

TUESDAY MORNING CORPORATION

Audit Committee Charter

(Updated March 7, 2007)

Purpose

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) to oversee the accounting and financial reporting processes of Tuesday Morning Corporation (the “Company”) and the audits of the Company’s financial statements. In that regard, the Committee is to assist the Board in fulfilling its responsibility to oversee the integrity of the Company’s financial statements, the Company’s compliance with legal and regulatory requirements, the independent accountant’s qualifications and independence, and the performance of the Company’s internal audit function and independent accountant. The Committee shall provide a forum for communication among the independent accountant, management, the internal auditing department, and the Board. The Committee shall make regular reports to the Board and shall prepare the report required by the rules and regulations of the U.S. Securities and Exchange Commission (“SEC Rules”) to be included in the Company’s annual proxy statement.

In discharging its duties and responsibilities, the Committee is authorized to investigate any matter within the scope of its duties and responsibilities or as otherwise delegated by the Board, with full access to all books, records, facilities and personnel of the Company, and with the authority to retain independent outside counsel or other experts and advisors as it deems necessary.

The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

Composition and Membership

1. The Committee will be comprised of not less than three Board members.
2. The Board appoints Committee members and appoints a Committee Chairman from among those members. Each Committee member shall serve at the pleasure of the Board for such term as the Board may decide or until such Committee member is no longer a Board member.
3. Each Committee member shall meet the independence and experience criteria of (1) The NASDAQ Stock Market, Inc. Marketplace Rules, as such requirements are interpreted by the Board in its business judgment and as established by the Board or an appropriate committee of the Board, and (2) the Securities Exchange Act of 1934 (the “Exchange Act”).
4. Each Committee member shall be able to read and understand fundamental financial statements, including a company’s balance sheet, income statement and cash flow statement. Additionally, at least one member of the Committee shall have past employment experience in finance or accounting, requisite professional

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certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. No member of the Committee shall have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years. At least one member of the Committee shall be an "audit committee financial expert" as defined by the U.S. Securities and Exchange Commission.

5. No Committee member shall simultaneously serve on the audit committee of more than three public companies (including the Company) unless the Board determines that such simultaneous service would not impair the ability of such member to effectively serve on the Committee. The Company shall disclose any such determination in its proxy statement relating to the Company's annual meeting of stockholders.
6. The Committee may delegate any of its functions to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decision of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

Meetings

The Committee shall meet as often as it determines, but not less frequently than quarterly. The Committee shall meet periodically in separate executive sessions as appropriate with management, the internal auditors and the independent accountant. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent accountant, or any other persons whose presence the Committee believes to be necessary or appropriate, to attend a meeting of the Committee or to meet with any members of, or advisors to, the Committee.

Experts and Advisors

The Committee may retain any independent counsel, experts or advisors (accounting, financial, legal or otherwise) that the Committee believes to be necessary or appropriate. The Committee may also utilize the services of the Company's regular counsel or other advisors to the Company. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent accountant engaged for the purpose of preparing or issuing an audit report or performing other audit, review and attest services for the Company and to any advisors employed by the Committee, as well as funding for the payment of ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

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Duties and Responsibilities

The Committee is responsible for overseeing the accounting and financial reporting processes of the Company and the audits of the Company's financial statements. Management is responsible for the preparation, presentation and integrity of the Company's financial statements and for the appropriateness of the accounting and reporting policies that are used by the Company. The independent accountants are responsible for auditing the Company's financial statements and for reviewing the Company's interim financial statements.

In carrying out its responsibilities, the Committee will be responsible for the oversight of the independent accountants, the internal audit function, the financial reporting process, and the requirements surrounding legal and regulatory compliance, as described below.

1. Independent Accountants

The Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the registered public accounting firm employed by the Company (including resolution of disagreements between management and the independent accountant regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company (the "independent accountants"). The independent accountants are ultimately accountable to the Board and the Committee and shall report directly to the Committee. In carrying out its responsibilities, the Committee shall:

- have the sole authority and responsibility to retain, evaluate, and, where appropriate, replace the independent accountants (subject, if applicable, to stockholder approval or ratification), including the authority to pre-approve all audit services, internal-control related services and non-audit services to be provided by the independent accountants and the related fees and terms;
- at least annually, obtain and review a report by the independent accountants regarding the independent accountants' internal controls and independence, including a description of (i) the independent accountants' internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review, peer review of the accounting firm (or similar procedures as prescribed by the PCAOB), or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the accounting firm, and (iii) any steps taken to deal with any such issues;
- in order to assess the independent accountants' independence, at least annually, obtain and review a formal written statement by the independent

