

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 June 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 (I.R.S. Employer Identification No.)
incorporation or organization)

14621 INWOOD RD., DALLAS, TEXAS

75244

(Address of principal executive offices)

(Zip Code)

(Registrant's telephone number, including area code) (214) 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 No

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

TUESDAY MORNING CORPORATION

PART 1 - FINANCIAL INFORMATION

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Tuesday Morning Corporation and Subsidiaries
Consolidated Balance Sheets
Unaudited

	June 30, 1996	June 30, 1995	Dec. 31, 1995
	-----	-----	-----
	(In Thousands)		
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 1,748	\$ 1,841	\$ 6,276
Federal income tax receivable.....	469	1,534	-
Inventories.....	91,622	77,265	52,367
Prepaid expenses.....	1,274	1,493	993
Other current assets.....	444	477	458
	-----	-----	-----
Total current assets.....	95,557	82,610	60,094
	-----	-----	-----
Property, plant and equipment, at cost:			
Land.....	8,356	8,356	8,356
Buildings.....	13,285	12,943	12,989
Furniture and fixtures.....	16,379	15,462	15,584
Equipment.....	13,994	12,913	13,433
Leasehold improvements.....	2,032	1,842	1,967
	-----	-----	-----
	54,046	51,516	52,329
Less accumulated depreciation & amortization.....	(23,616)	(19,656)	(21,267)
	-----	-----	-----
Net property, plant and equipment.....	30,430	31,860	31,062
	-----	-----	-----
Other assets, at cost:			
Due from Officer.....	2,441	1,881	2,211
Other assets.....	762	862	876
	-----	-----	-----
Total Assets.....	\$129,190	\$117,213	\$ 94,243
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current installments of mortgages.....	\$ 1,021	\$ 936	\$ 1,021
Short term notes payable.....	795	367	-
Current installments of capital lease obligation....	26,753	17,913	755
Accounts payable.....	26,753	17,913	12,707
Accrued expenses			
Sales tax.....	454	466	1,662
Other.....	3,127	1,805	2,467
Deferred income taxes.....	231	303	231
Due to officer.....	-	-	-
Federal income taxes payable.....	-	-	2,136
	-----	-----	-----
Total current liabilities.....	32,381	22,437	20,979
	-----	-----	-----
Mortgages on land, buildings and equipment.....	5,104	6,210	5,615
Long term notes payable.....	24,695	27,563	-
Long term capital lease obligation.....	594	1,459	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 June 30, 1996			
8,139,086 shares at June 30, 1995			
8,143,586 shares at December 31, 1995.....	81	81	81
Additional paid-in capital.....	18,295	18,367	18,277
Retained earnings.....	47,074	40,343	47,318
Less: treasury stock			
274,500 shares at June 30, 1996			
299,500 shares at June 30, 1995			
274,500 shares at December 31, 1995.....	(2,028)	(2,167)	(2,028)
	-----	-----	-----
Total shareholders' equity.....	63,422	56,624	63,648

Total Liabilities and Shareholders' Equity.....	\$ 129,190	\$ 117,213	\$ 94,243
	=====	=====	=====

See accompanying notes to consolidated financial statements.

(1)

Tuesday Morning Corporation and Subsidiaries
Consolidated Statements of Operations
Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
	(In thousands, except per share data)		(In thousands, except per share data)	
Net sales.....	\$ 54,286	\$ 47,977	\$ 90,026	\$ 77,935
Cost of sales.....	36,068	32,050	58,411	51,659
Gross profit.....	18,218	15,927	31,615	26,276
Selling, general and administrative expenses.....	17,094	15,513	31,279	28,615
Operating income (loss).....	1,124	414	336	(2,339)
Other income (expense):				
Interest income.....	76	46	135	97
Interest expense.....	(677)	(856)	(1,154)	(1,494)
Other income.....	149	151	299	244
	(452)	(659)	(720)	(1,153)
Income (loss) before income taxes.....	672	(245)	(384)	(3,492)
Income tax (benefit).....	238	(91)	(142)	(1,292)
Net income (loss).....	\$ 434	\$ (154)	\$ (242)	\$ (2,200)
Net income (loss) per share.....	\$ 0.05	\$ (0.02)	\$ (0.03)	\$ (0.28)
Weighted average common share and share equivalents.....	8,319	7,836	7,852	7,817

See accompanying notes to consolidated financial statements.

(2)

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

	Six Months Ended June 30,	
	1996	1995
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers.....	\$ 90,026	\$ 77,935
Cash paid to suppliers and employees.....	(112,921)	(104,030)
Interest received.....	135	97
Interest paid.....	(1,154)	(1,494)
Income taxes paid.....	(2,463)	(1,230)
Net cash used by operating activities.....	(26,377)	(28,722)
Cash flows from investing activities:		
Loans to officers.....	(230)	(82)
Capital expenditures.....	(1,750)	(1,141)
Net cash used by investing activities.....	(1,980)	(1,223)
Cash flows from financing activities:		
Proceeds from short and long term borrowings.....	24,695	27,563
Payment of short-term borrowings.....	-	367
Payment of mortgages.....	(511)	(553)
Principal payments under capital lease obligation.....	(373)	(322)
Proceeds from common stock offering.....	-	-

Proceeds from exercise of common stock options/stock purchase plan.....	18	196
	-----	-----
Net cash provided by financing activities.....	23,829	27,251
	-----	-----
Net decrease in cash and cash equivalents.....	(4,528)	(2,694)
Cash and cash equivalents at beginning of period.....	6,276	4,535
Cash and cash equivalents at end of period.....	\$ 1,748	\$ 1,841
	=====	=====
Reconciliation of net loss to net cash used by operating activities:		
Net loss.....	\$ (242)	\$ (2,200)
	-----	-----
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization.....	2,382	2,234
Change in operating assets and liabilities:		
Increase in federal income taxes receivable.....	(469)	(1,534)
Increase in inventories.....	(39,255)	(30,451)
Increase (decrease) in prepaid expense.....	(281)	181
Decrease in other current assets.....	14	172
Decrease in other assets and liabilities.....	112	116
Increase in accounts payable.....	14,046	4,997
Decrease in accrued expenses.....	(548)	(1,249)
Decrease in federal income taxes payable.....	(2,136)	(988)
	-----	-----
Total adjustments.....	(26,135)	(26,522)
	-----	-----
Net cash used by operating activities.....	\$ (26,377)	\$ (28,722)
	=====	=====

See accompanying notes to consolidated financial statements.

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Tuesday Morning Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

- 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.
- Net income/(Loss) per share amounts are based on the weighted average number of shares and dilutive share equivalents outstanding during the period.
- The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.
- 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.

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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 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 \$40.5 million in borrowings and letters of credit at June 30, 1996. On June 30, 1996, the Company had \$24.7 million of long term borrowings from banks. On the same date, the outstanding letters of credit totaled approximately \$9.5 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, capital expenditures, asset sales and certain other items. At June 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 June 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. The Company plans to open 25-30 stores during 1996 and plans to fund these from operating cash flow.

INVENTORY:

The Company's inventory increased from \$52.4 million at year end to \$91.6 million at June 30, 1996. This is an increase of \$39.2 million from December 31, 1995, and reflects normal seasonal activity. As reflected on the following chart, store level inventory decreased when compared to December 31, 1995 and to June 30, 1995. Total inventory increased \$14.3 million from June 30, 1995, as a result of an increase in store count and an increased sales plan for the fall of 1996 compared to 1995.

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

INVENTORY LEVELS BY LOCATION
(IN MILLIONS)

	6/30/96 -----	6/30/95 -----	12/31/95 -----
Stores	\$33.4	\$34.9	\$36.3
Warehouse	58.2 -----	42.4 -----	16.1 -----
	=====	=====	=====
	\$91.6	\$77.3	\$52.4

STORE OPENINGS/CLOSINGS

	Six Months Ending 6/30/96 -----	Six Months Ending 6/30/95 -----	FYE 12/31/95 -----
Stores Open at Beginning of Period	260	246	246
Stores Opened	16	16	32
Stores Closed	(5) ---	(12) ---	(18) ---
Stores Open at End of Period	271 ===	250 ===	260 ===

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

SIX MONTHS ENDED JUNE 30, 1996 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 1995

The Company's loss of \$0.2 million or \$0.03 per share for the first half of 1996 is compared to a loss of \$2.2 million or \$0.28 per share for the first half of 1995. The Company reported a reduced loss for the first half due to the leverage obtained from increased sales and gross margin improvements while expenses remained relatively consistent on a per store basis.

During the first half of 1996, comparable store sales increased 8.5%. Total gross profit increased from \$26.3 million to \$31.6 million due to increased sales volume. The gross profit percent increased from 33.7% to 35.1% as a result of improved product selection and reduced shrinkage. Selling general and administrative expenses increased 9.3% from \$28.6 million to \$31.3 million. This difference is due to an increase in the number of stores and an increase in advertising expenses. Interest expense decreased from \$1.5 million to \$1.2 million due to the net impact of reduced borrowings caused by 1995's profits and lower interest rates, partially offset by increased inventory levels.

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

For the quarter ended June 30, 1996, the Company made \$0.4 million or \$0.05 per share versus a loss of \$0.2 million or \$0.02 per share for the same period during 1995. During the quarter, comparable store sales increased 6.7%. Total gross profit increased from \$15.9 million to \$18.2 million due to increased sales volume. The gross profit percentage increased from 33.2% to 33.6%. Selling, general and administrative expenses increased from \$15.5 to \$17.1, and interest expense decreased from \$0.9 to \$0.8 for the reasons previously discussed.

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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: August 1, 1996

/s/ Mark E. Jarvis

Mark E. Jarvis, Senior Vice President

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