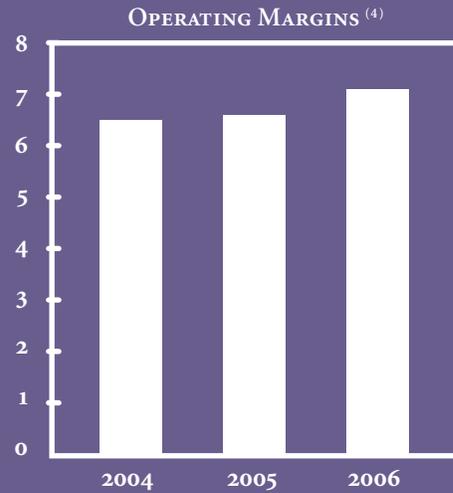
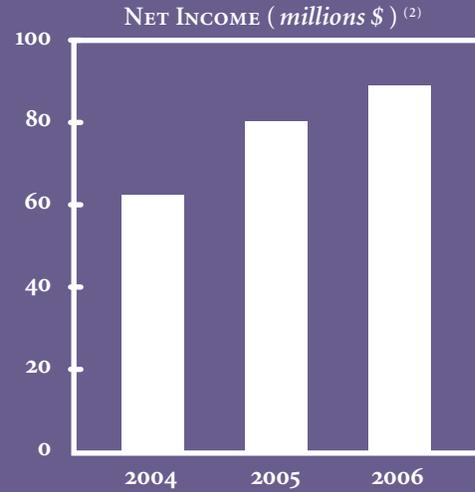
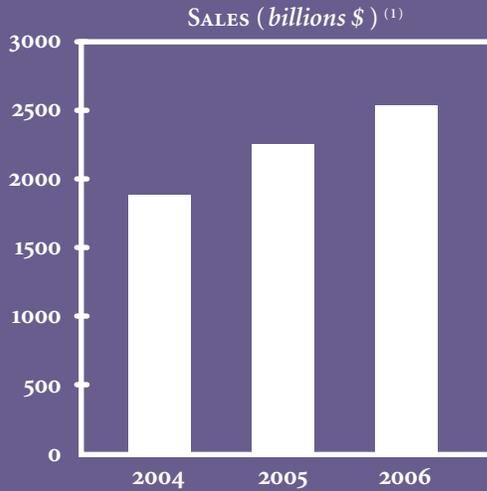




ANNUAL REPORT 2006

ROSE
nursery & crafts

Financial Highlights:



⁽¹⁾ Our sales topped \$3 billion in 2004, an 8% increase over the prior year. Our same-store sales increased 2%, and our average sales per Rose Nursery & Crafts Stores, Inc. were \$3.9 million.

⁽²⁾ Our net income has also continued to rise. In 2004, net income, before the cumulative effect of accounting change, increased 20% to \$177.8 million.

⁽³⁾ For the seventh consecutive year, we amassed record earnings. In 2004, diluted earnings per share, before the cumulative effect of accounting change, increased 22%, or \$0.45, to \$2.54 versus the reported \$2.09 per share in 2003.

⁽⁴⁾ Our operating margins in 2004 increased to a record 9.8%.



by Heather Gordon

About The Company

OUR GOALS ARE WITHIN REACH

At Rose Nursery & Crafts Stores, Inc., business is growing! As an established leader of the arts and crafts industry, we continue to bloom. With an impressive seven straight years of record earnings, and sales that are nearly double our largest competitor's, we are closer than ever to achieving our long-term goal. As we continue our journey toward the \$5 million store, we have taken significant steps to increase sales, improve margins, expand our store base, and, most importantly, put our products into the hands of our most valued asset: our customers.

