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, 1997 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, 1997: 11,945,717 shares

TUESDAY MORNING CORPORATION

PART 1--FINANCIAL INFORMATION

Tuesday Morning Corporation and Subsidiaries
Consolidated Balance Sheets
Unaudited

Sept 30,	Sept 30,	Dec. 31,

ASSETS	1997	1996	1996
		(In Thousands)	
Current assets:			
Cash and cash equivalents	$ 3,029	$ 599	$ 10,754
Federal income tax receivable	--	96	--
Inventories	159,687	114,347	75,493
Prepaid expenses	1,203	2,627	1,048
Other current assets	313	211	726
Total current assets	164,232	117,880	88,021
Property, plant and equipment, at cost:			
Land	8,356	8,356	8,356
Buildings	13,875	13,285	13,926
Furniture and fixtures	19,506	17,138	17,658
Equipment	17,104	14,348	14,469
Leasehold improvements	2,277	2,093	2,082
	61,118	55,220	56,491
Less accumulated depreciation & amortization	(29,679)	(24,806)	(26,104)
Net property, plant and equipment	31,439	30,414	30,387
Other assets, at cost:			
Due from Officer	2,866	2,617	2,679
Other assets	678	757	670
Total Assets	$ 199,215	$ 151,668	$ 121,757

LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current installments of mortgages	$ 1,021	$ 1,021	$ 1,021
Current installments of capital lease obligation	213	772	625
Accounts payable	45,181	31,097	22,543
Accrued expenses			
Sales tax	1,332	1,068	2,105
Other	4,922	3,324	5,637
Deferred income taxes	57	231	57
Income taxes payable	2,301	--	6,465
Total current liabilities	55,027	37,513	38,453
Mortgages on land, buildings and equipment	3,828	4,849	4,594
Long term notes payable	56,127	41,776	--
Long term capital lease obligation	220	433	382
Deferred income taxes	2,800	2,994	2,800
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 30,000,000 shares; issued 12,357,467 shares at September 30, 1997 12,215,379 shares at September 30, 1996 12,271,554 shares at December 31, 1996	123	81	82
Additional paid-in capital	18,922	18,277	18,640
Retained earnings	64,196	47,773	58,834
Less: treasury stock 411,750 shares at September 30, 1997 411,750 shares at September 30, 1996 411,750 shares at December 31, 1996	(2,028)	(2,028)	(2,028)
Total shareholders' equity	81,213	64,103	75,528
Total Liabilities and Shareholders' Equity	$ 199,215	$ 151,668	$ 121,757

See accompanying notes to consolidated financial statements

(1)

Tuesday Morning Corporation and Subsidiaries
Consolidated Statements of Operations
Unaudited

	Three Months Ended September 30, 1997	Three Months Ended September 30, 1996	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
	(In thousands, except per share data)		(In thousands, except per share data)	
Net sales	$ 64,167	$ 48,537	$ 179,058	$ 138,563
Cost of sales	38,631	29,787	112,620	88,199
Gross profit	25,536	18,750	66,438	50,364
Selling, general and administrative expenses	19,892	16,855	56,193	48,134
Operating income	5,644	1,895	10,245	2,230
Other income (expense):				
Interest income	97	59	250	195
Interest expense	(1,132)	(992)	(2,330)	(2,147)
Other income	73	135	420	434
	(962)	(798)	(1,660)	(1,518)
Income before income taxes	4,682	1,097	8,585	712
Income tax	1,775	399	3,219	256
Net income	$ 2,907	$ 698	$ 5,366	$ 456
Net income per share	$ 0.24	$ 0.06	$ 0.43	$ 0.04
Weighted average common share and share equivalents	12,433	12,555	12,556	12,396

See accompanying notes to consolidated financial statements

(2)

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

	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers	$ 179,058	$ 138,563
Cash paid to suppliers and employees	(227,299)	(176,911)
Interest received	250	195
Interest paid	(2,329)	(2,147)
Income taxes paid	(7,383)	(2,489)

