

Garden Ridge Fiscal Year 1996 Annual Report



Dear Shareholders: Fiscal 1996 has been a milestone year for Garden Ridge. Not only did we open our first store outside Texas, in Louisville, we continued to move across the South by opening stores in Oklahoma City and Memphis. Our successful IPO raised \$39,500,000 in May and enabled the company to pay off all outstanding debt and preferred stock. Then, we opened a new distribution center in Dallas

to receive imports and serve as a central distribution center for all our stores.

Garden Ridge continued its growth by expanding its stores from seven to 11 and increasing sales 48 percent to \$148,087,000. Our net income available to common stockholders increased 87 percent during the 1996 fiscal year to \$6,725,000.

Last year also brought about challenges. We watched as an uneven sales environment made it difficult to determine the direction of a sales trend which complicated the management of inventories and expenses. Through these

obstacles, we focused on and achieved our earnings per share objectives.

From Louisville to San Antonio, the unique Garden Ridge merchandise assortment remains consistent in every store and appeals to customers in each city. We believe this wide acceptance serves us well in planning new stores, and will ultimately contribute to the growth of Garden Ridge nationally.

During the year, we have enhanced our partnering with the vendor community. Vendors recognize our growth through new store openings and increased product sales. This, coupled with a style for conducting business in a pleasant environment, has brought new vendors into





Armand Shapiro (left), Chairman and Chief Executive Officer, and Jack Lewis, President and Chief Operating Officer.

the Garden Ridge family and broadened the scope of merchandise we offer.

To ensure our ability to maintain consistent growth both financially and geographically, Garden Ridge will continue to invest in its infrastructure,

allowing it to remain responsive and sensitive to its increasing customer base. We have organized a management team that focuses on store improvements, resources and

technology to keep pace with our growing number of megastores.



At Garden Ridge this year, we plan to open seven new stores in six new markets, providing opportunities that will yield continued financial rewards for shareholders. Garden Ridge acknowledges the confidence you have shown us through your investment in the company, and we look ahead toward continual success.

Sincerely,

Armand Shapiro
Chairman and Chief Executive Officer

Jack Lewis
President and Chief Operating Officer



Garden Ridge, an exciting, new, three-acre megastore, is on the fast track for becoming a national retail outlet. The company's 11 stores feature home decorations and crafts through 10 "category-killer" departments. Each distinctive category is a superstore within itself — home accents, florals, pottery, crafts, housewares, candles, baskets, party goods, picture frames and seasonal items — exceeding customers' expectations.

As a true destination location, Garden Ridge is a unique megastore that provides creative shopping experiences and



encompasses vast assortments of seasonally changing merchandise at everyday low prices.

These assortments are thematically related to home decorations

and crafts, and are presented in a friendly, entertaining atmosphere.

Garden Ridge's new stores powerfully feature merchandise in an average of 125,000 square feet of selling

space equivalent to three acres. For customer convenience, the floor design showcases graphics and color accents, with multiple, vibrant colors identifying each category, and monumental signs and graphics that set Garden Ridge apart from the competition.

In fact, the Garden Ridge store design was honored in 1995 by CHAIN STORE AGE EXECUTIVE magazine as the "Home Center Retail Store of the Year." Competing against 100 retail stores nationwide, Garden Ridge received the top award based on its

Garden Ridge offers one of the largest selections of dried florals, silk stems, bushes, trees and floral supplies in the country.





Amateur and professional crafters find the most selection under one roof for do-it-yourself projects.

in-store graphics, ease in shopping, and success in accomplishing design goals.

The Garden Ridge concept is now rolling out nationally and has tremendous growth potential in other markets. With operations in eight locations throughout Texas, one in Kentucky, one in Oklahoma, and one in Tennessee, Garden Ridge is heading into 1996 with expansions in seven new locations planned in the Southern United States.

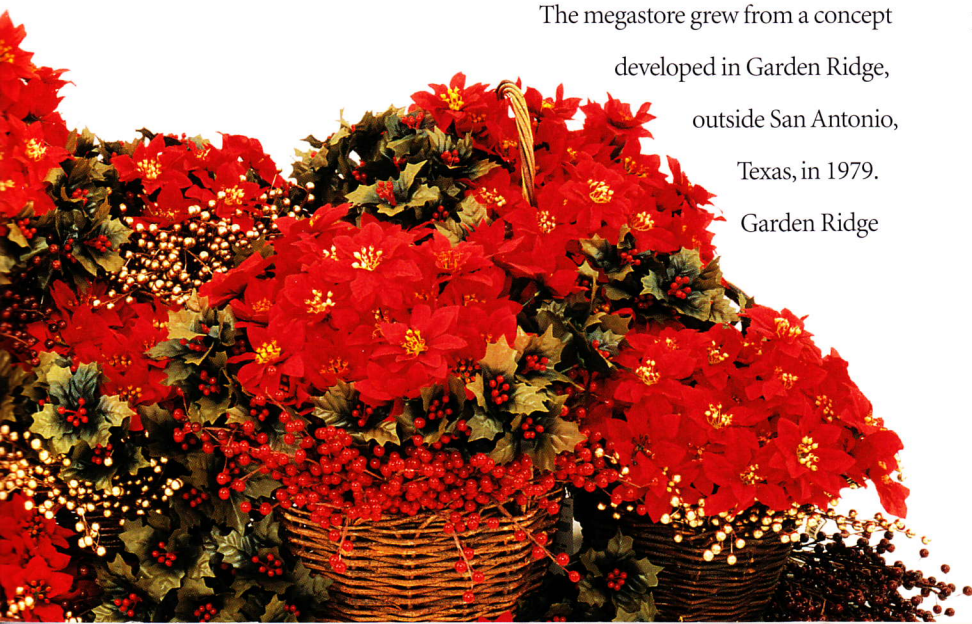
The megastore grew from a concept developed in Garden Ridge, outside San Antonio, Texas, in 1979. Garden Ridge

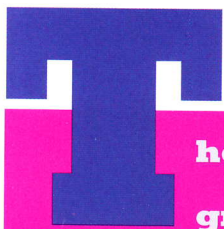
stands alone with this concept, along with its focus and dominance on home decorations and craft merchandise.

Customers actually save time by shopping Garden Ridge as a one-stop destination store for their home decorating needs.

It is the company's innovation, as illustrated by successful ongoing evolution in the merchandise mix and store presentation, that sets it apart.

Garden Ridge's strength is in its ability to provide broad assortments of ever-changing seasonal products, supported by extensive use of state-of-the-art technology.





he blueprint for Garden Ridge's success and future growth consists of four strategic corporate principles that are an intrinsic part of the company and were developed to guide the company's conduct in the marketplace. Garden Ridge believes it will become the largest and most outstanding craft and home decorations store in the United States by practicing these four principles:

- Be a "customer obsessed" company.
- Be obsessed with the appearance and cleanliness of the store.
- Be self-disciplined with the freedom to act autonomously in everything we do to provide superior customer service.
- Be nice to customers, associates and vendors.

The typical Garden Ridge customer is a woman between the ages of 25 and 54 in the middle income group who visits the store twice a month and shops more than two hours.

According to customer surveys, there are key reasons why the store is successful: the broad assortment of home

decorations and crafts; the strength of everyday low pricing; and the fun, entertaining shopping experience that each associate strives to provide.

At Garden Ridge, volume means value to our customers. Designed to be shopper friendly, merchandise categories are color-coded and identified with giant, three-sided, three-dimensional icons.



A "racetrack" floor plan stimulates impulse buying, encourages customers to see new items, and showcases the latest seasonal and promotional products. Each department showcases a variety

Garden Ridge is known for a variety of shopping extravaganzas—from the Spring Pottery & Floral Event to the 81-hour, all day, all night Thanksgiving Holiday Shop-a-thon.



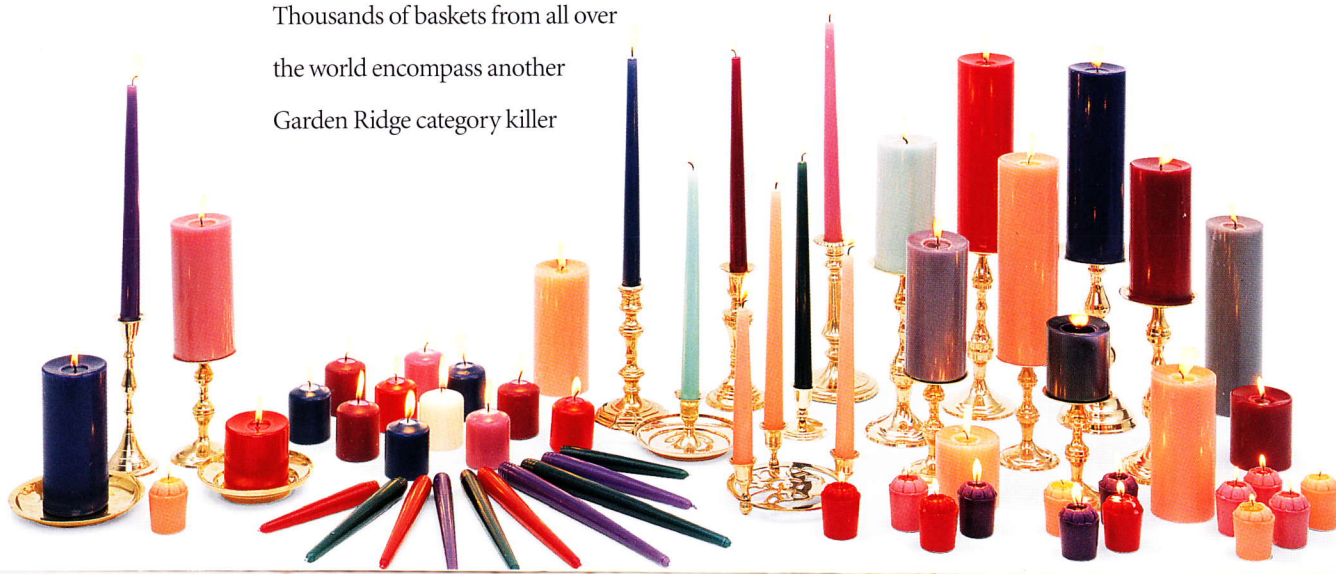


To ensure the lowest cost and most unique selection, Garden Ridge carries an extensive assortment of direct imports purchased from around the world.

of new and ever-changing seasonal, promotional and basic items, from candles and party supplies to framed art and housewares. Customers can design and make costumes in the crafts department, decorate their entire house in home accents, design colorful containers in the basket department, and create a holiday extravaganza both inside and outside their home.

The housewares department, like all other departments, features Garden Ridge's power formatting display. Thousands of baskets from all over the world encompass another Garden Ridge category killer

department. Shoppers can also choose from truckloads of pottery in every shape and size, and rely on the party department as an excellent one destination stop for special events. Home accents, candles and framed art are three supersized departments that offer an overwhelming selection of styles and fragrant touches for the home, with something to suit every decor and taste. Florals, the Garden Ridge flagship department, accounts for more than 20 percent of the company's sales,





Teri Gonzales (left), General Manager, and Michael Davis, General Sales Manager, of the Garden Ridge Austin, Texas, store.

which are generated from 25,000 square feet of artificial flowers, greenery and supplies.

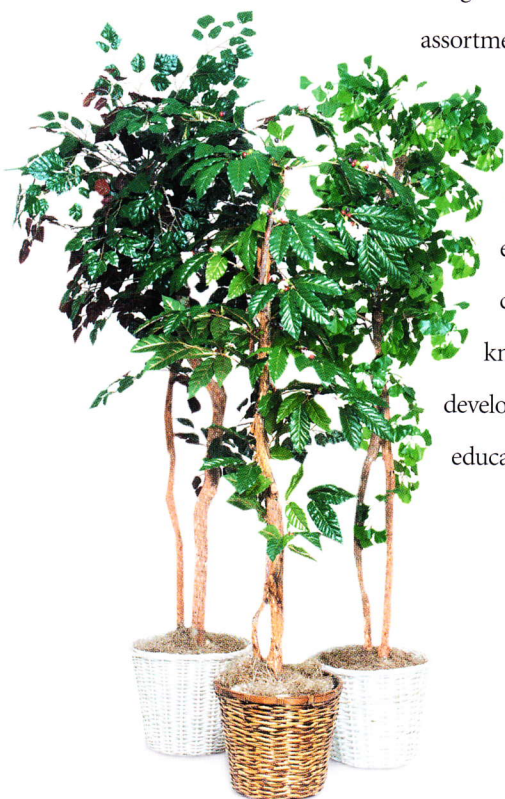
In addition to offering major national brands, Garden Ridge has a large and growing private-labeling program, designed to expand the product assortment and provide additional values to customers.

In a superstore environment, customers expect knowledgeable help. The newly developed Garden Ridge associate education program fulfills this need

and enhances the Garden Ridge reputation as the credible expert in home decoration and crafts.

Garden Ridge is in a field of its own. Compared to traditional retailers, Garden Ridge is an emerging growth company

that dominates its industry. The well-organized, category-dominate design, massive quantities and varieties of merchandise combine with a strong customer focus to create a megastore with growth potential to become one of the country's next, great specialty retailers.



Officers

Armand Shapiro
*Chairman of the Board and
Chief Executive Officer*

Jack E. Lewis
President and Chief Operating Officer

Jane L. Arbuthnot
Chief Financial Officer and Secretary

David S. Hensley
*Vice President-General Merchandise
Manager*

Phyllis Cohen Hink
*Vice President-Human Resources and
Operations*

Dennis R. Dye
Vice President-Chief Information Officer

Directors

Armand Shapiro
*Chairman of the Board and
Chief Executive Officer
Garden Ridge Corporation*

Terry S. Boyce²
*Managing Partner
Boyce Partners, Inc.*

Nolan Lehmann¹
*President
Equus Capital Management Corporation
Equus Capital Corporation
Equus II*

Ronald Rashkow
*Chairman of the Board
Handy Andy Home Improvement
Centers, Inc.*

Sam J. Susser^{1,2}
*Chairman of the Board
Southgard Corporation*

H. Whitney Wagner^{1,2}
*Managing Director
Three Cities Research*

Thomas G. Weld
*Managing Director
Three Cities Research*

Market Information

The Company's Common Stock is listed on NASDAQ under the symbol GRDG. The stock began trading May 15, 1995 at \$15 per share. The following table sets forth, for the periods indicated, the high and low sales price per share for the Common Stock:

	Fiscal Year 1996	
	High	Low
Second Quarter	\$30 ³ / ₄	\$16 ¹ / ₁₆
Third Quarter	36 ³ / ₄	26 ³ / ₄
Fourth Quarter	40	32

Garden Ridge has never paid cash dividends on its common stock. The Company expects that earnings will be retained for the continued growth and development of the Company's business.

At March 26, 1996, there were approximately 3,000 holders of record of Common Stock.

Transfer Agent & Registrar

Stock Transfer Agent & Registrar
Chemical Mellon Shareholder Services
2323 Bryan Street, Suite 2300
Dallas, Texas 75201-2656

Independent Accountants

Arthur Andersen LLP
Houston, Texas

General Counsel

Liddell, Sapp, Zivley, Hill
& LaBoon, L.L.P.
Houston, Texas

Form 10-K

A copy of the Company's Fiscal Year 1996 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be sent to any stockholder upon request in writing to Garden Ridge, Attention: Investor Relations.

Annual Meeting

The Annual Meeting of Stockholders will be held at 10:00 a.m., Thursday, May 23, 1996 at the Liddell, Sapp, Zivley, Hill & LaBoon, L.L.P. Conference Center, 600 Travis, Texas Commerce Tower, Suite 2500, Houston, Texas.

Stock Exchange Listing and Trading Symbol

NASDAQ National Market-GRDG

Headquarters

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Houston, Texas 77084-6099
Telephone: (713) 579-7901
Fax Phone: (713) 578-0999

Garden Ridge

¹ Member of the Audit Committee

² Member of the Compensation Committee