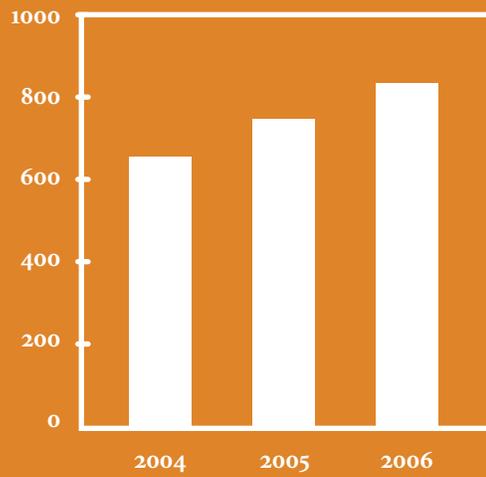
MISSION STATEMENT

At Rose Nursery & Crafts Stores, Inc. we are continually growing, our mission is to provide our customers quality nursery plants, service, and selection.



by Heather Gordon

NET RETAIL STORE GROWTH



The Seeds of a Business

GROWING OUR PRESENCE

With an ever-growing and loyal customer base, we plan to increase our presence in markets across North America. In 2005, we will open approximately 45 new Rose Nursery & Crafts Stores, Inc. stores. How popular are we? At the end of the fiscal year 2004, we had more stores than Best Buy, Bed Bath & Beyond, Linens-n-Things, or Jo-Ann Stores.

With 20 years of tradition, Rose Nursery & Crafts Stores, Inc. puts a world of inspiration and ideas at your fingertips. As one of the nation's foremost specialty retailers, we give customers across North America the creative freedom and spirit to pursue the activities they enjoy. From traditional crafting, framing, and home décor projects to children's crafts, classroom lessons, and in-store activities, our convenient locations offer thousands of items, friendly customer service, and dependable, hands-on instruction.

KEEPING SEEDS OF INSPIRATION WATERED

In 2004, there will be even more inspiration in store at Rose Nursery & Crafts Stores, Inc. We've moved quickly and efficiently to implement an advanced Perpetual Inventory Management System in all our stores. Much like your checkbook, this system manages current inventory levels by automatically adding purchases and subtracting sales to establish a continual, reliable count of products on hand. The days of inefficient, manual inventory management have come to an end. Our Perpetual Inventory System helps keep our products on our store shelves and our productivity on the rise.

REPLENISHING THE SEEDS OF CREATIVITY

Working in conjunction with perpetual inventory, we are in the final stages of implementing our sophisticated Automated Replenishment System. This advanced technology brings new insights into our business and gives us the power to improve inventory management, re-deploy inefficient inventory, and put the right products into the right stores at the right time.

Rose Nursery & Crafts Stores, Inc. operates seven distribution centers strategically located in City of Commerce, CA; Hazleton, PA; Jacksonville, FL; Lancaster, CA; Lexington, KY; New Lenox, IL; and Tarrant County, TX. In sync with a distribution network that spans the entire United States, our rapid-fire Automated Replenishment System will be online 24/7 to supply our stores with the inspiring merchandise our creative customers need.



by Kristine Jenniges

Letter to the Shareholders

When Rose Nursery & Crafts Stores, Inc. was formed, our long-term goal was to turn a handful of independently operating stores into a fully integrated, sophisticated, and profitable retail chain. Dedicated to becoming the nations foremost arts and crafts retailer, we realized that the foundation of our success would be the generations of customers who express themselves in countless, imaginative ways, and we worked tirelessly to put into their hands a consistent assortment of merchandise that would encourage creativity and craftsmanship.

Over the years, we have never lost sight of that goal. By supplying the inspiring merchandise our customers want at a price they can afford, we have attained seven consecutive years of record financial results and have become a nationally recognized retailer!

Fiscal 2004 was historic in that we paid our first quarterly dividend. The drastic reduction in the federal dividend tax rate and our financial strength made this action imperative. While increasing the value of each share is our priority, we will also strive to maintain and increase our quarterly dividend.

In 2004, we will continue our long-standing commitment to excellence. With 20 years of tradition and the dedicated support of our executives, associates, vendor partners, and shareholders, I have tremendous confidence in our ability to achieve further success as we put more and better merchandise into the creative hands of our loyal customers.

