29,787	23,377	88,199	75,036
Gross profit	18,750	14,863	50,364	41,139
Selling, general and administrative expenses	16,855	14,496	48,134	43,112
Operating income (loss)	1,895	367	2,230	(1,973)
Other income (expense):				
Interest income	59	46	195	142
Interest expense	(992)	(1,093)	(2,147)	(2,587)
Other income	135	147	434	391
	(798)	(900)	(1,518)	(2,054)
Income (loss) before income taxes	1,097	(533)	712	(4,027)
Income tax (benefits)	399	(197)	256	(1,490)
Net income (loss)	$ 698	$ (336)	$ 456	$ (2,537)
Net income (loss) per share	$ 0.08	$ (0.04)	$ 0.06	$ (0.32)
Weighted average common share and share equivalents	8,370	7,840	8,264	7,824

See accompanying notes to consolidated financial statements.

Tuesday Morning Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	1996	1995
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers	$ 138,563	$ 116,175
Cash paid to suppliers and employees	(176,911)	(148,645)
Interest received	195	142
Interest paid	(2,147)	(2,587)
Income taxes paid	(2,489)	(1,228)
Net cash used by operating activities	(42,789)	(36,143)
Cash flows from investing activities:		
Loans to officers	(406)	(248)
Capital expenditures	(2,935)	(1,711)
Net cash used by investing activities	(3,341)	(1,959)

Cash flows from financing activities:		
Proceeds from short and long term borrowings	41,776	36,593
Payment of short-term borrowings	-	138
Payment of mortgages	(766)	(808)
Principal payments under capital lease obligation	(557)	(489)
Proceeds from exercise of common stock options/stock purchase plan	-	195
Net cash provided by financing activities	40,453	35,629
Net decrease in cash and cash equivalents	(5,677)	(2,473)
Cash and cash equivalents at beginning of period	6,276	4,535
Cash and cash equivalents at end of period	$ 599	$ 2,062
Reconciliation of net loss to net cash used by operating activities:		
Net income (loss)	$ 456	$ (2,537)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization	3,582	3,132
Change in operating assets and liabilities:		
Increase in federal income taxes receivable	(96)	(1,730)
Increase in inventories	(61,980)	(46,303)
Increase (decrease) in prepaid expense	(1,634)	295
Decrease in other current assets	247	99
Decrease in other assets and liabilities	119	48
Increase in accounts payable	18,390	11,782
Increase in accrued expenses	263	59
Decrease in federal income taxes payable	(2,136)	(988)
Total adjustments	(43,245)	(33,606)
Net cash used by operating activities	$ (42,789)	$ (36,143)

See accompanying notes to consolidated financial statements.

Tuesday Morning Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

1. The consolidated interim financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements include all adjustments, consisting only of those of a normal recurring nature, which in the opinion of management, are necessary to present fairly the results of the Company for the interim periods presented and should be read in conjunction with the consolidated financial statements and notes thereto in the Company's 1995 Annual Report.

2. Net Income/(Loss) per share amounts are based on the weighted average number of shares and dilutive share equivalents outstanding during the period.

3. The Company considers all highly liquid debt instruments purchased with an

original maturity of three months or less to be cash equivalents.

4. Notes payable under the terms of the Company's revolving line of credit agreement are classified between current and long term in accordance with the terms of the agreement. This agreement is discussed in more detail in Liquidity and Capital Resources on the next page.

LIQUIDITY AND CAPITAL RESOURCES:

The Company's principal liquidity need is for inventory purchases. The Company's two principal sources of liquidity have been its operating cash flow and borrowings under bank lines of credit.

The Company entered into a three year $45 million revolving line of credit agreement with a new bank on July 15, 1994. This agreement is secured by a pledge of the Company's assets. Borrowings available under the agreement were limited to the lesser of $45 million or 50% (60% for up to 120 days during each year) of eligible inventory, as defined. The availability was further reduced by the aggregate undrawn amount of outstanding letters of credit.

This agreement was amended on June 25, 1996 to increase the amount to $55 million from July 1 to October 31 of each year, extend the maturity date to July, 1999 and lower the interest rate by 1/2%. Based on the line of credit agreement, the Company had the ability to utilize $55.0 million in borrowings and letters of credit at September 30, 1996. On September 30, 1996, the Company had $41.8 million of long term borrowings and outstanding letters of credit totaled $2.2 million. The remaining $11.0 million was available for general corporate purposes.

The agreement requires the Company and its subsidiaries to comply with various financial and other covenants, including the maintenance of certain operating and financial ratios, and they contain substantial limitations on dividends, indebtedness, liens, capital expenditures, asset sales and certain other items. At September 30, 1996, the Company was in compliance with these covenants. Management believes that the agreement will be adequate to meet its needs for liquidity and growth.

In September 1995, the Company entered into a $7.1 million floating rate mortgage collateralized by a first lien deed of trust on all of the Company's owned real estate. This mortgage refinanced and consolidated mortgages which existed prior to 1995. In connection with this mortgage, the Company is required to maintain a minimum net worth and to comply with other financial covenants. At September 30, 1996, the Company was in compliance with these covenants.

The Company's principal capital requirement has been the funding of the development of new stores and the resulting increase in inventory requirements. As of September 30, 1996, the Company had opened 16 stores, net of closings. As of the start of the sale in the fourth quarter, the Company had opened an additional 10 stores. These stores were funded from operating cash flow. In 1997, the Company plans store growth of approximately 28-30 new stores.

INVENTORY:

The Company's inventory increased from $52.4 million at December 31, 1995 to $114.3 million at September 30, 1996. This increase of $61.9 million from December 31, 1995 is required due to growth in the number of stores, comparative sales growth, and normal seasonal activity. As reflected on the following table, store level inventory increased when compared to December 31, 1995 and to September 30, 1995. Total inventory increased $21.2 million from September 30, 1995, as a result of an increase in the number of stores and an increased sales plan for the fourth quarter of 1996 compared to 1995.

INVENTORY LEVELS BY LOCATION

(IN MILLIONS)

	9/30/96	9/30/95	12/31/95
Stores	$43.0	$38.3	$36.3
Warehouse	71.3	54.8	16.1
	$114.3	$93.1	$52.4

STORE OPENINGS/CLOSINGS

	Nine Months Ending 9/30/96	Nine Months Ending 9/30/95	Year Ended 12/31/95
Stores Open at Beginning of Period	260	246	246
Stores Opened	23	23	32
Stores Closed	(7)	(17)	(18)
Stores Open at End of Period	276	252	260

TUESDAY MORNING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 1995

The Company's net income of $0.5 million or $0.06 per share for the nine months ended September 30, 1996 compares to a net loss of $2.5 million or $0.32 per share for the nine months ended September 30, 1995. The Company reported a net income due to the leverage obtained from increased sales and gross profit improvements while expenses remained relatively consistent on a per store basis.

For the nine months ended September 30, 1996, comparable store sales increased 12%. Total gross profit increased from $41.1 million to $50.4 million due to higher sales volume and improved gross profit percent. The gross profit percent grew from 35.4% to 36.4% as a result of improved product selection and reduced markdowns. Selling, general and administrative expenses increased 11.6% from $43.1 million to $48.1 million. As a percentage of sales, these expenses decreased from 37.9% to 34.7% which is the result of relatively fixed SG&A expenses on a per store basis combined with strong comparable store sales increases. Interest expense decreased from $2.6 million to $2.1 million due to the net impact of reduced borrowings caused by 1995's improved earnings and lower interest rates, partially offset by increased inventory levels.

THREE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1995

For the quarter ended September 30, 1996, the Company had net income of $0.7 million or $0.08 per share versus a net loss of $0.3 million or $0.04 per share for the same period during 1995. During the quarter, comparable store sales increased 18%. Total gross profit increased from $14.9 million to $18.8 million due to increased sales volume. The gross profit percentage decreased from 38.9% to 38.6% due to product mix variations. Selling, general and administrative expenses increased from $14.5 million to $16.9 million; as a percent to sales, they decreased from 37.9% in 1995 to 34.7% in 1996 for the reasons stated above. Interest expense decreased from $1.1 million to $1.0 million for the reasons previously discussed.

TUESDAY MORNING CORPORATION

PART II - OTHER INFORMATION

Not Applicable

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TUESDAY MORNING CORPORATION
(Registrant)

DATE: October 30, 1996

/s/ Mark E. Jarvis

Mark E. Jarvis, Senior Vice President

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