

Tuesday Morning Corporation Announces Third Quarter 2006 Results

DALLAS, Oct 26, 2006 /PRNewswire-FirstCall via COMTEX News Network/ -- Tuesday Morning Corporation (Nasdaq: TUES) today reported that as previously announced, net sales for the third quarter of 2006 increased 1.1% to \$194.4 million compared to \$192.3 million for the same prior-year quarter. For the nine-month period ended September 30, 2006, net sales decreased 1.1% to \$589.8 million compared to \$596.6 million at September 30, 2005. Comparable store sales decreased 4.6% and 6.9% for the third quarter and nine-month period ended September 30, 2006, respectively.

"We are pleased with the traction the Company achieved during the third quarter in terms of improving the age and content of inventory as well as traffic," said Kathleen Mason, President and Chief Executive Officer. "The home furnishings sector continues to be challenging and we are remaining flexible in our decisions and intently focused on the things we can control."

Net income for the third quarter ended September 30, 2006 was \$3.2 million or \$0.08 per diluted share, compared to \$8.2 million or \$0.20 per diluted share for the third quarter of 2005, a decrease of \$5.0 million or \$0.12 per diluted share. For the nine-months ended September 30, 2006, net income was \$12.6 million or \$0.30 per diluted share, compared to \$25.4 million or \$0.61 per share in the same prior-year period, a decrease of \$12.8 million or \$0.31 per diluted share.

Year-to-date, for the period ended September 30, 2005, net income and diluted earnings per share for the prior-year nine-month period, excluding the after-tax lease adjustment recorded in the first quarter of 2005 were \$27.8 million and \$0.67 per diluted share. On a non-GAAP basis, adjusting for recognition of stock compensation expense, diluted earnings per share for the third quarter and nine-month period ended September 30, 2006 were \$0.10 and \$0.35, respectively. Please see the attached table for reconciliation.

Our full year 2006 guidance remains unchanged with estimated annual sales of approximately \$945 million, mid-single digit negative comparable stores sales and diluted earnings per share of approximately \$1.05 inclusive of an estimated \$0.04 - \$0.05 per diluted share of stock compensation expense.

Tuesday Morning management will review third quarter financial results in a teleconference call on October 26, 2006 at 10:00 a.m. Eastern Time.

About Tuesday Morning

Tuesday Morning is the leading closeout retailer of upscale, decorative home accessories and famous-maker gifts in the United States. The Company opened its first store in 1974 and currently operates 772 stores in 47 states during periodic "sale events." Tuesday Morning is nationally known for bringing its more than 8.0 million loyal customers a treasure hunt of high-end, first quality, brand name merchandise at prices 50% to 80% below department and specialty stores and catalogues.

This press release contains forward-looking statements, within the meaning of the federal securities laws and the Private Securities Litigation Reform Act of 1995, which are based on management's current expectations, estimates and projections. Words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those projected or implied in the forward-looking statements. Such risks and uncertainties include: the success of new store openings, competitive factors, access to merchandise and unanticipated changes in consumer demand and economic trends, as well as other risks detailed in the company's filings with the Securities and Exchange Commission, including Forms 8-K, 10-Q and 10-K. The Company undertakes no obligation to revise the forward-looking statements contained therein to reflect events or circumstances after the date hereof as a result of new information, future events or otherwise.

Tuesday Morning Corporation
Consolidated Statement of Income
(In thousands, except per share data)

| Three Months Ended | Nine-Months Ended |
|--------------------|-------------------|
| Sept. 30, | Sept. 30, |
| 2006 | 2006 |
| 2005 | 2005 |
| unaudited | unaudited |

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Net Sales | \$194,412 | \$192,276 | \$589,841 | \$596,626 |
| Cost of sales | 121,348 | 117,577 | 368,912 | 367,951 |
| Gross profit | 73,064 | 74,699 | 220,929 | 228,675 |
| Selling, general and administrative expenses | 67,341 | 61,387 | 199,732 | 188,181 |
| Operating income | 5,723 | 13,312 | 21,197 | 40,494 |
| Other income (expense): | | | | |
| Interest expense | (792) | (552) | (1,545) | (922) |
| Interest income | 5 | --- | 106 | 98 |
| Other income (expense), net | 174 | 201 | 560 | 633 |
| Other income (expense) | (613) | (351) | (879) | (191) |
| Income before income taxes | 5,110 | 12,961 | 20,318 | 40,303 |
| Income tax expense | 1,947 | 4,748 | 7,716 | 14,894 |
| Net income | \$3,163 | \$8,213 | \$12,602 | \$25,409 |
| Earnings Per Share: | | | | |
| Net income per common share: | | | | |
| Basic | \$0.08 | \$0.20 | \$0.30 | \$0.62 |
| Diluted | \$0.08 | \$0.20 | \$0.30 | \$0.61 |
| Weighted average number of common shares: | | | | |
| Basic | 41,391 | 41,352 | 41,384 | 41,229 |
| Diluted | 41,574 | 41,913 | 41,642 | 41,768 |
| Reconciliation of Reported Amounts to Non-GAAP Items (See Note) | | | | |
| Net income, as reported | \$3,163 | \$8,213 | \$12,602 | \$25,409 |
| Add: GAAP rent, net of tax | --- | --- | --- | 2,438 |
| Adjusted net income, ex GAAP rent | 3,163 | 8,213 | 12,602 | 27,847 |
| Plus: Stock compensation expense, net of tax | 973 | --- | 2,111 | --- |
| Adjusted non-GAAP net income | \$4,136 | \$8,213 | \$14,713 | \$27,847 |
| Net income per share, diluted, as reported | \$0.08 | \$0.20 | \$0.30 | \$0.61 |
| Add: GAAP rent, net of tax | --- | --- | --- | 0.06 |
| Adjusted net income per share, diluted | 0.08 | 0.20 | 0.30 | 0.67 |
| Add: Stock option expense, net of tax | 0.02 | --- | 0.05 | --- |
| Adjusted non-GAAP net income per share, diluted | \$0.10 | \$0.20 | \$0.35 | \$0.67 |

Note:

The above schedule reconciles non-GAAP financial measures included in this press release to the most comparable GAAP financial measures. Non-GAAP

net income per share should not be considered as an alternative to net income per share or other GAAP financial measurements as an indicator of our operating performance.

The GAAP rent adjustment represents a one-time, non-cash cumulative adjustment to record GAAP rent in the first quarter of 2005 to properly reflect pre-opening or build-out periods of our stores prior to January 1, 2005. This correction of accounting practices was made in light of the views of the Office of the Chief Accountant of the Securities and Exchange Commission expressed in a letter of February 7, 2005 to the American Institute of Certified Public Accountants regarding the application of generally accepted accounting principles to operating lease accounting matters.

The Company adopted FAS 123(R), Shared Based Payment, in the first quarter of fiscal 2006. This accounting standard requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair value over the requisite service period. The Company has applied the provisions of the modified prospective transition method in the first quarter of 2006. The Company did not record any stock-based compensation expense in 2005.

Management believes that comparative analysis of operating trends is enhanced by adjusting for these items in order to provide investors with a view of the Company's operating performance in a manner similar to the method used by management to track performance from period-to-period and improve the investor's ability to understand underlying trends in the Company's operations. Because the GAAP rent adjustment is a one-time adjustment, it is not indicative of operating performance for the applicable period, nor should it be used in developing trend analysis for future periods. Because stock compensation expense was not recorded in 2005, excluding the impact of stock compensation expense in the current year provides enhanced comparability to the prior year.

Tuesday Morning Corporation (continued)

Consolidated Balance Sheets

| (in thousands) | Sept. 30, 2006 | 2005 | Dec 31, 2005 |
|--------------------------------------|-------------------|-----------|-----------------|
| Assets | unaudited | | |
| Current assets: | | | |
| Cash and cash equivalents | \$8,906 | \$6,146 | \$43,547 |
| Inventories | 302,533 | 293,358 | 230,639 |
| Prepaid expenses and other assets | 8,887 | 8,176 | 7,258 |
| Deferred income taxes | 5,071 | 5,991 | 5,071 |
| Total current assets | 325,397 | 313,671 | 286,515 |
| Property and Equipment, net | 86,888 | 88,610 | 87,786 |
| Other long-term assets: | | | |
| Deferred financing costs | 556 | 728 | 685 |
| Other assets | 4,781 | 4,744 | 4,941 |
| Total Assets | \$417,622 | \$407,753 | \$379,927 |
| Liabilities and Stockholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$103,778 | \$102,939 | \$74,975 |
| Accrued liabilities | 31,119 | 35,036 | 42,372 |
| Income taxes payable | 6,199 | 8,286 | 16,520 |

| | | | |
|---|-----------|-----------|-----------|
| Total current liabilities | 141,096 | 146,261 | 133,867 |
| Revolving credit facility, excl. current portion | 47,000 | 49,500 | --- |
| Deferred rent | 4,571 | 4,481 | 4,431 |
| Deferred income taxes | 6,267 | 9,051 | 6,267 |
| Total Liabilities | 198,934 | 209,293 | 144,565 |
| Stockholders' equity | 218,688 | 198,460 | 235,362 |
| Total Liabilities and Stockholders' Equity | \$417,622 | \$407,753 | \$379,927 |

Consolidated Statement of Cash Flows
(in thousands)

| | Nine-Months Ended Sept. 30, | |
|--|-----------------------------|----------|
| | 2006 | 2005 |
| | unaudited | |
| Net cash flows from operating activities: | | |
| Net income | \$12,602 | \$25,409 |
| Adjustments to reconcile net income to net cash (used in) operating activities: | | |
| Depreciation and amortization | 12,255 | 10,713 |
| Amortization of financing fees | 129 | 128 |
| Stock compensation expense | 2,445 | --- |
| Cumulative effect of lease accounting adj. | --- | 3,898 |
| Other non-cash charges | 49 | (4) |
| Net change in operating assets and liabilities | (64,853) | (91,479) |
| Net cash used in operating activities | (37,373) | (51,335) |
| Net cash flows from investing activities: | | |
| Capital expenditures | (11,357) | (12,991) |
| Net cash used in investing activities | (11,357) | (12,991) |
| Net cash flows from financing activities: | | |
| Net borrowings-revolving credit facility | 47,000 | 49,500 |
| Payment of cash dividend | (33,102) | (26,854) |
| Other | 191 | 2,759 |
| Net cash provided by (used in) financing act. | 14,089 | 25,405 |
| Net decrease in cash and cash equivalents | (34,641) | (38,921) |
| Cash and cash equivalents, beginning of period | 43,547 | 45,067 |
| Cash and cash equivalents, end of period | \$8,906 | \$6,146 |

SOURCE Tuesday Morning Corporation

Elizabeth Schroeder, Chief Financial Officer of Tuesday Morning Corporation, +1-972-934-7299; or Laurey Peat of LAUREY PEAT + ASSOCIATES, +1-214-871-8787, for Tuesday Morning Corporation

<http://www.tuesdaysmorning.com>

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release

regarding Tuesday Morning Corporation's business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report or Form 10-K for the most recently ended fiscal year.