On behalf of the Board of Directors,



Rose E. Decor

President & Chief Executive Officer

Selected Financial Data

(In thousands except per share and store data)	FISCAL YEAR		
	2002	2001	2000
Results of Operations Data:			
Net sales	\$ 2,530,727	\$ 2,249,440	\$ 1,882,522
Operating income	179,716	148,417	122,672
Income before cumulative effect of accounting change	89,030	80,441	62,301
Cumulative effect of accounting change, net of income tax	—	1,852	—
Net income	89,030	78,589	62,301
Diluted earnings per common share before cumulative effect of accounting change	1.33	1.17	1.00
Diluted earnings per common share after cumulative effect of accounting change	1.33	1.15	1.00
Dividends per common share	—	—	—
Balance Sheet Data:			
Cash and equivalents	\$ 193,025	\$ 28,191	\$ 77,398
Merchandise inventories	714,309	663,700	615,065
Total current assets	950,063	729,816	722,987
Total assets	1,414,633	1,158,436	1,096,703
Total current liabilities	351,207	289,008	270,976
Long-term debt	200,000	125,145	224,635
Total liabilities	590,069	453,790	529,905
Stockholders' equity	824,564	704,646	566,798
Other Financial Data:			
Cash flow from operating activities	\$ 177,257	\$ 146,758	\$ 60,770
Cash flow from investing activities	(101,644)	(120,084)	(90,759)
Cash flow from financing activities	89,221	(75,881)	11,263
Other Operating Data:			
Average net sales per Rose's store	\$ 3,663	\$ 3,563	\$ 3,336
Comparable store sales increase	5%	5%	7%
Total selling square footage	13,405	12,063	10,411
Stores Open at End of Year	695	628	559

Independent Auditors Report

THE BOARD OF DIRECTORS AND STOCKHOLDERS

ROSE NURSERY & CRAFTS STORES, INC.

We have audited the accompanying balance sheets of Rose Nursery & Crafts Stores, Inc. and subsidiaries (the "Company") as of January 31, 2004 and February 1, 2004, and the related consolidated statements of income, cash flows, and stockholders' equity for each of the three years in the period ended January 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rose Nursery & Crafts Stores, Inc. and subsidiaries at January 31, 2005 and February 1, 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 31, 2005, in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 1 and 2 to the consolidated financial statements, in fiscal 2002 the Company changed its method of accounting for co-op advertising arrangements and its method of accounting for goodwill.

/s/ Ernst & Young LLP

Dallas Texas

March 1, 2006

Consolidated Balance Sheets

<i>(In thousands except share data)</i>	January 31, 2005	February 1, 2004
ASSETS		
Current assets:		
Cash and equivalents	\$ 341,825	\$ 218,031
Merchandise inventories	892,923	809,418
Prepaid expenses and other	29,198	18,639
Deferred income taxes	19,426	20,352
Total current assets	1,283,372	1,066,440
Property and equipment, at cost	808,230	716,299
Less accumulated depreciation	(420,313)	(348,602)
	387,917	367,697
Goodwill	115,839	115,839
Other assets	14,519	10,997
	130,358	126,836
Total assets	\$ 1,801,647	\$ 1,560,973
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 172,708	\$ 94,764
Accrued liabilities and other	194,395	181,867
Income taxes payable	2,377	22,823
Total current liabilities	369,480	299,454
9¼% Senior Notes due 2009	200,000	200,000
Deferred income taxes	28,241	21,511
Other long-term liabilities	36,628	27,981
Total long-term liabilities	264,869	249,492
	634,349	548,946
Commitments and contingencies		
Stockholders' equity:		
Additional paid-in capital	495,910	504,792
Retained earnings	660,365	502,665
Accumulated other comprehensive income/(loss)	4,223	(2,177)
Total stockholders' equity	1,167,298	1,012,027
Total liabilities and stockholders' equity	\$ 1,801,647	\$ 1,560,973

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Note 2—Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Rose's Nursery & Crafts Stores, Inc. and its subsidiaries (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated. Certain amounts in the consolidated financial statements of prior years have been reclassified to conform to current year presentation for comparative purposes.

Net Earnings Per Common Share

Net earnings per common share ("basic EPS") is computed by dividing net earnings, after deducting preferred stock dividends on the Company's \$6.50 Cumulative Redeemable Preferred Stock, by the weighted average number of common shares outstanding and contingently issuable shares (which satisfy certain conditions). Net earnings per common share assuming dilution ("diluted EPS") is computed by re-electing potential dilution from the exercise of stock options. A reconciliation between the numerators and denominators of the basic and diluted EPS computations is as follows:

<i>(In millions, except per share data)</i>	YEAR ENDED JUNE 30,		
	2002	2001	2000
Denominator:			
Weighted average common shares outstanding—Basic	\$ 238.2	\$ 238.4	\$ 237.7
Effect of dilutive securities: Stock options	2.9	3.8	4.8
Weighted average common shares outstanding—Diluted	241.1	242.2	242.5
Basic net earnings per common share:			
Net earnings before accounting change	\$.79	\$ 1.19	\$ 1.22
Cumulative effect of a change in accounting principle, net of tax	(.08)	(.01)	—
Net earnings	\$.71	\$ 1.18	\$ 1.22
Diluted net earnings per common share:			
Net earnings before accounting change	\$.78	\$ 1.17	\$ 1.20
Cumulative effect of a change in accounting principle, net of tax	(.08)	(.01)	—
Net earnings	\$.70	\$ 1.16	\$ 1.20

Management's Discussion and Analysis

Brokerage Commissions and Fees

Investment Income

The Company's investment income is derived from three sources: fiduciary investments, premium finance notes, and corporate investments. As an intermediary, the Company acts as a conduit for insurance and reinsurance premiums and loss payments which are paid to and remitted from fiduciary accounts. Under applicable regulations, the Company is required to hold fiduciary funds in appropriate bank accounts subject to restrictions on withdrawals and prohibitions on commingling. The Company earns investment income on funds held in these accounts. The premium finance business, a part of the Company's wholesale insurance operation, involves lending funds to certain customers of the Company's independent insurance agent clients that require assistance in financing insurance premiums. Corporate investment income represents interest and dividends earned on the investment of the Company's capital, which is primarily generated through cash from operations. Capital gains and losses are realized from sales of the Company's investments.

Seasonality

The Company historically has tended to realize a greater amount of its annual brokerage revenue and net income in the first and third quarters in accordance with the timing of deposit premiums on certain reinsurance contracts. The Company believes that this effect will be somewhat mitigated in 1995 due to the addition of the risk management consulting and administration and wholesale businesses which are generally less seasonal in nature.

2000 Compared with 1999

Operating Strategy

Brokerage commissions and fees increased by \$15.9 million, or 26.5%, to \$75.9 million in 2000 from \$60.0 million in 1999. The components of brokerage commissions and fees for 2000 and 1999 were as follows (in thousands):

	2000	1999
Reinsurance Services:		
Reinsurance brokerage	\$70,657	\$59,993
Risk management fees	1,675	—
Equity in the net loss of Swire Blanch	(182)	—
Wholesale Insurance Services:		
Wholesale commissions and fees	3,767	—
Total	\$75,917	\$59,993

Management's Discussion and Analysis

Restaurant sales increased by 17.8% to \$70.7 million in 2000 from \$60.0 million in 1999. The net increase of \$10.7 million was attributable to the following positive factors: \$13.9 million from the production of new business, \$2.1 million from net increases in the pricing of existing brokerage business, \$1.6 million from growth in existing clients' ceded volume, \$0.8 million from increased placements due to additional catastrophe capacity, \$0.6 million from reinstatement brokerage on catastrophe contracts, and \$0.4 million from other net increases. These contributions to increased brokerage revenue were offset by \$8.3 million in non-continuing business and \$0.4 million related to the contribution of the Company's former Copenhagen office revenue to the Swire Blanch joint venture. Non-continuing business includes the impact of increased client retention levels, as well as lost accounts.

Wholesale Insurance Services. EWB Wholesale completed its acquisition of the Elton George Companies on September 30, 2000. (See Note 3 to Consolidated Financial Statements.) Wholesale commissions and fees of \$3.8 million in 2000 represent fourth quarter financial results only.

Investment income increased by \$0.1 million, or 2.6%, to \$4.8 million in 2000 from \$4.7 million in 1999. The components of investment income in 2000 and 1999 were as follows (in thousands):

	2000	1999
Fiduciary investment income	\$3,073	\$1,859
Premium finance interest and fees	369	—
Corporate investment income	1,787	1,084
Net realized capital (losses/gains)	(428)	1,738
Total	\$4,801	\$4,681

Salaries and Benefits

Salaries and benefits expense increased by \$5.1 million, or 18.5%, to \$32.5 million in 2000 from \$27.4 million in 1999 as a result of an increase in the number of employees in the existing operations, normal salary progressions and the Elton George Companies acquisition. During 2000, the Company experienced a net increase of 39 employees from internal growth and an increase of 215 employees resulting from the Elton George Companies acquisition. At December 31, 2000, the Company had 603 employees with aggregate annual salaries of \$28.8



by Heather Gordon

Board of Directors and Officers

BOARD OF DIRECTORS

Arthur C. Floral
Chairman

Michael A. Hobby
Vice Chairman

Joan E. Bader
Managing General Partner

Phillips-Smith-Machens
Venture Partner

OFFICERS

Rose E. Décor
President
Chief Executive Officer

Robert En
President
Rose's Stores Group

EXECUTIVE VICE PRESIDENTS

George E. Money
Executive Vice President
Chief Financial Officer

Edward F. Sadler
Executive Vice President
Store Operations

Gregory A. Sandfor
Executive Vice President
General Merchandise Manager

VICE PRESIDENTS

Gale D. Binder,
Vice President
Systems Development

Robert D. Girling
Vice President
Store Processes

Shawn E. Hearn
Vice President
Field Human Resources

Phillip D. Hixon
Vice President
Store Administration

Christopher J. Holland,
Vice President
Finance

Douglas C. Marke
Vice President
Loss Prevention

Daniel V. Mayer
Vice President
Store Planning

SENIOR VICE PRESIDENTS

Mark V. Beasley
Senior Vice President
General Counsel and Secretary

Thomas C. DeCaro
Senior Vice President
Inventory Management

Su Elliot,
Senior Vice President
Human Resources

James F. Trucker
Senior Vice President
Supply Chain Management

Duane E. Hiemenz
Senior Vice President
New Business Development

Emily White-Keating
Senior Vice President
Marketing



by Heather Gordon

Shareholder Information

ANNUAL MEETING OF SHAREHOLDERS

The 2000 annual meeting of shareholders will be held at 1:00 PM, Thursday, April 27, at the Embassy Suites Hotel, 2800 West 80th Street, Minneapolis, Minnesota. The notice of the annual meeting of shareholders and proxy statement are scheduled to be sent to each shareholder with this annual report.

ANTICIPATED 2000 DIVIDEND PAYMENT DATES

March 1 (paid), June 1, September 1, December 1

FINANCIAL AND INVESTOR INFORMATION

Shareholders and prospective investors inquiring about dividend payments, consolidation of accounts, address corrections, changes of registration and stock certificate holdings should contact:

Norwest Bank Minnesota, NA
Shareholder Services
161 North Concord Exchange, PO BOX 783
South St. Paul, MN 55075
(612) 450-4064

Other inquiries, including requests for copies of our annual and quarterly reports and Forms 10-K and 10-Q (free of charge), should be directed to:

Rose E. Decor, President & Chief Executive Officer
Rose Nursery & Crafts Stores, Inc.
1346 Horticulture Lane
Roseville, MN 55446
rosesnurserycrafts.com
(651) 444-ROSE

STOCK LISTING AND TRADING INFORMATION

Rose Nursery & Crafts Stores, Inc. common stock began trading on the New York Stock Exchange (ticker symbol: RNCs) on May 7, 1993. As of January 23, 2000 there were 1,405 registered shareholders of Rose Nursery & Crafts Stores, Inc. common stock.

Corporate Headquarters
Rose Nursery & Crafts Stores, Inc.
1346 Horticulture Lane
Roseville, MN 55446
rosesnurserycrafts.com
(651) 444-ROSE



1346 Horticulture Lane
Roseville, MN 55446
rosenurserycrafts.com
(651) 444-ROSE