Net cash used by operating activities	(57,703)	(42,789)
Cash flows used by investing activities:		
Loans to officers	(373)	(406)
Capital expenditures	(4,756)	(2,935)
Net cash used by investing activities	(5,129)	(3,341)
Cash flows from financing activities:		
Proceeds from short and long term borrowings	56,127	41,776
Payment of mortgages	(766)	(766)
Principal payments under capital lease obligation	(574)	(557)
Proceeds from exercise of common stock options/stock purchase plan	323	--
Net cash provided by financing activities	55,110	40,453
Net decrease in cash and cash equivalents	(7,722)	(5,677)
Cash and cash equivalents at beginning of period	10,753	6,276
Cash and cash equivalents at end of period	$ 3,031	$ 599
Reconciliation of net income to net cash used by operating activities:		
Net income	$ 5,366	$ 456
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	3,704	3,582
Change in operating assets and liabilities:		
Increase in income taxes receivable	--	(96)
Increase in inventories	(84,194)	(61,980)
Increase in prepaid expense	(155)	(1,634)
Decrease in other current assets	414	247
Decrease in other assets and liabilities	178	119
Increase in accounts payable	22,638	18,390
Increase (decrease) in accrued expenses	(1,490)	263
Decrease in income taxes payable	(4,164)	(2,136)
Total adjustments	(63,069)	(43,245)
Net cash used by operating activities	$ (57,703)	$ (42,789)

See accompanying notes to consolidated financial statements

TUESDAY MORNING CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(UNAUDITED)

1. In September 1997, the Company and Madison Dearborn Partners ll, L.P. ("Madison Dearborn") entered into an Agreement and Plan of Merger under which Madison Dearborn would acquire all of the Company's outstanding shares of common stock for $25 per share in cash. Consummation of the merger, which is expected in December 1997 or early 1998, is subject to a number of conditions, including approval by the stockholders of the Company and Madison Dearborn obtaining the necessary financing.

2. 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 1996 Annual Report.

3. Net income per share amounts are based on the weighted average number of shares and dilutive share equivalents outstanding during the period. See note 6 below.

4. The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

5. 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.

6. On May 13, 1997 the Board of Directors approved a three-for-two stock split of the Company's common stock. All financial statements presented reflect this transaction which was completed in June, 1997.

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

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 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 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%. On April 30, 1997, the agreement was amended further to increase the amount to $65 million for July 1 to October 31 and $55 million the rest of the year. Based on the line of credit agreement, the Company had the ability to utilize $65.0 million in borrowings and letters of credit at September 30, 1997. On September 30, 1997, the Company had $56.1 million of long term borrowings from banks. On the same date, the outstanding letters of credit totaled approximately $3.2 million. 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, asset sales, and certain other items. At September 30, 1997, the Company was in compliance with these covenants. Management believes that the agreement will be adequate to meet its needs for liquidity and growth, subject to the consumation of the merger.

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, 1997, the Company was in compliance with these covenants.

The Company's principal capital requirement has been the funding of the opening of new stores and the resulting increase in inventory requirements. As of October 2, 1997, the Company opened 29 net new stores and funded these from operating cash flow.

(5)

INVENTORY:

The Company's inventory increased from $75.5 million at year end to $159.7 million at September 30, 1997, for an increase of $84.2 million from December 31, 1996. As reflected on the following chart, the increase in store inventory is attributed to early shipments of fourth quarter merchandise. The increase in the warehouse inventory is due to anticipated fourth quarter sales, which includes the holiday season sales, as well as sales for the first quarter of 1998.

Total inventory increased $45.4 million from September 30, 1996, primarily in the stores. The increase is attributable to the store count increase and the expected sales levels for the fourth quarter. Warehouse inventory is slightly lower than that of September 30, 1996 due to the early shipments of merchandise mentioned above.

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

INVENTORY LEVELS BY LOCATION
(IN MILLIONS)

	9/30/97	9/30/96	12/31/96
Stores	$ 91.2	$ 43.0	$ 43.1
Average per store	(0.300)	(0.156)	(0.151)
Warehouse	68.5	71.3	32.4
Total Inventory	$ 159.7	$ 114.3	$ 75.5

STORE OPENINGS/CLOSINGS

	Nine Months Ending 9/30/97	Nine Months Ending 9/30/96	FYE 12/31/96
Stores Open at Beginning of Period	286	260	260
Stores Opened	20	23	33
Stores Closed	(2)	(7)	(7)
Stores Open at End of Period	304	276	286

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

NINE MONTHS ENDED SEPTEMBER 30, 1997
COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 1996

During the first nine months of 1997, sales increased 29% and comparable store sales increased 19%. These increases provided significant operating leverage and increased operating income from $2,230,000 (1.61% of sales) to $10,245,000 (5.72% of sales).

Sales increases were the result of improvements in product selection and value offered to customers in addition to sales from new stores. In 1993 senior buying management was changed in order to re-focus the company's buying efforts. Since 1993, the company has increased its buying staff from 10 to 22 buyers, emphasizing expertise in individual product categories. Buyer travel has increased in order to obtain merchandise from a greater number of manufacturers and the company has emphasized a breadth of product selection rather than the depth focused on in prior years.

The company's gross profit increased 0.8% from 36.3% to 37.1%. This increase was primarily attributable to leveraging its distribution costs which remain relatively fixed and thus improved as a percentage relative to the sales increase. Selling, general, and administrative expenses are primarily incurred at the stores. These expenses are relatively fixed and have also benefited from the increase in comparable store sales. These expenses declined from 34.7% in 1996 to 31.4% in 1997.

Other income and expense is comprised of interest income, interest expense (which has remained consistent due to similar borrowing levels and interest rates), rental income from a strip shopping area adjacent to the company's headquarters and sales tax discounts.

THREE MONTHS ENDED SEPTEMBER 30, 1997
COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 1996

The financial results of the Company during the quarter were driven by the financial leverage discussed on the previous page.

For the quarter ended September 30, 1997, the Company had net income of $2.9 million or $0.24 per share versus income of $0.7 million or $0.06 per share for the same period during 1996. During the quarter, comparable sales increased 18.0%. Total gross profit increased from $18.8 million to $25.5 million due primarily to sales volume and the leverage obtained via comparable store sales gains. The gross profit percentage increased from 38.6% to 39.8% due to leveraging of buying and distribution costs which did not increase in proportion to the increases in volume of merchandise produced. Selling, general, and administrative expenses increased from $16.9 million to $19.9 million; as a percent of sales, these expenses decreased from 34.7% to 31.0%.

For the quarter, interest expense increased $140.0 thousand due to the inventory build-up necessary for the fourth quarter.

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: November 5, 1997

/s/ Mark E. Jarvis
Mark E. Jarvis, Senior Vice President

<ARTICLE> 5
<MULTIPLIER> 1,000

<PERIOD-TYPE>	3-MOS	9-MOS
<FISCAL-YEAR-END>	DEC-31-1997	DEC-31-1997
<PERIOD-START>	JUL-01-1997	JAN-01-1997
<PERIOD-END>	SEP-30-1997	SEP-30-1997
<CASH>	3,029	3,029
<SECURITIES>	0	0
<RECEIVABLES>	0	0
<ALLOWANCES>	0	0
<INVENTORY>	159,687	159,687
<CURRENT-ASSETS>	164,232	164,232
<PP&E>	61,118	61,118
<DEPRECIATION>	(29,679)	(29,679)
<TOTAL-ASSETS>	199,215	199,215
<CURRENT-LIABILITIES>	55,027	55,027
<BONDS>	0	0
<PREFERRED-MANDATORY>	0	0
<PREFERRED>	0	0
<COMMON>	123	123
<OTHER-SE>	81,090	81,090
<TOTAL-LIABILITY-AND-EQUITY>	199,215	199,215
<SALES>	64,167	179,058
<TOTAL-REVENUES>	64,167	179,058
<CGS>	38,631	112,620
<TOTAL-COSTS>	19,892	56,193
<OTHER-EXPENSES>	(170)	(670)
<LOSS-PROVISION>	0	0
<INTEREST-EXPENSE>	1,132	2,330
<INCOME-PRETAX>	4,682	8,585
<INCOME-TAX>	1,775	3,219
<INCOME-CONTINUING>	2,907	5,366
<DISCONTINUED>	0	0
<EXTRAORDINARY>	0	0
<CHANGES>	0	0
<NET-INCOME>	2,097	5,366
<EPS-PRIMARY>	0	0
<EPS-DILUTED>	0.24	0.43