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accountants delineating all relationships between the independent accountants and the Company;

- actively engage in a dialogue with the independent accountants with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent accountants and take, or recommend that the full board take, appropriate action to oversee the independence of the outside auditor;
- oversee resolution of disagreements between management and the independent accountants regarding financial reporting;
- at least annually, evaluate, and report to the full Board on, the performance, qualifications and independence of the Company's independent accountants and the lead partner for the Company's account, including a review and evaluation of the lead partner's rotation schedule;
- shall pre-approve all auditing services, internal control-related services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent accountant, subject to the *de minimus exceptions* for non-audit services in accordance with Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit. Approval by the Committee of a non-audit service shall be disclosed in the reports filed by the Company with the SEC or otherwise as required by law and SEC Rules. Committee pre-approval of audit and non-audit services will not be required if the engagement for the services is entered into pursuant to pre-approval policies and procedures established by the Committee regarding the Company's engagement of the independent accountant;
- discuss with the independent accountant material issues on which the national office of the independent accountant was consulted by the Company's audit team; and
- review and discuss with the independent accountants the plans for, and the scope of, the annual audit and other examinations, including the adequacy of staffing and compensation.

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2. Internal Audit

The internal audit function shall report jointly to the Chairman of the Committee and either the Chief Executive Officer or the Chief Financial Officer of the Company. In carrying out its responsibilities with respect to oversight of the Company's internal audit function, the Committee shall:

- review and approve the proposed scope and plan of the work to be done by the Company's internal audit group, the coordination of such plans with the independent accountants, and the budget and staffing of the Company's internal audit function;
- review with the independent accountants the responsibilities, budget and staffing of the Company's internal audit function;
- review and discuss with management, the independent accountants and the Company's internal audit group (i) the adequacy and effectiveness of the Company's system of internal controls, including management's assessment thereof, and (ii) related recommendations of the independent accountants and management responses;
- assure that appropriate procedures are established for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- review the appointment and replacement of the senior internal auditing executive;
- discuss with the independent accountant and management the internal audit department responsibilities, budget and staffing.

3. Financial Reporting

In carrying out its responsibilities with respect to oversight of the Company's financial reporting, the Audit Committee shall:

- review and discuss with management and the independent accountants the Company's annual audited financial statements and disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K;

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- review and discuss with management and the independent accountant the Company's quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent accountant's review of the quarterly financial statements. For the purpose of reviewing the quarterly financial statements and related Form 10-Q, the chairman or designee of the Committee may represent the entire Committee;
- review the scope and results of the independent accountants' audit of the Company's annual financial statements, accompanying footnotes and its report thereon, including any significant changes required in the independent accountants' audit plans;
- discuss with the independent accountants the matters required to be discussed by Statement on Auditing Standards Nos. 61 and 71, as modified by Statement on Auditing Standards No. 90 and as may be further modified;
- review and discuss with management and the independent accountants major issues regarding accounting principles and financial statement presentations, including matters such as (i) the selection, application and disclosure of critical accounting policies, (ii) major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies, (iii) the effects of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company, and (iv) other significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including the effects of alternative treatments of financial information permitted within GAAP;
- discuss earnings releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
- discuss with management and the independent accountants the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements;
- review and discuss with management, the internal audit staff, and the independent accountants the Company's policies with respect to risk assessment and risk management, as well as major risk exposures and the process used to manage those exposures that could have a material effect on the Company's financial statements;
- review all related party transactions for potential conflict of interest situations on an ongoing basis and approve all such transactions;

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- discuss with management (including the senior internal audit executive) and the independent accountant the Company's internal controls report and the independent accountant's attestation of the report prior to the filing of the Company's Form 10-K;
- periodically consult with the independent accountant, outside the presence of management, about internal controls and the quality of the Company's financial statements;
- review disclosures made to the Committee by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company internal controls; and
- ensure that a public announcement of the Company's receipt of an audit opinion that contains a going concern qualification is made promptly.

4. Compliance with Legal and Regulatory Requirements

In carrying out its responsibilities with respect to oversight of the Company's compliance with legal and regulatory requirements, the Committee shall:

- review with management and the independent accountant any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting policies;
- obtain from the independent accountant assurance that Section 10A(b) of the Exchange Act has not been implicated; and
- discuss with internal or external legal counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies.