FORM S-1 · REGISTRATION STATEMENT

# 1-800-Flowers.com Inc

IPO priced 1999-08-02 · $21.00 a share · FLWS



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 21, 1999

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

# 1-800-FLOWERS.COM, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| DELAWARE | 5992 | 11-3117311 |
|---|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

1600 STEWART AVENUE WESTBURY, NEW YORK 11590 (516) 237-6000 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) JAMES F. MCCANN CHAIRMAN AND CHIEF EXECUTIVE OFFICER 1-800-FLOWERS.COM, INC. 1600 STEWART AVENUE WESTBURY, NEW YORK 11590 (516) 237-6000 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

| | |
|---|---|
| ALEXANDER D. LYNCH, ESQ.<br>KENNETH R. MCVAY, ESQ.<br>BROBECK, PHLEGER & HARRISON LLP<br>1633 BROADWAY, 47TH FLOOR<br>NEW YORK, NEW YORK 10019<br>(212) 581-1600 | PAUL P. BROUNTAS, ESQ.<br>BRENT B. SILER, ESQ.<br>HALE AND DORR LLP<br>60 STATE STREET<br>BOSTON, MASSACHUSETTS 02109<br>(617) 526-6000 |

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX. / / IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, PLEASE CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX. / /

CALCULATION OF REGISTRATION FEE

| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1) | AMOUNT OF REGISTRATION FEE |
|---|---|---|
| CLASS A COMMON STOCK, PAR VALUE $.01 PER SHARE..... | $150,000,000 | $41,700 |

(1) ESTIMATED SOLELY FOR THE PURPOSE OF COMPUTING THE REGISTRATION FEE PURSUANT TO RULE 457(O) UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PRELIMINARY PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PRELIMINARY PROSPECTUS IS NOT AN OFFER TO SELL NOR DOES IT SEEK AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION. DATED MAY 21, 1999.

LOGO SHARES

1-800-FLOWERS.COM, INC.

CLASS A COMMON STOCK

This is an initial public offering of shares of class A common stock of 1-800-FLOWERS.COM, Inc. All of the shares of class A common stock are being sold by 1-800-FLOWERS.COM. 1-800-FLOWERS.COM anticipates that the initial public offering price will be between $ and $ per share.

PRIOR TO THIS OFFERING, THERE HAS BEEN NO PUBLIC MARKET FOR THE CLASS A COMMON STOCK. APPLICATION HAS BEEN MADE FOR QUOTATION OF THE CLASS A COMMON STOCK ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "FLWS".

1-800-FLOWERS.COM HAS TWO CLASSES OF COMMON STOCK: CLASS A COMMON STOCK AND CLASS B COMMON STOCK. HOLDERS OF CLASS A COMMON STOCK GENERALLY HAVE THE SAME RIGHTS AS HOLDERS OF CLASS B COMMON STOCK, EXCEPT THAT HOLDERS OF CLASS A COMMON STOCK HAVE ONE VOTE PER SHARE, WHILE HOLDERS OF CLASS B COMMON STOCK HAVE 10 VOTES PER SHARE.

SEE "RISK FACTORS" BEGINNING ON PAGE 8 TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE BUYING SHARES OF THE CLASS A COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

| | PER SHARE | TOTAL |
|---|---|---|
| Initial public offering price | $ | $ |
| Underwriting discount | $ | $ |
| Proceeds, before expenses, to 1-800-FLOWERS.COM | $ | $ |

THE UNDERWRITERS MAY, SUBJECT TO THE TERMS OF THE UNDERWRITING AGREEMENT, PURCHASE UP TO AN ADDITIONAL SHARES OF CLASS A COMMON STOCK FROM 1-800-FLOWERS.COM AT THE INITIAL PUBLIC OFFERING PRICE LESS THE UNDERWRITING DISCOUNT.

THE UNDERWRITERS EXPECT TO DELIVER THE SHARES OF CLASS A COMMON STOCK AGAINST PAYMENT IN NEW YORK, NEW YORK ON , 1999.

GOLDMAN, SACHS & CO.

CREDIT SUISSE FIRST BOSTON

WIT CAPITAL CORPORATION

PROSPECTUS DATED , 1999.

[GRAPHICS]

# *Prospectus Summary*

YOU SHOULD READ THE FOLLOWING SUMMARY TOGETHER WITH THE MORE DETAILED INFORMATION AND OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES TO THOSE STATEMENTS APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE

NOTED, REFERENCES IN THIS PROSPECTUS TO "1-800-FLOWERS.COM", "WE", "US" AND "OUR" REFER TO 1-800-FLOWERS.COM, INC. AND ITS SUBSIDIARIES.

# *1-800-Flowers.com, Inc.*

## *Our Business*

1-800-FLOWERS.COM, Inc. is a leading e-commerce provider of floral products and gifts. With the development of our online business and a strategic acquisition, we have continuously expanded our product offerings, most recently to include home and garden merchandise. As a result, we have developed relationships with customers who purchase products not only for gifting occasions but also for everyday consumption.

We believe the 1-800-FLOWERS brand is one of the most recognized brands in the floral industry. We believe our brand is characterized by convenience, high-quality products, a broad selection of merchandise and superior customer service.

We provide our customers the choice of purchasing our products online, by calling us toll-free or by visiting our owned or franchised retail stores. We were one of the first companies to market products online through CompuServe and America Online. In 1995, we opened our own Web site and since then have expanded our Internet presence through strategic online relationships, including AOL and Microsoft Network.

The Internet is our fastest growing sales channel. For the nine months ended March 28, 1999, online revenues were $30.2 million, representing an 85.3% increase over the same period in the previous fiscal year.

We offer more than 1,500 varieties of fresh-cut and seasonal flowers, plants and floral arrangements and more than 6,000 SKUs of gifts and home and garden products, including gift baskets, gourmet foods, garden accessories and casual lifestyle furnishings. We are committed to providing our individual and corporate customers the best possible shopping experience through superior service and a 100% satisfaction guarantee.

We believe we have been and continue to be a leader in implementing integrated technologies and systems that support our online and telephonic sales channels and our fulfillment operations. We have implemented a common transaction processing system and a centrally managed telecommunications network that can serve as a platform for future growth.

Because many of our products must be handled delicately and delivered promptly to ensure customer satisfaction and freshness, we have developed significant expertise in fulfilling our customers' orders reliably, quickly and cost-effectively. We fulfill our products through our network of approximately 1,500 local florists, our owned or franchised stores, third party suppliers and our advanced fulfillment center.

As of December 31, 1998, we had sold our products to more than 6.7 million customers, of which 2.7 million had made a purchase from us in the previous twelve months. Our total net revenues for the nine months ended March 28, 1999 were $203.7 million.

In May 1999, we completed a private placement of preferred stock yielding us net proceeds of $102.6 million. The investors include Benchmark Capital Partners and SOFTBANK America Inc., both leading Internet-focused investment firms, and Forum Holding BV, an affiliate of LVMH Moet Hennessey Louis Vuitton S.A.

## *Our Strategy*

Our objective is to be the leading e-commerce provider of flowers, gifts and products for the home and garden. We intend to meet this objective by:

- aggressively extending our brand from flowers and gifts to home and garden products;

- expanding our offerings of gifts and home and garden products;

- strengthening our customer relationships through enhanced content, features and personalization of our Web site;

- increasing the number of customers placing orders through our Web site;

- continuing to upgrade our technology infrastructure; and - continuing to improve our fulfillment capabilities.

## *Our Offices*

Our headquarters are located at 1600 Stewart Avenue, Westbury, New York 11590 and our telephone number is (516) 237-6000. Our Web site address is WWW.1800FLOWERS.COM. The information on our Web site is not a part of this prospectus.

## *Our Trademarks*

We have applied for or received trademark and/or service mark registration for, among others, the marks "1-800-FLOWERS.COM", "1-800-FLOWERS", and "Plow & Hearth". All other trademarks and service marks used in this prospectus are the property of their respective owners.

## *The Offering*

Shares offered by 1-800-FLOWERS.COM..... shares of class A common stock Shares to be outstanding after this offering..... shares of class A common stock shares of class B common stock Proposed Nasdaq National Market symbol..... FLWS Use of proceeds.....

To repay existing debt, redeem outstanding stock and stock options, fund our marketing activities, enhance our infrastructure, enter into strategic online relationships, expand our product offerings and for other general corporate purposes.

The number of shares to be outstanding after this offering excludes:

- shares of class B common stock subject to options outstanding as of , 1999 at a weighted average exercise price of $ per share;

- additional shares of class A common stock that could be issued under our stock option plan; and - shares of class A common stock issuable upon the exercise of outstanding warrants at a nominal exercise price.

Holders of class A common stock generally have the same rights as the holders of class B common stock, except that holders of class A common stock have one vote per share and holders of class B common stock have 10 votes per share on all matters submitted to the vote of stockholders. Holders of class A common stock and class B common stock generally vote together as a single class on all matters presented to the stockholders for their vote or approval, except as may be required by Delaware law. Class B common stock may be converted into class A common stock at any time on a one-for-one basis and each share of class B common stock will automatically convert into one share of class A common stock upon its transfer, with limited exceptions. After this offering, James F. McCann, our Chairman and Chief Executive Officer, will control % of the combined voting power of the common stock.

## *Except as Otherwise Noted, All Information in This Prospectus:*

## *- Reflects the Recapitalization of Our Common Stock Effected in 1999;*

- REFLECTS A -FOR-1 STOCK SPLIT OF OUR CLASS A AND B COMMON STOCK TO BE EFFECTED PRIOR TO CONSUMMATION OF THIS OFFERING; AND

## *- Assumes No Exercise of the Underwriters' Over-allotment Option.*

## *Summary Consolidated Financial Data*

The following tables summarize our consolidated statement of operations and balance sheet data. We acquired The Plow & Hearth, Inc. in April 1998 and the financial data reflect the results of operations of this subsidiary since its date of acquisition. You should read this information together with the

discussion in "Management's Discussion and Analysis of Financial Condition and Result of Operations" and our consolidated financial statements and notes to those statements included elsewhere in this prospectus.

## *Year Ended Nine Months Ended*

| | JUNE 30, 1994 | JULY 2, 1995 | JUNE 30, 1996 | JUNE 29, 1997 | JUNE 28, 1998 | MARCH 29, 1998 | MARCH 28, 1999 |
|---|---|---|---|---|---|---|---|
| **(In Thousands, Except Per Share Data)** | | | | | | | |
| CONSOLIDATED STATEMENT OF OPERATIONS DATA: | | | | | | | |
| Net revenues | $ 91,663 | $ 116,807 | $ 153,128 | $ 186,430 | $ 220,592 | $ 146,217 | $ 203,668 |
| Gross profit | 38,195 | 52,150 | 60,308 | 71,352 | 83,626 | 54,444 | 79,930 |
| Operating income (loss) | 831 | 1,561 | 2,702 | 6,852 | 6,415 | 2,144 | (9,052) |
| Net income (loss) applicable to common stockholders | 638 | 837 | 268 | 2,925 | 3,466 | 1,190 | (8,682) |
| Net income (loss) per common share applicable to common stockholders: | | | | | | | |
| Basic | $ 0.13 | $ 0.17 | $ 0.06 | $ 0.66 | $ 0.79 | $ 0.27 | $ (1.97) |
| Diluted | 0.13 | 0.17 | 0.05 | 0.63 | 0.74 | 0.25 | (1.97) |
| Shares used in the calculation of net income (loss) per common share: | | | | | | | |
| Basic | 4,853 | 4,860 | 4,705 | 4,414 | 4,412 | 4,414 | 4,400 |
| Diluted | 4,853 | 4,978 | 4,942 | 4,674 | 4,661 | 4,675 | 4,400 |

The following summary balance sheet data as of March 28, 1999 is presented:

- on an actual basis;

- on a pro forma basis after giving effect to the 1999 recapitalization, the May 1999 private placement and the use of the proceeds therefrom to redeem all outstanding class C common stock; and - on a pro forma as adjusted basis to reflect our sale of shares of class A common stock in this offering at an assumed initial public offering price of $ per share, after deducting the underwriting discount and estimated offering expenses, and the use of a portion of the proceeds to repay existing debt and redeem outstanding stock and stock options.

AS OF MARCH 28, 1999 PRO FORMA ACTUAL PRO FORMA AS ADJUSTED (IN THOUSANDS)

| | |
|---|---|
| CONSOLIDATED BALANCE SHEET DATA: | |
| Cash and equivalents | $ 2,632 |
| Working capital (deficit) | (9,490) |
| Total assets | 86,599 |
| Long-term liabilities | 38,640 |

| | |
|---|---|
| Redeemable class C common stock | 19,020 |
| Total stockholders' equity (deficit) | (7,919) |

The summary unaudited pro forma combined financial data set forth below give effect to our acquisition of Plow & Hearth in April 1998 as if the acquisition had been consummated at the beginning of the respective periods. The data for the nine months ended March 28, 1999 is actual, reflecting the operations of Plow & Hearth for the entire period, and is provided for comparative purposes. The summary unaudited pro forma combined financial data do not purport to be indicative of future operations and should not be construed as representative of future operations.

| | YEAR ENDED | NINE MONTHS ENDED | |
|---|---|---|---|
| | JUNE 28, 1998 | MARCH 29, 1998 | MARCH 28, 1999 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | |
| PRO FORMA COMBINED STATEMENT OF OPERATIONS DATA: | | | |
| Net revenues | $ 257,747 | $ 183,372 | $ 203,668 |
| Gross profit | 100,663 | 71,481 | 79,930 |
| Operating income (loss) | 5,488 | 1,217 | (9,052) |
| Net income (loss) applicable to common stockholders | 1,856 | (420) | (8,682) |
| Net income (loss) per common share applicable to common stockholders: | | | |
| Basic | $ 0.42 | $ (0.10) | $ (1.97) |
| Diluted | 0.40 | (0.10) | (1.97) |
| Shares used in the calculation of net income (loss) per common share: | | | |
| Basic | 4,412 | 4,414 | 4,400 |
| Diluted | 4,661 | 4,414 | 4,400 |

# *Risk Factors*

THIS OFFERING INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE YOU DECIDE TO BUY OUR CLASS A COMMON STOCK. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS WOULD LIKELY SUFFER. IN THAT CASE, THE TRADING PRICE OF OUR CLASS A COMMON STOCK COULD DECLINE, AND YOU MIGHT LOSE ALL OR PART OF YOUR INVESTMENT.

# *Risks Related to Our Business*

## *We Expect to Incur Losses for the Foreseeable Future*

We expect to incur significant operating and capital expenditures in order to:

- expand the 1-800-FLOWERS.COM brand through marketing and other promotional activities;

- enter into strategic online relationships;

- increase the number of products we offer; and - enhance our technological infrastructure and fulfillment capabilities.

Although we have been profitable in the past, we expect to incur losses for the foreseeable future as a result of these expenditures. In order to achieve and maintain profitability, we will need to generate revenues significantly above historical levels. We cannot assure you that we will achieve sufficient revenues for profitability. Even if we do achieve profitability, we may not sustain or increase profitability on a quarterly or annual basis in the future.

OUR QUARTERLY OPERATING RESULTS ARE SUBJECT TO SIGNIFICANT FLUCTUATION AND YOU SHOULD NOT RELY ON THEM AS AN INDICATION OF OUR FUTURE RESULTS Our future revenues and results of operations may fluctuate significantly due to a combination of factors, many of which are outside of our control. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. If we have a shortfall in revenue in relation to our expenses, our operating results will suffer. Our operating results for any particular quarter may not be indicative of future operating results. You should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance. It is possible that, in future periods, our results of operations may be below the expectations of public market analysts and investors. This could cause the trading price of our class A common stock to fall.

Consumer spending on flowers, gifts and other products we sell may vary with general economic conditions. If general economic conditions deteriorate and our customers have less disposable income, consumers will likely spend less on our products and our quarterly operating results will suffer.

For a discussion of other factors that may affect our quarterly results, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations-- Quarterly Results of Operations".

OUR OPERATING RESULTS WILL SUFFER IF SALES DURING OUR PEAK SEASONS DO NOT MEET OUR EXPECTATIONS Sales of our products are seasonal, concentrated in the second calendar quarter, due to Mother's Day, Easter and graduations, and the fourth calendar quarter, due to the Thanksgiving and Christmas holidays. In anticipation of increased sales activity during these periods, we hire a significant number of temporary employees to supplement our permanent staff and we significantly increase our inventory levels. If sales during these periods do not meet our expectations, we may not generate sufficient revenue to offset these increased costs and our operating results will suffer.

IF OUR CUSTOMERS DO NOT FIND OUR EXPANDED PRODUCT LINES APPEALING, OUR BUSINESS WILL SUFFER Our business historically has focused on offering floral and gift products. We have expanded our product lines in the gift, home and garden categories, particularly with our acquisition of Plow & Hearth in April 1998, and we expect to incur significant costs in marketing these new products. If our customers do not find our expanded product lines appealing, we may not generate sufficient revenue to offset their related costs and our business will suffer.

IF WE FAIL TO DEVELOP AND MAINTAIN OUR BRAND, WE WILL NOT INCREASE OR MAINTAIN OUR CUSTOMER BASE OR OUR REVENUES We must develop and maintain the 1-800-FLOWERS.COM brand to expand our customer base and our revenues. In addition, we may introduce or acquire other brands in the future. We believe that the importance of brand recognition will increase as we expand our product offerings. Many of our customers may not be aware of the non-floral products we offer. We intend to substantially increase our expenditures for creating and maintaining brand loyalty and raising awareness of our additional product offerings. However, if we fail to advertise and market our products effectively, we may not succeed in establishing our brands and our business will suffer.

Our success in promoting and enhancing the 1-800-FLOWERS.COM brand will also depend on our success in providing our customers high-quality products and a high level of customer service. If our customers do not perceive our products and services to be of high quality, the value of the 1-800-FLOWERS.COM brand would be diminished.

A FAILURE TO ESTABLISH AND MAINTAIN STRATEGIC ONLINE RELATIONSHIPS THAT GENERATE A SIGNIFICANT AMOUNT OF TRAFFIC COULD LIMIT THE GROWTH OF OUR BUSINESS A significant portion of our online customers purchase our products at our AOL online store or come to our Web site from third party Web sites with which we have strategic relationships, including AOL.com and the Microsoft Network. If these third-party sites do not attract a significant number of visitors, we will not receive a significant number of online customers from these relationships and our business will suffer. In addition, we plan to enter into more of these relationships and we may pay significant fees to do so. We may also be required to pay significant fees to maintain and expand existing relationships. Our business will suffer if we fail to enter into new relationships or maintain existing relationships or if these relationships do not result in traffic sufficient to justify their cost.

IF LOCAL FLORISTS AND OTHER THIRD-PARTY VENDORS DO NOT FULFILL ORDERS TO OUR CUSTOMERS' SATISFACTION, OUR BUSINESS WILL SUFFER Floral orders placed by our customers are fulfilled by local florists, most of which are either part of our BloomNet network of approximately 1,500 florists or are stores that we own or franchise. Except for the stores we own, we do not directly control any of these florists. In addition, many of the non-floral products we sell are manufactured and delivered to our customers by independent third-party vendors. If customers are dissatisfied with the performance of the local florist or other third-party vendors, they may not utilize our services when placing future orders and our business may suffer.

Many of our arrangements with local florists for order fulfillment are not formalized in writing. Of those relationships which have been formalized in writing, most may be terminated with 10 days notice. If a florist discontinues its relationship with us, we will be required to obtain a suitable replacement located in the same area, which may cause delays in delivery or a decline in quality, leading to customer dissatisfaction.

We offer our customers a 100% satisfaction guarantee on our products. If customers are not satisfied with the products they receive, we will either send the customer another product or issue the customer a refund or a credit. Our business could suffer if a significant number of customers request replacement products, refunds or credits.

INCREASED SHIPPING COSTS AND LABOR STOPPAGES MAY ADVERSELY AFFECT SALES OF OUR NON-FLORAL PRODUCTS Our non-floral products are delivered to customers either directly from the manufacturer or from our warehouse in Virginia. We have established relationships with the United States Postal Service, Federal Express, United Parcel Service and other common carriers for the delivery of these products. If these carriers were to raise the prices they charge to ship our goods, our customers might choose to buy comparable products locally to avoid shipping charges. In addition, these carriers may experience labor stoppages, which could impact our ability to deliver products on a timely basis to our customers and adversely affect our customer relationships.

## *If We Fail to Continuously Improve Our Web Site, We Will Not Attract or Retain Customers*

If our potential or existing customers do not find our Web site a convenient place to shop, we will not attract or retain customers and our sales will suffer. To encourage the use of our Web site, we must continuously improve its accessibility, content and ease of use. If our competitors' Web sites are perceived as easier to use or better able to satisfy customer needs, our customer traffic and our business would be adversely affected.

## *Competition Could Harm Our Business*

There are many companies that offer products in the floral, gift and home and garden categories. In the floral category, our competitors include:

- retail floral shops, some of which maintain toll-free telephone numbers;

- online floral retailers;

- catalog companies that offer floral products;

- floral telemarketers and wire services; and - supermarkets and mass merchants with floral departments.

Similarly, the gift, home and garden categories are highly competitive. Each of these categories encompasses a wide range of products and is highly fragmented. Products in these categories may be purchased from a number of outlets, including mass merchants, retail specialty shops, online retailers and mail-order catalogs.

Competition is intense and we expect it to increase. Increased competition could result in:

- price reductions, decreased revenue and lower profit margins;

- loss of market share; and - increased marketing expenditures.

These and other competitive factors could materially and adversely affect our business.

## *If We Do Not Accurately Assess Customer Response to Our Products, Our Business May Suffer*

In the past, we did not need to maintain significant inventory of products. However, as the volume of non-floral products we offer has expanded, we intend to increase inventory levels and the number of products maintained in our warehouses. Because we have limited experience offering many of our non-floral products through our Web site, we may not predict inventory levels accurately. If we overestimate customer demand for our products, excess inventory and outdated merchandise could accumulate, tying up working capital and potentially resulting in reduced warehouse capacity and inventory losses due to damage, theft and obsolescence. If we underestimate customer demand, we will disappoint customers who may turn to our competitors. Moreover, the strength of the 1-800-FLOWERS.COM brand could be diminished due to misjudgments in merchandise selection.

IF THE SUPPLY OF FLOWERS FOR SALE BECOMES LIMITED, THE PRICE OF FLOWERS WILL RISE OR FLOWERS MAY BE UNAVAILABLE A variety of factors affect the supply of flowers in the United States and the price of our floral products. If the supply of flowers available for sale is limited due to weather conditions or other factors, prices for flowers will likely rise and customer demand for our floral products may be reduced. Alternatively, we may not be able to obtain high quality flowers in an amount sufficient to meet customer demand. Even if available, flowers from alternative sources may be of lesser quality and/or may be more expensive than those currently offered by us.

Most of the flowers sold in the United States are grown by farmers located abroad, primarily in Colombia, Ecuador and Holland, and we expect that this will continue in the future. The availability and price of flowers could be affected by a number of factors affecting these regions, including:

- import duties and quotas;

- agricultural limitations and restrictions to manage pests and disease;

- changes in trading status;

- economic uncertainties and currency fluctuations;

- severe weather;

- work stoppages;

- foreign government regulations and political unrest; and - trade restrictions, including United States retaliation against foreign trade practices.

A FAILURE TO MANAGE OUR INTERNAL OPERATING AND FINANCIAL FUNCTIONS COULD ADVERSELY AFFECT OUR BUSINESS Our expansion efforts have significantly strained our operational and financial systems. To accommodate our growth, we recently implemented new or upgraded operating and financial systems, procedures and controls. Any failure to integrate these initiatives in an efficient manner could adversely affect our business. In addition, our systems, procedures and controls may prove to be inadequate to support our future operations.

## *Our Franchisees May Damage Our Brand or Increase Our Costs*

As of March 28, 1999, we franchised 87 flower shops through 54 franchisees. Our franchise business is governed by our Uniform Franchise Offering Circular, franchise agreements and applicable franchise law. If our franchisees do not comply with our established operating standards or the terms of the franchise agreements, the 1-800- FLOWERS.COM brand may be damaged. We may incur significant additional costs, including time-consuming and expensive litigation, to enforce our rights under the franchise agreements. Additionally, we are the primary tenant on 56 leases, which the franchisees sublease from us. If a franchisee fails to meet its obligations as subtenant, we could incur significant costs to avoid a default under the primary lease. Furthermore, as a franchisor we have obligations to our franchisees. Franchisees may challenge the performance of our obligations under the franchise agreements and subject us to costs in defending these claims and, if the claims are successful, costs in connection with their compliance.

IF THIRD PARTIES ACQUIRE RIGHTS TO USE SIMILAR DOMAIN NAMES OR PHONE NUMBERS OR IF WE LOSE THE RIGHT TO USE OUR PHONE NUMBERS, OUR BRAND MAY BE DAMAGED AND WE MAY LOSE SALES Our Internet domain names are an important aspect of our brand recognition. We cannot practically acquire rights to all domain names similar to WWW.1800FLOWERS.COM. If third parties obtain rights to similar domain names, these third parties may confuse our customers and cause our customers to inadvertently place orders with these third parties, which would result in lost sales for us and could damage our brand.

Likewise, the phone number that spells 1-800-FLOWERS is important to our brand and our business. While we have obtained the right to use the phone numbers 1-800-FLOWERS, 1-888-FLOWERS and 1-877-FLOWERS, as well as common "FLOWERS" misdials, we may not be able to obtain rights to use the FLOWERS phone number as new toll-free prefixes are issued, or the rights to all similar and potentially confusing numbers. If third parties obtain the phone number which spells "FLOWERS" with a different prefix or a toll-free number similar to FLOWERS, these parties may also confuse our

customers and cause lost sales for us and potential damage to our brand. In addition, under applicable FCC rules, ownership rights to telephone numbers cannot be acquired. Accordingly, the FCC may rescind our right to use any of our phone numbers, including 1-800-FLOWERS.

IF WE DO NOT CONTINUE TO RECEIVE REBATES FROM WIRE SERVICES, OUR RESULTS OF OPERATIONS COULD SUFFER We have entered into arrangements with independent wire service companies that provide us with rebates when we transmit our customers' floral orders to a local florist utilizing their service. One of these arrangements expires June 30, 1999. If we cannot renew these arrangements or enter similar arrangements on commercially reasonable terms, our results of operations could suffer. In addition, these companies may eliminate or modify the rebate structure they have in place with us. Any adverse modification to these rebate structures could also cause our results of operations to suffer.

OUR NET SALES AND GROSS MARGINS WOULD DECREASE IF WE EXPERIENCE SIGNIFICANT CREDIT CARD FRAUD A failure to adequately control fraudulent credit card transactions would reduce our net sales and our gross margins because we do not carry insurance against this risk. We have developed technology to help us to detect the fraudulent use of credit card information. Nonetheless, to date, we have suffered losses as a result of orders placed with fraudulent credit card data even though the associated financial institution approved payment of the orders. Under current credit card practices, we are liable for fraudulent credit card transactions because we do not obtain a cardholder's signature.

## *If We Are Unable to Integrate Any Acquired Business, Our Operations May Be Disrupted*

We have acquired complementary businesses and may continue to do so in the future. We are currently in the process of integrating the Web site, operations, systems and personnel of Plow & Hearth. If we are unable to fully integrate Plow & Hearth or any future acquisition, our business and operations could suffer, our management will be distracted and our expenses may increase.

## *Risks Related to the Internet and Our Technology*

## *Our Business Will Suffer If the Internet Is Not Accepted as a Medium for Commerce*

We expect to derive an increasing amount of our revenue from electronic commerce, and intend to extensively market our non-floral products online. If the Internet is not accepted as a medium for commerce, our revenues will not grow as we expect and our business will suffer. A number of factors may inhibit Internet usage, including:

- inadequate network infrastructure;

- consumer concerns for Internet privacy and security;

- inconsistent quality of service; and - lack of availability of cost-effective, high speed service.

If Internet usage grows, the infrastructure may not be able to support the demands placed on it by that growth and its performance and reliability may decline. Web sites have experienced interruptions as a result of delays or outages throughout the Internet infrastructure. If these interruptions continue, Internet usage may decline.

In addition, a significant barrier to electronic commerce over the Internet has been the need for secure transmission of confidential information and transaction information. Internet usage could decline if any well-publicized compromise of security occurred. As a result, we may be required to expend capital and resources to protect against or to alleviate these problems.

UNEXPECTED SYSTEM INTERRUPTIONS CAUSED BY SYSTEM FAILURES MAY RESULT IN REDUCED REVENUE AND HARM TO OUR REPUTATION In the past, particularly during peak holiday periods, we have experienced significant increases in traffic on our Web site and in our toll-free customer service centers. Our operations are dependent on our ability to maintain our computer and telecommunications systems in effective working order and to protect our systems against damage from fire, natural disaster, power loss, telecommunications failure or similar events. Our systems have in the past, and may in the future, experience:

- system interruptions;

- long response times; and - degradation in our service.

We cannot assure you that we will adequately implement systems to improve the speed, security and availability of our Internet and telecommunications systems. Because our business depends on customers making purchases on our systems, our business will suffer and our reputation could be harmed if we experience frequent or long system delays or interruptions or if a disruption occurs during a peak holiday season.

IF OUR THIRD-PARTY TECHNOLOGY PROVIDERS DO NOT ADEQUATELY MAINTAIN OUR WEB SITE AND TELEPHONE SERVICE, WE MAY EXPERIENCE SYSTEM FAILURES AND OUR BUSINESS MAY SUFFER We are largely dependent on Fry Multimedia to host and maintain our Web site and on AT&T to provide telephone services to our customer service centers. If Fry Multimedia or AT&T experience system failures or fail to adequately maintain our systems, we would experience interruptions and our customers might not continue to utilize our services. While we intend to co-locate the hosting of our Web site with a third-party vendor to provide additional back-up and redundancy, we may not be able to do so. Our future success depends upon these third-party relationships. We may not be able to maintain these relationships or replace them on financially attractive terms. Failure to do so may disrupt our operations or require us to incur significant unanticipated costs.

INTERRUPTIONS IN FTD'S MERCURY SYSTEM MAY DISRUPT OUR CUSTOMERS' ORDER FULFILLMENT AND CREATE CUSTOMER DISSATISFACTION A significant portion of our customers' orders are communicated to the fulfilling florist through FTD's Mercury system. The Mercury system has in the past experienced interruptions in service. If the Mercury system experiences interruptions in the future, we would experience difficulties in fulfilling our customers' orders and many of our customers might not continue to shop with us.

## *Year 2000 Problems May Disrupt Our Operations and Harm Our Business*

We are dependent upon the proper functioning of our technology infrastructure. This technology infrastructure is comprised of our computer and telecommunications systems, which include hardware and software provided by third-party vendors, and the systems maintained by our suppliers and BloomNet florists. A failure of any part of our technology infrastructure to correctly recognize dates beyond December 31, 1999 could materially disrupt our ability to receive and fulfill customer orders, cause us to incur significant expenses and cause losses of valuable data, each of which could adversely affect our business and operations. For a discussion of Year 2000 issues, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Year 2000 Readiness Disclosure".

## *Risks Relating to Our Organization and Legal Uncertainty*

WE ARE CONTROLLED BY OUR CHIEF EXECUTIVE OFFICER, WHOSE INTERESTS MAY DIFFER FROM OTHER STOCKHOLDERS Our common stock is divided into two classes. The class A common stock has one vote per share and the class B common stock has 10 votes per share. % of the class B common stock will be owned by James F. McCann, our Chairman and Chief Executive Officer. Accordingly, Mr. McCann will own % of the combined voting power of our common stock after this offering and will control the outcome of any corporate transaction or other matter submitted to the stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, and also the power to prevent or cause a change in control. The interests of Mr. McCann may differ from the interests of the other stockholders.

## *If We Are Unable to Hire and Retain Key Personnel, Our Business and Growth Will Suffer*

Our success is dependent on our ability to hire, retain and motivate highly qualified personnel. In particular, our success depends on the continued efforts of our Chairman and Chief Executive Officer, James F. McCann, and our Senior Vice President, Christopher G. McCann. In addition, we have recently hired several new members of our senior management team to help manage our growth and we will need to recruit, train and retain a significant number of additional employees, particularly employees with technical backgrounds. These individuals are in high demand and we are not certain we

will be able to attract the personnel we need. The loss of the services of any of our executive management or key personnel, our failure to integrate any of our new senior management into our operations or our inability to attract qualified additional personnel could cause our business to suffer.

THE INTERNET IS SUBJECT TO MANY GOVERNMENTAL REGULATIONS THAT MAY AFFECT OUR ABILITY TO CONDUCT BUSINESS Any new law or regulation, or the application or interpretation of existing laws, may decrease the growth in the use of the Internet or our Web site. We expect there will be an increasing number of laws and regulations pertaining to the Internet in the United States and throughout the world. These laws or regulations may relate to liability for information received from or transmitted over the Internet, online content regulation, user privacy, taxation and quality of products and services sold over the Internet. Moreover, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment, personal privacy and other issues is uncertain and developing. This could decrease the demand for our products, increase our costs or otherwise adversely affect our business.

## *Regulations Imposed by the Federal Trade Commission May Adversely Affect Our Business*

The Federal Trade Commission has proposed regulations regarding the collection and use of personal identifying information obtained from individuals when accessing Web sites, with particular emphasis on access by minors. These regulations may include requirements that we establish procedures to disclose and notify users of privacy and security policies, obtain consent from users for collection and use of information and provide users with the ability to access, correct and delete personal information stored by us. These regulations may also include enforcement and redress provisions. Moreover, even in the absence of those regulations, the Federal Trade Commission has begun investigations into the privacy practices of other companies that collect information on the Internet. One investigation resulted in a consent decree pursuant to which an Internet company agreed to establish programs to implement the principles noted above. We may become subject to a similar investigation, or the Federal Trade Commission's regulatory and enforcement efforts may adversely affect our ability to collect demographic and personal information from users, which could adversely affect our marketing efforts.

## *Unauthorized Use of Our Intellectual Property by Third Parties May Damage Our Brand*

We regard our copyrights, service marks, trademarks, trade secrets and other intellectual property as critical to our success. Unauthorized use of our intellectual property by third parties may damage our brand and our reputation. We rely on trademark, unfair competition and copyright law, trade secret protection and confidentiality and/or license agreements with our employees, customers, partners and others to protect our intellectual property rights. Despite our precautions, it may be possible for third

parties to obtain and use our intellectual property without authorization. Third parties have in the past infringed or misappropriated our intellectual property or similar proprietary rights. We believe infringements and misappropriations will continue to occur in the future. Although we intend to police for infringements and misappropriations of our intellectual property, we may not be able to do so effectively. Furthermore, the validity, enforceability and scope of protection of intellectual property in Internet-related industries is uncertain and still evolving. The laws of some foreign countries are uncertain or do not protect intellectual property rights to the same extent as do the laws of the United States.

DEFENDING AGAINST INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS COULD BE EXPENSIVE AND, IF WE ARE NOT SUCCESSFUL, COULD DISRUPT OUR BUSINESS We cannot be certain that our products do not or will not infringe valid patents, trademarks, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims relating to the intellectual property of others from time to time in the ordinary course of our business. We may incur substantial expense in defending against these third-party infringement claims, regardless of their merit. Successful infringement claims against us may result in substantial monetary liability or may materially disrupt our business.

## *We May Incur Significant Expenses in Satisfaction of Claims for State Sales and Use Taxes*

At present, except for our retail operations, we do not collect sales or other similar taxes in respect of sales and shipments of our products in states other than New York, Texas, Arizona, Florida, Georgia and Virginia. However, various states have sought to impose state sales tax collection obligations on out-of-state direct marketing companies such as ours. A successful assertion by one or more of these states that we should have collected or be collecting sales tax on the sale of our products could result in additional costs and corresponding price increases to our customers. The U.S. Congress has passed legislation limiting for three years the ability of states to impose taxes on Internet-based transactions. Failure to renew this legislation could result in the broad imposition of state taxes on e-commerce.

## *Product Liability Claims May Adversely Affect Our Business*

Several of the products we sell, including perishable food products, may expose us to product liability claims in the event that the use or consumption of these products results in personal injury. Although we have not experienced any material losses due to product liability claims to date, we may be subject to product liability claims in the future and incur significant costs in their defense. Product liability claims often create negative publicity, which could materially damage our reputation and our brand. Although we maintain insurance against product liability claims, our coverage may be inadequate to cover any liabilities we may incur.

## *Risks Related to This Offering*

WE WILL HAVE DISCRETION AS TO THE USE OF THE PROCEEDS OF THIS OFFERING, WHICH WE MAY NOT USE EFFECTIVELY We are not required to use the net proceeds of this offering for any particular purpose, other than to redeem stock and stock options and to repay existing debt. Our management will therefore have significant flexibility in applying the net proceeds of this offering, including uses with which stockholders may disagree. The failure of management to apply such funds effectively could damage our business and result in lost business opportunities. See "Use of Proceeds".

## *Our Stock Price Is Likely to Be Highly Volatile and Could Drop Unexpectedly*

Following this offering, the price at which our class A common stock will trade is likely to be highly volatile and may fluctuate substantially. The stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices of securities, particularly securities of companies with Internet operations. As a result, investors may experience a material decline in the market price of our class A common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation of this type is often expensive and diverts management's attention and resources.

SHARES ELIGIBLE FOR PUBLIC SALE AFTER THIS OFFERING COULD ADVERSELY AFFECT OUR STOCK PRICE Sales of a large number of shares in the public market after this offering could have an adverse effect on the market price of our class A common stock. See "Shares Eligible for Future Sale".

## *Our Charter Documents and Delaware Law May Inhibit a Takeover*

Provisions in our charter and bylaws and Delaware law may have the effect of delaying or preventing a change of control or changes in our management that a stockholder might consider favorable. See "Description of Capital Stock". If a change of control or change in management is delayed or prevented, the market price of our class A common stock could decline.

## *You Will Suffer Immediate and Substantial Dilution*

The initial public offering price per share will significantly exceed the pro forma net tangible book value per share. Accordingly, investors purchasing shares in this offering will suffer immediate and substantial dilution. See "Dilution".

# *Cautionary Note Regarding Forward-looking Statements*

This prospectus contains forward-looking statements based on our current expectations, assumptions, estimates and projections about 1-800-FLOWERS.COM and our industry. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, as more fully described under the caption "Risk Factors" and elsewhere in this prospectus. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

# *Use of Proceeds*

```
    We estimate that the net proceeds we will receive from the sale of the
shares of class A common stock offered by us will be $    million, assuming an
initial public offering price of $    per share and after deducting the
estimated underwriting discount and offering expenses. If the underwriters'
over-allotment option is exercised in full, we estimate that the net proceeds
will be $    million.
```

We intend to use a portion of the proceeds of this offering as follows:

- $18.0 million to repay a term loan with Chase Bank that matures on the earlier of the consummation of this offering and July 3, 2000 and was used to fund our acquisition of Plow & Hearth;

- $3.0 million to repay a draw on our line of credit with Chase Bank that matures simultaneously with the term loan and was used for working capital and general corporate purposes; and - $8.8 million to redeem all outstanding Plow & Hearth common stock not held by us and Plow & Hearth stock options.

We intend to use the remaining proceeds over time:

- to fund our marketing activities;

- to enhance our infrastructure;

- to enter into strategic online relationships;

- to expand our product offerings; and - for other general corporate purposes.

We believe opportunities may exist from time to time to expand our current business through strategic acquisitions. We may use a portion of the proceeds for these purposes. We are not currently a party to any contracts, letters of intent, commitments or agreements, and are not currently engaged in active negotiations, with respect to any acquisitions.

# *Dividend Policy*

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain future earnings, if any, to provide funds to finance the expansion of our business. As a result, we do not anticipate paying any cash dividends in the foreseeable future.

# *Capitalization*

The following table sets forth our capitalization as of March 28, 1999:

- on an actual basis;

- on a pro forma basis after giving effect to (1) the 1999 recapitalization, (2) the May 1999 private placement, and (3) the use of a portion of the proceeds therefrom to redeem all class C common stock outstanding; and - on a pro forma as adjusted basis to reflect (1) our sale of shares of class A common stock in this offering at an assumed initial public offering price of $ per share, after deducting the underwriting discount and estimated offering expenses, (2) the use of a portion of the proceeds from this offering to repay existing debt and redeem outstanding stock and stock options, (3) the automatic conversion of all outstanding shares of our preferred stock into class A common stock; and (4) the filing of an amendment to our certificate of incorporation upon consummation of this offering. See "Use of Proceeds".

You should read this information together with our consolidated financial statements and the notes to those statements appearing elsewhere in this prospectus.

AS OF MARCH 28, 1999 PRO FORMA AS ACTUAL PRO FORMA ADJUSTED (IN THOUSANDS) Long-term debt and obligations under capital leases, excluding current portion..... $ 28,148 $ $ Redeemable class C common stock, non-voting; 100,000 shares authorized, 34,822 shares issued and outstanding (actual); no shares authorized, issued or outstanding (pro forma and pro forma as adjusted)..... 19,020 -- -- Stockholders' equity (deficit): Preferred stock, $0.01 par value, 200,000 shares authorized (actual); 1,200,000 shares authorized (pro forma) and 10,000,000 share authorized (pro forma as adjusted): Series A preferred stock, no shares authorized, issued or outstanding (actual); 1,200,000 shares authorized, shares issued and outstanding (pro forma); no shares authorized, issued or outstanding (pro forma as adjusted)..... -- -- Common Stock, $0.01 par value, 10,150,000 shares authorized (actual); 400,000,000 shares authorized (pro forma and pro forma as adjusted): Class A common stock, one vote per share; 50,000 shares authorized, 48,087 shares issued and 42,807 shares outstanding (actual); no shares authorized, issued or outstanding (pro forma and pro forma as adjusted)..... 0 -- -- Class B common stock, non-voting; 10,000,000 shares authorized, 4,884,993 shares issued and 4,356,993 shares outstanding (actual); no shares authorized, issued or outstanding (pro forma and pro forma as adjusted)..... 49 -- -- Class A common stock, one vote per share; no shares authorized, issued or outstanding (actual); 200,000,000 shares authorized (pro forma and pro forma as adjusted); shares issued and outstanding

(pro forma); shares issued and outstanding (pro forma as adjusted).... -- Class B common stock, ten votes per share; no shares authorized, issued or outstanding (actual); 200,000,000 shares authorized (pro forma and pro forma as adjusted); shares issued and outstanding (pro forma and pro forma as adjusted)..... -- Additional paid-in capital..... 3,863 Retained earnings (deficit)..... (7,148) Deferred compensation..... (1,575) Treasury stock, at cost; 5,280 shares of class A common stock and 528,000 shares of class B common stock..... (3,108) Total stockholders' equity (deficit)..... (7,919) Total capitalization..... $ 39,249 $ $ The number of shares of common stock outstanding after this offering (pro forma as adjusted) does not include:

- shares of class B common stock subject to options outstanding as of March 28, 1999 at a weighted average exercise price of $ per share;

- additional shares of class A common stock that could be issued under our stock option plan; and - shares of class A common stock issuable upon the exercise of outstanding warrants at a nominal exercise price.

# *Dilution*

Our pro forma net tangible book value as of March 28, 1999 was approximately $ million, or $ per share of common stock. Pro forma net tangible book value per share is determined by dividing the amount of our total tangible assets less total liabilities by the pro forma number of shares of class A and class B common stock outstanding at that date, assuming the consummation of the 1999 recapitalization, the May 1999 private placement, the redemption of the class C common stock and the automatic conversion of our outstanding preferred stock into class A common stock. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of class A common stock in this offering and the net tangible book value per share of common stock after giving effect to the offering. After giving effect to the issuance and sale of the shares of class A common stock offered by us and after deducting the estimated underwriting discount and offering expenses payable by us, our pro forma net tangible book value as of March 28, 1999 would have been $ , or $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors purchasing shares in this offering. If the initial public offering price is higher or lower, the dilution to the new investors will be greater or less, respectively. The following table illustrates this per share dilution:

Assumed initial public offering price per share..... $ Pro forma net tangible book value per share at March 28, 1999..... $ Increase in pro forma net tangible book value per share attributable to this offering..... Pro forma net tangible book value per share after the offering..... Dilution per share to new investors..... $ The following table summarizes, on the pro forma basis described above, as of March 28, 1999 the differences between the number of shares of common stock purchased from us, the aggregate cash consideration paid to us and the

average price per share paid by existing class A and class B common stockholders and new investors purchasing shares of class A common stock in this offering. The calculation below is based on an assumed initial public offering price of $ per share, before deducting the estimated underwriting discount and offering expenses payable by us.

TOTAL CONSIDERATION SHARES PURCHASED ---------- ---------- AVERAGE PRICE NUMBER PERCENT AMOUNT PERCENT PER SHARE

```
Existing stockholders.................................%                       $                   %
$
New investors.........................................
  Total.....................................................                100.0% $               100.0%
```

This discussion and table assume no exercise of any stock options or warrants outstanding as of March 28, 1999. As of March 28, 1999, on the pro forma basis described above, there were options outstanding to purchase a total of shares of class B common stock with a weighted average exercise price of $ per share and warrants outstanding to purchase shares of class A common stock at a nominal exercise price. To the extent that any of these options or warrants are exercised, there will be further dilution to new investors. See "Capitalization".

# *Selected Consolidated Financial Data*

The selected consolidated statement of operations data for the years ended June 30, 1996, June 29, 1997 and June 28, 1998 and the nine months ended March 28, 1999 and the consolidated balance sheet data as of June 29, 1997, June 28, 1998 and March 28, 1999 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated statement of operations data for the years ended June 30, 1994 and July 2, 1995 and the selected consolidated balance sheet data as of June 30, 1994, July 2, 1995 and June 30, 1996 are derived from our audited consolidated financial statements not included in this prospectus. The selected consolidated statement of operations data for the nine months ended March 29, 1998 is derived from our unaudited consolidated financial statements included elsewhere in this prospectus which, in the opinion of management, has been prepared on the same basis as the audited consolidated financial statements and contains all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of our results of operations. The selected unaudited pro forma combined financial data give effect to our acquisition of Plow & Hearth in April 1998 as if the acquisition had been consummated at the beginning of the respective periods. The selected unaudited pro forma combined financial data do not purport to be indicative of what our actual results of operations would have been if the acquisition had been consummated at the assumed times and the interim period financial data do not purport to be indicative of future operations and should not be construed as representative of future operations. The selected consolidated financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes to those statements included elsewhere in this prospectus.

| | YEAR ENDED | | | | | NINE MONTHS ENDED | |
|---|---|---|---|---|---|---|---|
| | JUNE 30, 1994 | JULY 2, 1995 | JUNE 30, 1996 | JUNE 29, 1997 | JUNE 28, 1998 | MARCH 29, 1998 | MARCH 28, 1999 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | | | |
| CONSOLIDATED STATEMENT OF OPERATIONS DATA: | | | | | | | |
| Net revenues: | | | | | | | |
| Telephonic | $ 87,284 | $ 100,826 | $ 127,920 | $ 145,295 | $ 161,874 | $ 107,141 | $ 146,245 |
| Online | 116 | 4,470 | 9,936 | 16,092 | 26,748 | 16,309 | 30,248 |
| Retail fulfillment | 4,263 | 11,511 | 15,272 | 25,043 | 31,970 | 22,767 | 27,175 |
| Total net revenues | 91,663 | 116,807 | 153,128 | 186,430 | 220,592 | 146,217 | 203,668 |
| Cost of revenues | 53,468 | 64,657 | 92,820 | 115,078 | 136,966 | 91,773 | 123,738 |
| Gross profit | 38,195 | 52,150 | 60,308 | 71,352 | 83,626 | 54,444 | 79,930 |
| Operating expenses: | | | | | | | |
| Marketing and sales | 29,170 | 38,564 | 42,952 | 47,464 | 55,417 | 38,089 | 67,204 |
| Technology and development | 500 | 626 | 851 | 1,411 | 1,794 | 1,128 | 5,207 |
| General and administrative | 7,019 | 10,035 | 11,556 | 12,338 | 15,832 | 10,315 | 10,528 |
| Depreciation and amortization | 675 | 1,364 | 2,247 | 3,287 | 4,168 | 2,768 | 6,043 |
| Total operating expenses | 37,364 | 50,589 | 57,606 | 64,500 | 77,211 | 52,300 | 88,982 |
| Operating income (loss) | 831 | 1,561 | 2,702 | 6,852 | 6,415 | 2,144 | (9,052) |
| Other income (expense), net | (131) | (131) | (209) | 674 | 1,654 | 1,729 | (1,129) |
| Income (loss) before income taxes and minority interests | 700 | 1,430 | 2,493 | 7,526 | 8,069 | 3,873 | (10,181) |
| Provision (benefit) for income taxes | 62 | 300 | 1,255 | 3,135 | 3,181 | 1,515 | (2,926) |
| Income (loss) before minority interests | 638 | 1,130 | 1,238 | 4,391 | 4,888 | 2,358 | (7,255) |
| Minority interests | -- | -- | 59 | (4) | 186 | 38 | (99) |
| Net income (loss) | 638 | 1,130 | 1,297 | 4,387 | 5,074 | 2,396 | (7,354) |
| Redeemable class C common stock dividends | -- | 293 | 1,029 | 1,462 | 1,608 | 1,206 | 1,328 |
| Net income (loss) applicable to common stockholders | $ 638 | $ 837 | $ 268 | $ 2,925 | $ 3,466 | $ 1,190 | $ (8,682) |
| Net income (loss) per common share applicable to common stockholders: | | | | | | | |
| Basic | $ 0.13 | $ 0.17 | $ 0.06 | $ 0.66 | $ 0.79 | $ 0.27 | $ (1.97) |
| Diluted | $ 0.13 | $ 0.17 | $ 0.05 | $ 0.63 | $ 0.74 | $ 0.25 | |

$ (1.97)
Shares used in the calculation of net income (loss) per common share:
Basic..... 4,853 4,860 4,705 4,414 4,412 4,414 4,400
Diluted..... 4,853 4,978 4,942 4,674 4,661 4,675 4,400

AS OF JUNE 30, 1994 JULY 2, 1995 JUNE 30, 1996 JUNE 29, 1997 JUNE 28, 1998 MARCH 28, 1999 (IN THOUSANDS)

CONSOLIDATED BALANCE SHEET DATA:
Cash and equivalents..... $ 1,344 $ 10,775 $ 6,639 $ 11,443 $ 8,873 $ 2,632
Working capital (deficit)..... (3,382) 2,822 (2,452) 1,975 1,950 (9,490)
Total assets..... 13,669 35,483 36,884 44,130 81,746 86,599
Long-term liabilities..... 7,251 14,959 17,804 9,456 35,359 38,640
Redeemable class C common stock..... -- 10,293 14,622 16,084 17,692 19,020
Total stockholders' equity (deficit)..... (4,222) (3,316) (5,615) (2,670) 672 (7,919)

| | YEAR ENDED | NINE MONTHS ENDED | |
|---|---|---|---|
| | JUNE 28, 1998 | MARCH 29, 1998 | MARCH 28, 1999 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | |
| PRO FORMA COMBINED STATEMENT OF OPERATIONS DATA: | | | |
| Net revenues: | | | |
| Telephonic | $ 197,303 | $ 142,568 | $ 146,245 |
| Online | 26,748 | 16,310 | 30,248 |
| Retail fulfillment | 33,696 | 24,494 | 27,175 |
| Total net revenues | 257,747 | 183,372 | 203,668 |
| Cost of revenues | 157,084 | 111,891 | 123,738 |
| Gross profit | 100,663 | 71,481 | 79,930 |
| Operating expenses: | | | |
| Marketing and sales | 67,492 | 50,164 | 67,204 |
| Technology and development | 2,126 | 1,460 | 5,207 |
| General and administrative | 20,369 | 14,852 | 10,528 |
| Depreciation and amortization | 5,188 | 3,788 | 6,043 |
| Total operating expenses | 95,175 | 70,264 | 88,982 |

| | | | |
|---|---|---|---|
| Operating income (loss)..... | 5,488 | 1,217 | (9,052) |
| Other income (expense), net..... | 194 | 269 | (1,129) |
| Income (loss) before income taxes and minority interests..... | 5,682 | 1,486 | (10,181) |
| Provision (benefit) for income taxes..... | 2,548 | 882 | (2,926) |
| Income (loss) before minority interests..... | 3,134 | 604 | (7,255) |
| Minority interests..... | 330 | 182 | (99) |
| Net income (loss)..... | 3,464 | 786 | (7,354) |
| Redeemable class C common stock dividends..... | 1,608 | 1,206 | 1,328 |
| Net income (loss) applicable to common stockholders..... | $ 1,856 | $ (420) | $ (8,682) |
| Net income (loss) per common share applicable to common stockholders: | | | |
| Basic..... | $ 0.42 | $ (0.10) | $ (1.97) |
| Diluted..... | $ 0.40 | $ (0.10) | $ (1.97) |
| Shares used in the calculation of net income (loss) per common share: | | | |
| Basic..... | 4,412 | 4,414 | 4,400 |
| Diluted..... | 4,661 | 4,414 | 4,400 |

# *Management's Discussion and Analysis of Financial Condition and Results of Operations*

THE FOLLOWING DISCUSSION OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO, INCLUDED ELSEWHERE IN THIS PROSPECTUS.

## *Overview*

1-800-FLOWERS.COM is a leading e-commerce provider of floral products and gifts. With the development of our online business and a strategic acquisition, we have continuously expanded our product offerings, most recently to include home and garden merchandise. As a result, we have developed relationships with customers who purchase products for gifting occasions as well as for everyday consumption. We offer a broad range of products, including fresh-cut and seasonal flowers, floral arrangements, gift baskets, gourmet foods, home and garden accessories and casual lifestyle furnishings.

Our revenues primarily consist of the selling price of merchandise and service and shipping charges, net of returns and credits.

Most of our floral products and some of our gift products are fulfilled by members of our BloomNet network of approximately 1,500 florists or one of our owned or franchised stores. We recognize revenue upon delivery of the order to the recipient. We transmit our orders either through BloomLink, our proprietary Internet-based electronic communication system, or a third-party wire service. Our remittance to the fulfilling florist is processed either through a third-party clearinghouse or directly paid by us. It is industry practice for the clearinghouse to credit back to the originating florist a rebate for payments processed through the clearinghouse. For florist-fulfilled orders, we record the fees paid to the clearinghouses, net of rebates earned, as a cost of revenues.

Our home and garden merchandise and most of our gift products are shipped by us or third parties directly to the customer. We recognize revenue upon shipment of the order. We ship non-floral gift items by United States Postal Service, Federal Express, United Parcel Service or other common carriers. Most of our home and garden products are fulfilled from our Madison, Virginia fulfillment center. For sales of gifts and home and garden merchandise, we record the merchandise cost and the associated costs of inbound freight and outbound shipping as cost of revenues.

Our retail fulfillment operations primarily consist of our 34 owned stores and 87 franchised stores. Retail fulfillment revenues also include revenues attributable to our wholesale business, fees paid to us by members of our BloomNet network and royalties, fees and sublease payments paid to us by our franchised stores. Our owned stores serve as important local points of fulfillment and enable us to test new products and marketing programs. A majority of the revenues derived from our owned stores represent fulfillment of our floral orders and are eliminated as intercompany revenues.

In April 1998, we acquired 88% of the issued and outstanding capital stock of The Plow & Hearth, Inc., a catalog company specializing in home and garden merchandise. We also acquired an advanced distribution facility, which we are currently expanding to approximately 300,000 square feet. The acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on fair values at the date of acquisition. The purchase price, consisting of $16.1 million in cash and a management put liability of $6.3 million, exceeded the estimated fair values of the net assets acquired by $19.6 million. This excess has been recorded as goodwill and is being amortized over 20 years. We borrowed $14.7 million of the purchase price through our bank credit facility.

In connection with the acquisition of Plow & Hearth, we entered into an agreement with a number of Plow & Hearth's stockholders and optionholders, whose shares and options we did not purchase in the acquisition. Pursuant to the agreement, each stockholder and optionholder has the right to cause Plow & Hearth to purchase all of its outstanding stock or stock options at a price contingent upon the operating profits of Plow & Hearth, upon the occurrence of specified events. Accordingly, we recorded a put liability of $6.3 million at the acquisition date. The put liability was increased by $2.4 million at June 28, 1998 to approximately $8.7 million, based on the formula specified in the agreement, of which $1.6 million was charged to earnings and $800,000 was charged to goodwill. During the first

two quarters of fiscal 1999, the prior year charge to earnings was reversed and goodwill adjusted in accordance with the formula to properly state the put liability. We will use a portion of the proceeds of this offering to purchase these stockholders' and optionholders' Plow & Hearth stock and stock options.

Effective for the fiscal year ended June 28, 1998, we adopted Statement of Position 98-1, known as SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This statement requires that certain costs related to the development or purchase of internal-use software be capitalized and amortized over the estimated useful life of the software. The statement also requires that costs related to the preliminary project stage and post-implementation and post-operations stage in an internal-use computer software development project be expensed as incurred. Capitalized computer software development for internal use totaled approximately $828,000, $5.2 million and $626,000 for the years ended June 29, 1997 and June 28, 1998 and the nine months ended March 28, 1999, respectively. No such costs were capitalized during the year ended June 30, 1996.

Although we have been profitable in the past, we expect to incur losses for the foreseeable future as a result of the significant operating and capital expenditures required to achieve our objectives. In order to achieve and maintain profitability, we will need to generate revenues significantly above historical levels. Our prospects for achieving profitability must be considered in light of the risks, uncertainties, expenses, and difficulties encountered by companies in the rapidly evolving market of online commerce.

## *Results of Operations*

The following table sets forth certain items from our consolidated statements of operations expressed as a percentage of total net revenues for the periods indicated:

| | YEARS ENDED | | | NINE MONTHS ENDED | |
|---|---|---|---|---|---|
| | JUNE 30, 1996 | JUNE 29, 1997 | JUNE 28, 1998 | MARCH 29, 1998 | MARCH 28, 1999 |
| Net revenues: | | | | | |
| Telephonic | 83.5% | 78.0% | 73.4% | 73.2% | 71.8% |
| Online | 6.5 | 8.6 | 12.1 | 11.2 | 14.9 |
| Retail fulfillment | 10.0 | 13.4 | 14.5 | 15.6 | 13.3 |
| Total net revenues | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenues | 60.6 | 61.7 | 62.1 | 62.8 | 60.8 |
| Gross profit | 39.4 | 38.3 | 37.9 | 37.2 | 39.2 |
| Operating expenses: | | | | | |
| Marketing and sales | 28.0 | 25.4 | 25.1 | 26.0 | 33.0 |
| Technology and development | 0.6 | 0.8 | 0.8 | 0.8 | 2.6 |

| | | | | | |
|---|---|---|---|---|---|
| General and administrative | 7.5 | 6.6 | 7.2 | 7.1 | 5.1 |
| Depreciation and amortization | 1.5 | 1.8 | 1.9 | 1.9 | 3.0 |
| Total operating expenses | 37.6 | 34.6 | 35.0 | 35.8 | 43.7 |
| Operating income (loss) | 1.8 | 3.7 | 2.9 | 1.4 | (4.5) |
| Other income (expense), net | (0.2) | 0.4 | 0.8 | 1.2 | (0.5) |
| Income taxes (benefit) | 0.8 | 1.7 | 1.4 | 1.0 | (1.4) |
| Net income (loss) | 0.8% | 2.4% | 2.3% | 1.6% | (3.6)% |

COMPARISON OF THE NINE MONTHS ENDED MARCH 28, 1999 AND THE NINE MONTHS ENDED MARCH 29, 1998 NET REVENUES. Net revenues consist primarily of the selling price of merchandise and service and shipping charges, net of returns and credits. Total net revenues increased 39.3%, from $146.2 million for the nine months ended March 29, 1998 to $203.7 million for the nine months ended March 28, 1999. Telephonic revenues increased 36.5%, from $107.1 million for the nine months ended March 29, 1998 to $146.2 million for the nine months ended March 28, 1999 as a result of the Plow & Hearth acquisition. Online revenues increased 85.3%, from $16.3 million for the nine months ended March 29, 1998 to $30.2 million for the nine months ended March 28, 1999. Retail fulfillment revenues increased 19.3%, from $22.8 million for the nine months ended March 29, 1998 to $27.2 million for the nine months ended March 28, 1999, primarily due to an increase in the number of owned retail stores from 21 to 34. We do not expect to materially increase the number of owned retail stores in the foreseeable future.

COST OF REVENUES. Cost of revenues consists primarily of fees paid to clearinghouses, net of rebates, and the cost of merchandise sold, including inbound freight and outbound shipping. Additionally, cost of revenues includes labor and facility expenses related to our wholesale operations and facility costs related to properties that we sublet to our franchisees. Cost of revenues increased 34.7%, from $91.8 million for the nine months ended March 29, 1998 to $123.7 million for the nine months ended March 28, 1999. Cost of revenues increased in line with total net revenues. For the same period, gross margin increased 2.0 percentage points to 39.2%. The improvement in gross margin was primarily attributable to the Plow & Hearth acquisition, whose product line carries a higher margin than our floral products.

MARKETING AND SALES EXPENSES. Marketing and sales expenses consist primarily of advertising and promotional expenditures, catalog costs, fees paid to strategic online partners, costs associated with retail store, customer service center and fulfillment center operations and the operating expenses of our departments engaged in marketing, selling and merchandising activities. Marketing and sales expenses increased 76.4%, from $38.1 million, or 26.0% of total net revenues, for the nine months ended March 29, 1998, to $67.2 million, or 33.0% of total net revenues, for the nine months ended March 28, 1999. The increase was primarily attributable to catalog printing and circulation expenditures resulting from the Plow & Hearth acquisition, expansion of our online and traditional media advertising campaigns, increased inbound freight and outbound shipping, telephone expenses and payroll and related expenses in support of increased order fulfillment and customer service

activities. We expect marketing and sales expenses to increase significantly in future periods as we implement our strategy to expand our base of strategic online partners and to pursue an aggressive branding and marketing campaign.

TECHNOLOGY AND DEVELOPMENT EXPENSES. Technology and development expenses consist primarily of payroll and operating expenses of our information technology group, costs associated with our Web site, including design, development and third-party hosting, and maintenance, support and licensing costs pertaining to our order entry, customer service, fulfillment and database systems. Technology and development expenses increased from $1.1 million for the nine months ended March 29, 1998 to $5.2 million for the nine months ended March 28, 1999. The increase was primarily attributable to staff additions to the technology team, costs incurred to enhance the content and functionality of our Web site, further enhancements of our transaction processing system and increased investment in other areas of our systems infrastructure. For the nine months ended March 28, 1999, we capitalized $626,000 of acquired or developed software in accordance with SOP 98-1. We believe that continued investment in technology and development is critical to attaining our strategic objectives and, as a result, we expect technology and development costs to increase significantly, particularly in the areas of Web site development and database management.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist of payroll and other expenses in support of our executive, finance & accounting, legal, human resources and other administrative functions, as well as professional fees and other general corporate expenses. General and administrative expenses increased 1.9%, from $10.3, or 7.1% of total net revenues, for the nine months ended March 29, 1998 to $10.5 million, or 5.2% of total net revenues, for the nine months ended March 28, 1999. The decrease as a percentage of total net revenues was attributable to a $1.6 million benefit related to the reduction in the Plow & Hearth put liability. We expect that general and administrative expenses will increase in the future due to the expansion of our staff to support our growth strategy and the incremental costs we expect to incur as a public company.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased from $2.8 million for the nine months ended March 29, 1998 to $6.0 million for the nine months ended March 28, 1999. The increase was primarily due to additional capital expenditures in short-lived information systems hardware and software, as well as the increase in depreciable assets acquired and goodwill created by the Plow & Hearth acquisition.

OTHER INCOME (EXPENSE), NET. Other income (expense), net consists primarily of interest expense attributable to our credit facility, promissory notes issued to sellers in acquisitions, and leases, offset by interest income on our cash and short-term investments and dividend income. For the nine months ended March 28, 1999, we recorded a net expense of $1.1 million due primarily to the financing of the Plow & Hearth acquisition. For the nine months ended March 29, 1998, we realized other net income of $1.7 million, which consisted primarily of a $1.5 million dividend from a minority investment.

INCOME TAXES. For the nine months ended March 28, 1999, we incurred a loss that provided a tax benefit of $2.9 million at an effective rate of 28.7%. For the nine months ended March 29, 1998, we provided for taxes of $1.5 million at an effective rate of 39.1%. The effective tax rate differed from the combined statutory rate as a result of the non-taxable component of a $1.5 million dividend, offset in part by the non-deductibility of certain goodwill amortization. We anticipate incurring significant losses in the foreseeable future. After accounting for recoverable income taxes due to allowable tax carry-back claims, we intend to provide a full valuation allowance on the related deferred tax asset to reflect the uncertainty of its realization in the future.

## *Year Ended June 28, 1998 Compared to the Year Ended June 27, 1997*

NET REVENUES. Total net revenues increased 18.3%, from $186.4 million for fiscal 1997 to $220.6 million for fiscal 1998. Telephonic revenues increased 11.4%, from $145.3 million in fiscal 1997 to $161.9 million in fiscal 1998. The increase was primarily due to our April 1998 acquisition of Plow & Hearth, which contributed $11.4 million in net revenues in the fourth quarter. Online revenues increased 65.8%, from $16.1 million in fiscal 1997 to $26.7 million in fiscal 1998. Retail fulfillment revenues increased 28.0%, from $25.0 million in fiscal 1997 to $32.0 million in fiscal 1998, primarily as a result of our acquisition of a wholesale supplier of fresh-cut flowers and floral arrangements to the supermarket industry and an increase in the number of company-owned stores.

COST OF REVENUES. Cost of revenues increased 19.0%, from $115.1 million in fiscal 1997 to $137.0 million in fiscal 1998. The increase was in line with the increase in total net revenues. Our gross margin decreased 0.4 percentage points from 38.3% to 37.9% due to an increase in the percentage of total net revenue from lower margin wholesale operations.

MARKETING AND SALES EXPENSES. Marketing and sales expenses increased 16.6%, from $47.5 million, or 25.4% of total net revenues, for fiscal 1997 to $55.4 million, or 25.1% of total net revenues, for fiscal 1998. The additional spending was primarily attributable to increased catalog expenditures resulting from the Plow & Hearth acquisition as well as expansion of our online presence through an online marketing agreement with AOL, which became effective in May 1997. The decrease as a percentage of net revenues was due to reduced expenditures on traditional marketing activities and the favorable impact of online revenues upon customer service center operating expense.

TECHNOLOGY AND DEVELOPMENT EXPENSES. Technology and development expenses increased 28.6%, from $1.4 million in fiscal 1997 to $1.8 million in fiscal 1998. In addition to recognized product development expenses, we capitalized $5.2 million of software development costs in fiscal 1998 in accordance with SOP 98-1, reflecting our increased investments in our infrastructure. This compares to $828,000 of capitalized development costs in fiscal 1997.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased 28.5%, from $12.3 million, or 6.6% of total net revenues, for fiscal 1997 to $15.8 million, or 7.2% of total net revenues, for fiscal 1998. The increase in general and administrative expenses was primarily

due to increased salaries and related expenses associated with our retail and fulfillment operations and a charge to earnings in June 1998 of $1.6 million related to an increase in the Plow & Hearth put liability.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased from $3.3 million in fiscal 1997 to $4.2 million in fiscal 1998. The increase relates to the higher level of depreciable assets in fiscal 1998 as well as the depreciable assets acquired and goodwill created by the Plow & Hearth acquisition.

OTHER INCOME (EXPENSE), NET. Other income, net increased from $674,000 for fiscal 1997 to $1.7 million for fiscal 1998. The increase was primarily attributable to a $1.5 million dividend from a minority investment partially offset by increased interest expense related to borrowings incurred to finance our acquisition of Plow & Hearth.

INCOME TAXES. Income taxes increased from $3.1 million for fiscal 1997 to $3.2 million for fiscal 1998. The effective tax rate decreased 2.3 percentage points, from 41.7% for fiscal 1997 to 39.4% for fiscal 1998. The reduction in rate was caused by receipt of a $1.5 million dividend taxed at more favorable rates, offset in part by the effect of higher non-deductible goodwill related to the Plow & Hearth acquisition.

## *Year Ended June 27, 1997 Compared to the Year Ended June 30, 1996*

NET REVENUES. Total net revenues increased 21.8%, from $153.1 million in fiscal 1996 to $186.4 million in fiscal 1997. The increase in net revenues was primarily the result of the growth of our telephonic and online customer base and an increase in net revenues related to our retail fulfillment operations.

COST OF REVENUES. Cost of revenues increased 24.0%, from $92.8 million in fiscal 1996 to $115.1 million in fiscal 1997. The increase was in line with the increase in total net revenues. Our gross margin decreased 1.1 percentage points from 39.4% in fiscal 1996 to 38.3% in fiscal 1997 due to an increase in revenue from lower margin wholesale operations.

MARKETING AND SALES EXPENSES. Marketing and sales expenses increased 10.5%, from $43.0 million, or 28.0% of total net revenues, in fiscal 1996 to $47.5 million, or 25.4% of total net revenues, in fiscal 1997. The additional spending increase was primarily attributable to increases in personnel costs supporting the customer service centers as well as an increase in general advertising dollars to support our brand. However, these increases were, in percentage terms, lower than the percentage increase in total net revenues, resulting in a decrease as a percentage of total net revenues.

TECHNOLOGY AND DEVELOPMENT EXPENSES. Technology and development expenses increased 64.5%, from $851,000 in fiscal 1996 to $1.4 million in fiscal 1997. The increase related to the increase in information technology staff to support our growth.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased 6.0%, from $11.6 million, or 7.5% of total net revenues, in fiscal 1996 to $12.3 million, or 6.6% of total net revenues, in fiscal 1997. The increase in general and administrative expenses was primarily due to increased salaries and related expenses associated with the expansion of our fulfillment operations.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased from $2.2 million in fiscal 1996 to $3.3 million in fiscal 1997. The increase relates to a full year of depreciation on $5.0 million of assets purchased in fiscal 1996, as well as depreciation on assets purchased in fiscal 1997.

OTHER INCOME (EXPENSE), NET. Other income, net was $674,000 in fiscal 1997 compared to an expense of $209,000 in fiscal 1996. The difference was primarily attributable to the retirement of $5.8 million of related party debt obligations in fiscal 1996.

INCOME TAXES. Income taxes increased from $1.3 million in fiscal 1996 to $3.1 million in fiscal 1997. The effective tax rate decreased 8.6 percentage points, from 50.3% for fiscal 1996 to 41.7% in fiscal 1997. The effective tax rate reflects the non-deductible amortization related to our 1995 purchase of one of our franchisees and, in fiscal 1996, a non-deductible charge.

## *Pro Forma Results of Operations*

The following table sets forth information expressed as a percentage of total net revenues for the year ended June 28, 1998 (pro forma), the nine months ended March 29, 1998 (pro forma) and the nine months ended March 28, 1999 (actual):

| | YEAR ENDED | NINE MONTHS ENDED | |
|---|---|---|---|
| | JUNE 28, 1998 | MARCH 29, 1998 | MARCH 28, 1999 |
| Net revenues: | | | |
| Telephonic | 76.5% | 77.7% | 71.8% |
| Online | 10.4 | 8.9 | 14.9 |
| Retail fulfillment | 13.1 | 13.4 | 13.3 |
| Total net revenues | 100.0 | 100.0 | 100.0 |
| Cost of revenues | 61.0 | 61.0 | 60.8 |
| Gross profit | 39.0 | 39.0 | 39.2 |
| Operating expenses: | | | |
| Marketing and sales | 26.2 | 27.4 | 33.0 |
| Technology and development | 0.8 | 0.8 | 2.6 |
| General and administrative | 7.9 | 8.1 | 5.2 |
| Depreciation and amortization | 2.0 | 2.1 | |

| | | |
|---|---|---|
| 3.0 | | |
| Total operating expenses | 36.9 | 38.4 |
| 43.7 | | |
| Operating income (loss) | 2.2 | 0.6 |
| (4.4) | | |
| Other income (expense), net | 0.2 | 0.3 |
| (0.6) | | |
| Income taxes | 1.1 | 0.5 |
| (1.4) | | |
| Net income (loss) | 1.3% | 0.4% |
| (3.6)% | | |

## *Nine Months Ended March 28, 1999 (Actual)*

## *Compared to Nine Months Ended*

## *March 29, 1998 (Pro Forma)*

NET REVENUES. Total net revenues increased 11.1%, from $183.4 million for the nine months ended March 29, 1998 to $203.7 million for the nine months ended March 28, 1999. Telephonic revenues increased 2.5% from $142.6 million for the nine months ended March 29, 1998 to $146.2 million for the nine months ended March 28, 1999. This was due to an increase in sales of home and garden merchandise, offset in part by a decline in telephonic floral revenues as a greater proportion of our floral revenues were generated through our Web site. Online revenues increased 85.3% from $16.3 million for the nine months ended March 29, 1998 to $30.2 million for the nine months ended March 28, 1999. Retail fulfillment revenues increased 11.0%, from $24.5 million for the nine months ended March 29, 1998 to $27.2 million for the nine months ended March 28, 1999 due primarily to the increase in the number of our owned retail stores from 21 to 34.

COST OF REVENUES. Cost of revenues increased 10.6%, from $111.9 million for the nine months ended March 28, 1998 to $123.7 million for the nine months ended March 28, 1999. Our gross margin increased 0.2 percentage points from 39.0% for the nine months ended March 29, 1998 to 39.2% for the comparable period in fiscal 1999.

MARKETING AND SALES EXPENSES. Marketing and sales expenses increased 33.5%, from $50.2 million, or 27.4% of total net revenues, for the nine months ended March 29, 1998 to $67.2 million, or 33.0% of total net revenues, for the comparable period in fiscal 1999. The increase was primarily attributable to increased catalog circulation, expansion of our online and traditional media advertising, increased telephone expenses and payroll and other related expenses in support of increased order fulfillment and customer service activities.

TECHNOLOGY AND DEVELOPMENT EXPENSES. Technology and development expenses increased from $1.5 million for the nine months ended March 29, 1998 to $5.2 million for the comparable period in fiscal 1999. The increase was primarily attributable to additions to our technology team, costs incurred to enhance the content and functionality of our Web site, further

enhancements of our transaction processing system and increased investments in other areas of our systems infrastructure. In accordance with SOP 98-1, we capitalized $626,000 of acquired or developed software for the nine months ended March 28, 1999.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses decreased 29.5%, from $14.9 million, or 8.1% of total net revenues, for the nine months ended March 29, 1998 to $10.5 million, or 5.2% of total net revenues, for the comparable period in fiscal 1999. The decrease was primarily due to a $1.6 million benefit related to a reduction in the Plow & Hearth put liability in the nine months ended March 28, 1999 and a $3.9 million non-recurring and non-cash compensation charge in the nine months ended March 29, 1998 related to the revaluation of Plow & Hearth stock options prior to the acquisition.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased from $3.8 million for the nine months ended March 29, 1998 to $6.0 million for the comparable period in fiscal 1999. The increase was primarily due to additional capital expenditures in short-lived information technology assets.

OTHER INCOME (EXPENSE), NET. For the nine months ended March 28, 1999, we recorded a net expense of $1.1 million compared to net income of $269,000 for the comparable period in fiscal 1998. Other income (expense), net consists primarily of interest expense attributable to our credit facility and seller financed notes and leases, offset by interest income on our cash and short-term investments and dividend income. The higher net interest income in fiscal 1998 was due to a one-time $1.5 million dividend from a minority investment.

INCOME TAXES. For the nine months ended March 28, 1999, we incurred a loss that provided a tax benefit of $2.9 million at an effective rate of 28.7%. For the comparable period in fiscal 1998, we provided for taxes of $882,000 at an effective rate of 59.4%. The effective tax rate differed from the combined federal and state statutory rate of 40.0% as a result of the non-deductibility of goodwill amortization related to the Plow & Hearth acquisition as well as, for fiscal 1999, our inability to recognize certain state tax benefits.

## *Quarterly Results of Operations*

The following tables set forth unaudited quarterly statement of operations data for the last seven quarters and such data expressed as a percentage of total net revenues. We believe this unaudited information has been prepared substantially on the same basis as the annual audited financial statements and all necessary adjustments, consisting of only normal recurring adjustments, have been included in the amounts stated below to present fairly our results of operations. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

| | THREE MONTHS ENDED | | | | | | |
|---|---|---|---|---|---|---|---|
| | SEPT. 28, 1997 | DEC. 28, 1997 | MAR. 29, 1998 | JUNE 28, 1998 | SEPT. 27, 1998 | DEC. 27, 1998 | MAR. 28, 1999 |

| | (IN THOUSANDS) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net revenues: | | | | | | | | | | |
| Telephonic | $ 28,601 | $ 40,041 | $ 38,498 | $ 54,734 | $ 34,370 | $ 67,972 | $ 43,903 | | | |
| Online | 3,276 | 5,938 | 7,095 | 10,439 | 6,258 | 10,771 | 13,219 | | | |
| Retail fulfillment | 5,638 | 7,610 | 9,520 | 9,202 | 6,946 | 10,061 | 10,168 | | | |
| Total net revenues | 37,515 | 53,589 | 55,113 | 74,375 | 47,574 | 88,804 | 67,290 | | | |
| Cost of revenues | 23,499 | 33,361 | 34,913 | 45,193 | 29,793 | 51,847 | 42,098 | | | |
| Gross profit | 14,016 | 20,228 | 20,200 | 29,182 | 17,781 | 36,957 | 25,192 | | | |
| Operating expenses: | | | | | | | | | | |
| Marketing and sales | 9,792 | 14,689 | 13,609 | 17,327 | 14,455 | 33,065 | 19,684 | | | |
| Technology and development | 409 | 185 | 534 | 665 | 1,127 | 1,807 | 2,273 | | | |
| General and administrative | 3,280 | 3,730 | 3,305 | 5,518 | 2,348 | 3,273 | 4,906 | | | |
| Depreciation and amortization | 905 | 905 | 958 | 1,400 | 1,532 | 1,676 | 2,836 | | | |
| Total operating expenses | 14,386 | 19,509 | 18,406 | 24,910 | 19,462 | 39,821 | 29,699 | | | |
| Operating income (loss) | (370) | 719 | 1,794 | 4,272 | (1,681) | (2,864) | (4,507) | | | |
| Other income (expense), net | 1,724 | (13) | 56 | 71 | (227) | (623) | (378) | | | |
| Income taxes | 524 | 273 | 718 | 1,666 | (552) | (1,010) | (1,363) | | | |
| Net income (loss) | $ 830 | $ 433 | $ 1,132 | $ 2,677 | $ (1,356) | $ (2,478) | $ (3,522) | | | |

| | THREE MONTHS ENDED | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | SEPT. 28, 1997 | DEC. 28, 1997 | MAR. 29, 1998 | JUNE 28, 1998 | SEPT. 27, 1998 | DEC. 27, 1998 | MAR. 28, 1999 | | | |
| Net revenues: | | | | | | | | | | |
| Telephonic | 76.2% | 74.8% | 69.9% | 73.6% | 72.3% | 76.5% | 65.2% | | | |
| Online | 8.7 | 11.0 | 12.9 | 14.0 | 13.2 | 12.2 | 19.6 | | | |
| Retail fulfillment | 15.1 | 14.2 | 17.2 | 12.4 | 14.5 | 11.3 | 15.2 | | | |
| Total net revenues | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | | | |
| Cost of revenues | 62.6 | 62.3 | 63.3 | 60.8 | 62.6 | 58.4 | 62.6 | | | |
| Gross profit | 37.4 | 37.7 | 36.7 | 39.2 | 37.4 | 41.6 | 37.4 | | | |
| Operating expenses: | | | | | | | | | | |
| Marketing and sales | 26.1 | 27.4 | 24.7 | 23.3 | 30.4 | 37.2 | 29.2 | | | |
| Technology and development | 1.1 | 0.3 | 1.0 | 0.9 | 2.4 | 2.0 | 3.4 | | | |
| General and administrative | 8.7 | 7.0 | 6.0 | 7.4 | 4.9 | 3.7 | 7.3 | | | |
| Depreciation and amortization | 2.4 | 1.7 | 1.7 | 1.9 | 3.2 | 1.9 | 4.2 | | | |
| Total operating expenses | 38.3 | 36.4 | 33.4 | 33.5 | 40.9 | 44.8 | 44.1 | | | |
| Operating income (loss) | (0.9) | 1.3 | 3.3 | 5.7 | (3.5) | | | | | |

```
(3.2)      (6.7)
Other income (expense), net.........         4.5        (0.0)       0.1         0.1         (0.5)
(0.7)      (0.6)
Income taxes........................         1.4         0.5        1.3         2.2         (1.2)
(1.1)      (2.0)
Net income (loss)...................         2.2%        0.8%       2.1%        3.6%        (2.8)%
(2.8)%      (5.3)%
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Our quarterly results are subject to seasonal fluctuations. Historically, revenues have been highest in the fourth fiscal quarter, due to a number of major floral gifting occasions, including Mother's Day, Easter and graduations. Due to our acquisition of Plow & Hearth, which generates more revenues in our second fiscal quarter due to Christmas and Thanksgiving, our second fiscal quarter revenues in fiscal 1999 increased significantly from historical levels. We expect our second fiscal quarter revenues to represent a larger proportion of our total revenues in the future.

It is difficult for us to forecast our revenues or earnings accurately. We believe that period-to-period comparisons of our operating results may not be meaningful and should not be relied upon as an indication of future performance. We do not have a backlog, and almost all of our net revenues are derived from transactions that are consummated and fulfilled on the same day, the next day or shortly thereafter.

## *Liquidity and Capital Resources*

Since inception, we have financed our operations primarily through loans from our Chief Executive Officer, which were repaid in June 1996, cash flow from operations and a sale of class C common stock in January 1995. In addition, to finance acquisitions, we have issued promissory notes to sellers and entered into a $30.0 million credit agreement that provides for an $18.0 million term loan and a $12.0 million revolving credit facility. Additionally, we have a $4.5 million revolving credit line with another bank. At March 28, 1999, $2.8 million was outstanding under this revolving credit line and we had $2.3 million in cash and equivalents. In May 1999, we issued preferred stock yielding us net proceeds of $102.6 million in a private placement.

We used $9.7 million in cash to fund operations during the nine months ended March 28, 1999, principally to fund our net loss as well as increases in accounts receivable and inventories. This use of cash was offset in part by increases in accounts payable and accrued expenses, due primarily to our revenue growth. We generated $5.8 million, $10.7 million and $9.5 million in cash from operations in fiscal 1996, 1997 and 1998, respectively.

We used $1.7 million in cash for investing activities in the nine months ended March 28, 1999. We used $4.0 million, $4.2 million and $25.5 million in cash for investing activities in fiscal 1996, 1997 and 1998, respectively. In each period, cash used for investing activities related primarily to the purchase of property, equipment and investments in our systems infrastructure and, in fiscal 1998, the acquisition of Plow & Hearth. For the nine months ended March 28, 1999, we generated cash by liquidating investments yielding proceeds of $5.4 million. In fiscal 1998, we used $15.2 million, net of cash acquired, related to the Plow & Hearth acquisition.

We generated $5.2 million in cash from financing activities in the nine months ended March 28, 1999 and $13.4 million in fiscal 1998. In the nine months ended March 28, 1999, financing activities included net borrowings of $6.2 million under our credit facility and revolving lines of credit and an increase in our mortgage notes payable of $1.1 million related to the expansion of the Plow & Hearth credit facility. In fiscal 1998, we borrowed $15.5 million to finance the Plow & Hearth acquisition, offset in part by repayments of capital leases and seller acquisition notes and the purchase into treasury of $133,000 of outstanding class A and B common stock. In fiscal 1997, we used $1.7 million in financing activities related to the repayment of capital leases and promissory notes issued to sellers. Finally, in 1996 we used $3.0 million in financing to repay capital leases and related party loans as well as purchased into treasury $3.0 million of outstanding class A and B common stock.

Our material capital commitments consist of borrowings under our credit facility, promissory notes issued to sellers, obligations outstanding under capital and operating leases and payments owing to AOL. Pursuant to our agreement with AOL, we are obligated to pay $10.8 million to AOL during the four-year term of this agreement. In addition, we are required to share a small portion of our AOL-derived revenue with AOL. Pursuant to the agreement, we paid AOL $3.3 million in fiscal 1998 and approximately $5.6 million during the nine months ended March 28, 1999. A scheduled payment of $2.5 million will be made in July 1999.

We believe that the net proceeds from this offering, together with our current cash and cash equivalents, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. If cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities. The sale of additional equity or convertible debt securities could result in additional dilution to our stockholders. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all.

## *Year 2000 Compliance*

Many currently installed computer systems and software products are coded to accept or recognize only two digit entries in the date code field. These systems and software products will need to accept four digit entries to distinguish 21(st) century dates from 20(th) century dates. As a result, computer systems and software used by many companies and governmental agencies may need to be upgraded to comply with Year 2000 requirements or risk system failure or miscalculations causing disruptions of normal business activities.

## *Our State of Readiness*

We have made a preliminary assessment of the state of our operating and administrative systems including our telecommunications systems, our order processing and data collection systems and our internet related systems to assess our state of Year 2000 readiness. Our assessment plan consists of:

- evaluating our date dependent code, software and hardware and evaluating external dependencies;

- quality assurance testing of our internally developed software and systems; and - obtaining assurances or warranties from third-party vendors and licensors of material hardware, software and services that are related to the delivery of our services.

To date, our assessment has determined that our critical business systems are all Year 2000 compliant, except our call routing system, and that most of our other systems are Year 2000 compliant. We expect all of our internal systems, including the call routing system, to be fully Year 2000 compliant by October 1999. All material commercial software and hardware on which we depend is either Year 2000 compliant or will be upgraded to be compliant in the normal course of business through the installation of upgrades or replacements. Our material hardware, software and service vendors have informed us that the products we use, or will be using as upgrades or replacements, to support our operations are Year 2000 compliant. Our Web site hosting service, Fry Multimedia, has represented to us that its hardware and software systems are Year 2000 compliant.

## *Costs to Address Year 2000 Issues*

To date, we have not incurred any significant costs attributable to Year 2000 compliance. Our recent information technology investments have been in support of our expanding operating and decision support requirements and to the extent they involved a replacement of an existing system, also accommodated Year 2000 compliance. We do, however, expect to incur approximately $1.0 million in the third calendar quarter to make our call routing system Year 2000 compliant. Other than these costs, we are not currently aware of any material operational issues or costs associated with preparing our systems for the Year 2000. Nonetheless, we may experience material unexpected costs caused by undetected errors or defects in the technology used in our systems or because of the failure of a material vendor to be Year 2000 compliant.

## *Risks Associated with Year 2000 Issues*

Notwithstanding our Year 2000 compliance efforts, the failure of a material system or vendor, or the Internet generally, to be Year 2000 compliant could harm the operation of our systems or have other unforeseen, material adverse consequences to us. We are also subject to external Year 2000-related failures or disruptions that might generally affect industry and commerce, such as utility or transportation company Year 2000 compliance failures and related service interruptions. All of these factors could materially adversely affect our business.

## *Contingency Plans*

As discussed above, we are engaged in an ongoing Year 2000 assessment and have developed no contingency plans to address situations that might occur if technologies on which we depend are not Year 2000 compliant. The results of our Year 2000 assessment and testing, and the responses received

from third-party vendors and service providers will be taken into account in determining the need for and nature and extent of any contingency plans.

# *Business*

## *Overview*

1-800-FLOWERS.COM, Inc. is a leading e-commerce provider of floral products and gifts. With the development of our online business and a strategic acquisition, we have continuously expanded our product offerings, most recently to include home and garden merchandise. As a result, we have developed relationships with customers who purchase products not only for gifting occasions but also for everyday consumption.

We believe the 1-800-FLOWERS brand is one of the most recognized brands in the floral industry. We offer more than 1,500 varieties of fresh-cut and seasonal flowers, plants and floral arrangements and more than 6,000 SKUs of gifts and home and garden products, including gift baskets, gourmet foods, garden accessories and casual lifestyle furnishings. We provide our customers the choice of purchasing our products online, by calling us toll-free or by visiting our owned or franchised retail stores.

Today, the Internet is our fastest growing sales channel. For the nine months ended March 28, 1999, online revenues were $30.2 million, representing an 85.3% increase over the same period in the previous fiscal year.

We believe we have been and continue to be a leader in implementing integrated technologies and systems that support our online and telephonic sales channels and our fulfillment operations. Because many of our products must be handled delicately and delivered promptly to ensure customer satisfaction and freshness, we have developed significant experience in fulfilling our customers' orders reliably, quickly and cost-effectively.

As of December 31, 1998, we had sold our products to more than 6.7 million customers, of which 2.7 million had made a purchase from us in the previous twelve months. Our total net revenues for the nine months ended March 28, 1999 were $203.8 million.

In May 1999, we completed a private placement of preferred stock yielding us net proceeds of $102.6 million. The investors include Benchmark Capital Partners and SOFTBANK America Inc., both leading Internet-focused investment firms, and Forum Holding BV, an affiliate of LVMH Moet Hennessey Louis Vuitton S.A.

## *The Origins of 1-800-Flowers.com*

Our business began in 1976, when James F. McCann, our Chairman and Chief Executive Officer, acquired a single retail florist in New York City. We expanded to 14 retail locations by 1986, when we changed our business strategy to take advantage of the rapid emergence of toll-free calling. We

acquired the right to use the toll-free telephone number 1-800-FLOWERS, adopted it as our corporate identity and began to aggressively build a national brand around it. We believe we were one of the first companies to embrace this new way of conducting business.

To support the growth of our toll-free business and to provide superior customer service, we began developing an operating infrastructure that incorporated the best available technologies. Over time, we implemented:

- a sophisticated transaction processing system that facilitated rapid order entry and fulfillment;

- a redundant, fault tolerant telecommunications system; and - multiple customer service centers to handle increasing call volume.

To enable us to deliver products reliably nationwide on a same-day or next-day basis and to market pre-selected, high-quality floral products, we created BloomNet, a nationwide network of approximately 1,500 local florists selected by us for their high-quality products, superior customer service and order fulfillment and delivery capabilities.

In the early 1990s, we recognized the emergence of the Internet as a significant strategic opportunity and moved aggressively to embrace this new medium. Leveraging our previous investments in our infrastructure, we were able to quickly develop and implement an online presence. As a result, we were one of the first companies to market products online through CompuServe beginning in 1992 and AOL beginning in 1994 (keyword: flowers). In April 1995, we opened our fully functional, e-commerce Web site (WWW.1800FLOWERS.COM) and subsequently entered into strategic relationships with AOL and Microsoft Network, among others, to build our online brand and customer base.

Our online presence has enabled us to expand the number and types of products we can effectively offer. Since 1995, we have expanded our online product offerings of flowers and gifts and added complementary home and garden merchandise through our April 1998 acquisition of Plow & Hearth.

## *1-800-Flowers.com Today*

[Graphic consisting of four circles arranged around the periphery, each containing a depiction of one category of products and labeled "Floral", "Garden", "Home" and "Gifts". In the center of graphic are the Company name and logo and the words "Brand", "Product Selection", "Customer Relationships", "Technology Infrastructure" and "Fulfillment Capabilities".]

We believe our success in selling floral, gift and home and garden products is attributable to the following key elements of our business:

OUR BRAND. We believe that 1-800-FLOWERS is one of the most recognized brands in the floral industry. The strength of our brand has enabled us to extend our product offerings to complementary products, including gifts and home and garden merchandise, and to attract a significant number of

customers to our Web site. We continue to invest heavily in building our brand through strategic online relationships and extensive marketing, advertising and public relations programs. We believe our brand is characterized by:

- Convenience. Our customers may purchase floral, gift and home and garden products online or by calling our toll-free telephone number from the home or office 24 hours a day, seven days a week. We offer a variety of delivery options, including same-day or next-day service throughout the United States.

- Quality. High-quality products are critical to our continued brand strength. We offer our customers a 100% satisfaction guarantee on all of our products.

- Selection. Over the course of a year, we offer more than 1,500 varieties of fresh-cut and seasonal flowers, plants and floral arrangements, and more than 6,000 SKUs of gifts and home and garden products, including gift baskets, gourmet foods, garden accessories and casual lifestyle furnishings.

- Customer Service. We ensure a high level of customer service by training our agents to assist our customers over the telephone and online to select the appropriate flowers or gifts and to monitor order fulfillment.

OUR PRODUCT SELECTION. We continuously expand our product offerings to offer a better shopping experience for our customers. Our merchandising team works closely with manufacturers and suppliers to select and design our principal floral, gift and home and garden merchandise as well as other products that meet the seasonal and other special needs of our customers.

Because we offer a wide selection of products, we create the opportunity to have a relationship with customers who purchase products not only for gifting occasions but also for everyday consumption.

OUR CUSTOMER RELATIONSHIPS. Through our direct contact with our customers, we collect information and maintain a database about our customers. This information includes the customer's name, address, e-mail address, telephone number, demographic information, individual preferences, shopping and buying patterns and other key attributes. We use this information to improve our customers' experience with us by offering products that meet their needs, to target promotional offers, to identify future consumption and giving occasions and to send gift reminders and e-mail messages, including our electronic newsletter. As of December 31, 1998, our total database of customers numbered approximately 6.7 million. We also gather information about the recipients of our products, including their name, address, telephone number and the products received.

We also market our products to businesses for gifting, incentive and reward programs. As of March 28, 1999, approximately 2,900 corporate customers had made a purchase from us within the previous 12 months. These customers, which are served by our Corporate Gift Services division, include NationsBank/Bank of America, IBM, Omnipoint, Ford Motor Co. and Scudder Investments. We currently provide many of our large corporate customers with an account manager, a team of floral and gifting coordinators and a customized, password-protected area of our Web site. In addition, each employee of our corporate customers is entitled to receive special offers and discounts on personal purchases.

OUR TECHNOLOGY INFRASTRUCTURE. We believe we have been and continue to be a leader in implementing new technologies and systems to give our customers the best possible experience with us, whether online or over the telephone. Our Web site has been designed to be secure, fast and easy to use. To serve our telephone customers, we have implemented a centrally managed telecommunications system.

We process both online and telephonic orders through a common transaction processing system. This system selects the florist or other vendor to fulfill a customer's order, electronically transmits the order for fulfillment and captures the customer's profile and purchasing history. In addition, our customer service representatives are electronically linked to this system, enabling them to facilitate placement of an order and subsequently track customer and order information.

OUR FULFILLMENT CAPABILITIES. Fresh-cut and seasonal flowers and floral arrangements are perishable and often sent as gifts. We have developed significant experience in fulfilling our customers' orders reliably, quickly and cost-effectively. Most of our customers' purchases of floral products are fulfilled through our BloomNet network of approximately 1,500 florists or one of our owned or franchised retail stores. This allows us to deliver our floral products on a same-day or next-day basis to ensure freshness and to meet our customers' need for prompt delivery. In addition, we are better able to ensure consistent product quality and presentation and offer a greater variety of arrangements, which we believe creates a better experience for our customers and gift recipients. We select BloomNet members for their high-quality products, superior customer service and order fulfillment and delivery capabilities.

To ensure reliable and efficient communication of online and telephonic orders to our BloomNet members, we created BloomLink, a proprietary Internet-based communications system. A majority of our BloomNet members have adopted BloomLink since its introduction in January 1998. We also have the ability to arrange for delivery of floral products internationally through independent wire services.

We fulfill most of our gift basket and gourmet food items primarily through electronic connection to third-party suppliers that ship products directly to the customer by next-day or other delivery method chosen by the customer. We select our third-party vendors based upon the quality of their products, their reliability and their ability to meet our volume requirements.

We package and ship our home and garden products from our advanced 185,000 square foot fulfillment center located in Madison, Virginia by next-day or other delivery method chosen by the customer. We are currently enlarging this facility to approximately 300,000 square feet to support our anticipated future growth.

## *Our Strategy*

Our objective is to be the leading e-commerce provider of flowers, gifts and products for the home and garden. The key elements of our strategy to achieve this objective are:

AGGRESSIVELY EXTEND OUR BRAND. Our goal is to make the 1-800-FLOWERS.COM brand synonymous with flowers, gifts and home and garden products. To do this, we intend to invest in building our brand and in communicating the benefits and convenience of shopping with 1-800-FLOWERS.COM. We intend to significantly increase our marketing expenditures to:

- maintain and develop new strategic online relationships;

- expand our Internet advertising and promotion;

- broaden our television, radio, print and outdoor advertising campaigns; and - increase our public relations programs, such as community events, radio and television demonstrations and trade conferences.

We intend to market other high-quality brands in addition to 1-800-FLOWERS.COM. We may accomplish this through internal development, co-branding arrangements, strategic partnerships or acquisitions of complementary businesses.

EXPAND OUR OFFERINGS OF GIFTS AND HOME AND GARDEN PRODUCTS. To broaden our relationships with our existing customers, we intend to offer more products designed for everyday occasions and sentiments, as well as products for the home and garden. To do this, we intend to expand our relationships with product manufacturers or acquire businesses with complementary product lines.

ENHANCE OUR CUSTOMER RELATIONSHIPS. We intend to enhance our relationships with our customers, encouraging more frequent and more extensive use of our Web site, by introducing enhanced product-related content and interactive features. We will also continue to personalize the features of our Web site and increase our use of both customer and recipients' information to target product promotions, remind our customers of upcoming occasions and convey other marketing messages. In addition, we are committed to continuing to make shopping and visiting WWW.1800FLOWERS.COM an easy, secure and pleasurable experience for our customers.

We believe we have a significant opportunity to expand our corporate accounts. We intend to focus greater resources on developing customized programs for our corporate customers to meet their gifting needs and those of their employees.

INCREASE THE NUMBER OF ONLINE CUSTOMERS. Our goal is to increase the number of customers placing orders through our Web site. To achieve this goal, we intend to:

- actively promote our Web site through Web portals and online networks;

- aggressively expand our online affiliate program, in which independent Web sites link directly to our Web site;

- aggressively market our Web site in our advertising campaigns;

- promote our Web site to our existing telephonic customers; and - facilitate access to our Web site for our corporate customers by developing direct links from their internal corporate networks.

CONTINUE TO UPGRADE OUR TECHNOLOGY INFRASTRUCTURE. We will continue to make significant investments and use the best available technologies in order to improve the functionality of our Web site and our underlying operations. In particular, we intend to:

- continue to improve the speed and ease of use of our Web site;

- improve our transaction processing system to facilitate order tracking and to enhance the interface with our accounting and financial systems;

- enhance our ability to analyze our database of customer information and conduct personalized one-to-one marketing; and - further expand the functionality and features of BloomLink.

CONTINUE TO IMPROVE OUR FULFILLMENT CAPABILITIES. We intend to improve our fulfillment capabilities to make our operations more efficient by:

- strengthening our relationships with our BloomNet member florists and increasing the number of BloomLink installations in their stores;

- evaluating and implementing alternative means of fulfillment, such as centralized production and logistics partnering; and - continuing to improve our operations that support our gift and home and garden product lines.

## *Our Products*

We offer a wide range of products, including fresh-cut and seasonal flowers, floral arrangements, gifts and home and garden merchandise. In addition to selecting our core products, our merchandising team works closely with manufacturers and suppliers to select and design products that meet the seasonal and other special needs of our customers. Over the course of a year, our product selection consist of:

FLOWERS AND PLANTS. We offer more than 1,300 varieties of fresh-cut and seasonal flowers and floral arrangements for all occasions and holidays. We also offer more than 200 varieties of popular plants for the home and garden.

GIFTS. We offer more than 200 SKUs of gifts, including gift baskets, dolls, plush toys, balloons, bath and spa items, wreaths and ornaments. In addition, we offer more than 100 SKUs in the specialty food and gourmet categories, including candies, chocolates, nuts, cookies and fruits.

HOME. We offer more than 2,500 SKUs for the home, including candles and lighting, vases, kitchen items and accents, casual lifestyle furniture and home accessories.

GARDEN. We offer more than 3,000 SKUs for the garden, including outdoor furniture, tools and accessories, pottery, nature-related products, clothing and footwear.

# *Our Web Site*

We offer floral, gift and home and garden products through our 1-800-FLOWERS.COM Web site (WWW.1800FLOWERS.COM). Customers may come to our Web site directly or may be referred to us by our strategic online partners. Our online partners include AOL.com, Excite and Microsoft Network and more than 3,000 members of our online affiliate program, which we initiated in February 1999. In addition, our customers can shop at our AOL store (keyword: flowers). We also offer home and garden products through the Plow & Hearth Web site (WWW.PLOWHEARTH.COM). We intend to integrate the Plow & Hearth Web site into our 1-800-FLOWERS.COM Web site to provide our customers the ability to purchase floral, gift and home and garden products conveniently in a single visit. As of December 27, 1998, approximately 400,000 customers had made a purchase through our Web site or our AOL store in the previous twelve months.

Our Web site allows customers to easily browse and purchase our products, promotes brand loyalty and encourages repeat purchases by providing an inviting customer experience. Our Web site offers customers detailed product information, complete with photographs, contests, home decorating and how-to tips, information on floral trends, gift-giving suggestions and information about special events and offers. We have designed our Web site to be fast, secure and easy to use and to enable customers to order products with minimal effort. Our Web site includes the following key features:

SEARCHING. We have incorporated sophisticated search capabilities, which enable customers to search for products by category, occasion, price, flower type or keyword. We also have a "Gift Ideas" section that provides popular gift ideas for each occasion.

PERSONALIZATION. We utilize our Web site to enhance the direct relationship with our customers. The "My Flower Shop" area of our site enables customers to establish their floral and gift preferences, which personalizes and simplifies their visits. "My Flower Shop" members are also provided with an online address book of names and addresses of their gift recipients, access to their purchasing history and e-mail notification of specials and events at our local retail stores. Our customers can also register for our "Gift Reminder Program," in which we send them an e-mail reminder a few days prior to an occasion to remind them of the occasion and to recommend specific flowers and gifts.

SECURITY. We use secure server software to encrypt the customer's credit card number prior to transmitting it over the Internet.

DELIVERY. We offer customers a variety of delivery and shipping options, including same-day or next-day delivery by the fulfilling local florist and a number of delivery options through Federal Express, United Parcel Service, the United States Postal Service and other common carriers.

CUSTOMER SERVICE. Through our seven customer service centers, we offer service and support to our customers 24 hours a day, seven days a week over the telephone. We also provide real-time online messaging and e-mail support to our customers. We intend to enhance our ability to provide a high level of customer service through the use of new Internet-based technologies.

PRIVACY. We recognize the importance of maintaining the privacy of our customers. We use the information gathered from our customers and others who have registered on our Web site from time to time to send our own promotional materials. We periodically make information available to selected third parties for direct marketing purposes. However, customers may elect not to receive our promotional information or instruct us not to make their information available to third parties. We also gather information concerning how visitors use and navigate our Web site. We use this information only internally to better allow us to serve our customers. Our current online privacy policy is set forth on our Web site.

## *Marketing and Promotion*

Our marketing and promotion strategy is designed to strengthen our 1-800- FLOWERS.COM brand, build customer loyalty, increase the number of online and telephonic customers, encourage repeat purchases and develop additional product revenue opportunities. We also intend to develop and market other high-quality brands in addition to 1-800-FLOWERS.COM through internal development, co-branding arrangements, strategic partnerships or acquisitions of complementary businesses. We market and promote our brand and products as follows:

OUR STRATEGIC ONLINE RELATIONSHIPS. We promote our products through strategic relationships with leading Web portals and online networks. Our key relationships include:

- America Online. We have worked with AOL since 1994 and maintain a separate online 1-800-FLOWERS.COM store for the convenience of AOL's subscribers. We are the exclusive provider of fresh-cut flowers and plants through AOL's proprietary online service and AOL.com, subject to a limited number of exceptions. In addition, we are prominently promoted through banner and other advertisements across AOL's online service and AOL.com. Our agreements with AOL extend through June 2001.

- Microsoft Network. Our products, advertisements and links to our Web site are prominently featured on Microsoft Network's online shopping channel. Our agreement with Microsoft Network extends through September 1999.

- Excite. Our products and links to our Web site are also prominently featured on Excite's shopping channel. Our agreement with Excite extends through June 1999 and may be renewed, at our option, through June 2000.

- StarMedia Network. Through our relationship with StarMedia Network, we are developing Spanish and Portuguese language versions of our Web site.

OUR ONLINE AFFILIATE PROGRAM. In addition to securing alliances with frequently visited Web sites, in February 1999 we established an affiliate network that has grown to more than 3,000 Web sites operated by third parties. These Web sites earn commissions by referring customers from their sites to our Web site. Affiliates include AT&T WorldNet, Earthlink/ Sprint, Gateway 2000, HomeArts, About.com and PCWorld Online.

TRADITIONAL MEDIA. We utilize traditional media, such as television, radio, print and outdoor advertising, to market our brand and products. Traditional media allows us both to reach a large number of customers and to target particular market segments.

DIRECT MAIL AND CATALOGS. We use our direct mail promotions and catalogs to increase the number of new customers and to introduce additional products to our existing customers. Through the use of PLOW & HEARTH'S catalogs, we intend to cross-promote our floral and gift products to our home and garden customers as well as home and garden products to our floral and gift customers. For the nine months ended March 28, 1999, we mailed a total of approximately 28.6 million catalogs, including PLOW & HEARTH and AMERICAN COUNTRY HOME. We believe these catalogs will attract additional customers to our WWW.1800FLOWERS.COM and WWW.PLOWHEARTH.COM Web sites.

CO-MARKETING AND PROMOTIONS. We have established a number of significant co-marketing relationships and promotions to advertise our products. For example, we have established co-marketing arrangements with United, American and Delta airlines as well as American Express, VISA and MasterCard, among others.

## *Fulfillment Operations*

Our customers primarily place orders for our products online or over the telephone. Our fulfillment operations are represented in the following diagram:

[Graphical representation of fulfillment operations, consisting of three headings labeled "Channel", "Fulfillment" and "Products". Under the heading "Channel" are depictions of a computer terminal, with the caption "Online", and a telephone sales agent, with the caption "Telephonic". Under the heading "Fulfillment" is a map of the United States with scattered dots representing our retail stores and the caption "1500 BloomNet Stores" and depictions of other types of fulfillment facilities and the captions "Owned & Franchised Florists", "Unaffiliated Florists", "Direct from Vendor" and "Our Fulfillment Centers". Under the heading "Products" are depictions of our various product offerings and the captions "Flowers & Plants", "Gifts" and "Home and Garden".]

FLOWERS AND PLANTS. Most of our floral orders are fulfilled through our BloomNet network of approximately 1,500 florists or one of our owned or franchised retail stores. This allows us to deliver a majority of our floral products on a same-day or next-day basis to ensure freshness and to meet our customers' need for prompt delivery. In addition, we are better able to ensure consistent product quality and presentation and offer a greater variety of arrangements, which we believe creates a better experience for our customers and gift recipients. A majority of our BloomNet members and many of our owned or franchised stores are connected to us electronically via BloomLink, an Internet-based electronic communications system. Where we are not connected to our BloomNet partners or our owned and franchised stores via BloomLink, we utilize an independent wire service to transmit an order to the fulfilling florist. In addition, we also ship to the customer directly from growers.

We own and operate 34 retail stores, located primarily in the New York and Los Angeles metropolitan areas. In addition, we have 87 franchised stores, located primarily in California. Our owned stores serve as important local points of fulfillment and enable us to test new products and marketing programs. We do not expect to materially increase the number of owned or franchised retail stores in the foreseeable future.

GIFTS. Most of our gift products are shipped directly to the customer by third-party product suppliers using next-day or other delivery method selected by the customer.

HOME AND GARDEN. We fulfill most purchases of home and garden merchandise from our Madison, Virginia fulfillment center using next-day or other delivery method selected by the customer. In calendar year 1998, we shipped more than 800,000 packages from this facility. Construction is currently underway to expand this facility from 185,000 square feet to approximately 300,000 square feet, which will approximately double our shipping capacity. This facility employs advanced technology for receiving, packaging, shipping and inventory control.

## *Technology Infrastructure*

We believe we have an advanced technology platform. Our technology infrastructure, primarily consisting of our Web site, transaction processing, customer databases and telecommunications systems, is built and maintained for reliability, scalability, security and flexibility. To minimize the risk of service interruptions from unexpected component or telecommunications failure, maintenance and upgrades, we have built redundancy into those components of our systems that we have identified as critical. Since July 1, 1997, we spent a total of $21.3 million on our technology infrastructure. We plan to continue to invest in technologies that will improve and expand our e-commerce and telecommunication capabilities.

Our Web site and BloomLink are hosted and maintained by Fry Multimedia, a hosting and online services company headquartered in Ann Arbor, Michigan. In addition to Fry Multimedia's two hosting facilities, we also intend to co-locate the hosting of our Web site and BloomLink with a third-party vendor to provide additional back-up and system redundancy.

Our transaction processing system selects the florist or vendor to fulfill the order and captures customer profile and history in a customized Oracle database. Through the use of customized software applications, we are able to retrieve, sort and analyze customer information to enable us to better serve our customers and target our product offerings. We expect to develop or license additional software applications to expand our ability to analyze and use this information.

Our seven customer service centers and many of our third party product suppliers are connected electronically to our transaction processing system to permit the rapid transmission of, and access to, critical order and customer information. In addition, BloomLink electronically connects us to a majority of the retail florists in our BloomNet network and 56 of our owned or franchised stores.

Our operation center is located in our headquarters in Westbury, New York. We provide comprehensive facility management services, including human and technical monitoring of all production servers, 24 hours per day, seven days per week.

## *Competition*

The growing popularity and convenience of e-commerce has given rise to mass merchants on the Internet. In addition to selling their products over the Internet, many of these retailers sell their products through a combination of channels by maintaining a Web site, a toll-free phone number and physical locations. These mass merchants offer an expanding variety of products and are attracting an increasing number of customers. Some of these merchants have expanded their offerings to include competing products and may continue to do so in the future. These mass merchants, as well as other potential competitors, may be able to:

- undertake more extensive marketing campaigns for their brands and services;

- adopt more aggressive pricing policies; and - make more attractive offers to potential employees, distribution partners and retailers.

In addition, we face intense competition in each of our individual product categories. In the floral industry, our competitors include:

- retail floral shops, some of which maintain toll-free telephone numbers;

- online floral retailers;

- catalog companies that offer floral products;

- floral telemarketers and wire services; and - supermarkets and mass merchants with floral departments.

Similarly, the gift, home and garden categories are highly competitive. Each of these categories encompasses a wide range of products and is highly fragmented. Products in these categories may be purchased from a number of outlets, including mass merchants, telemarketers, retail specialty shops, online retailers and mail-order catalogs.

We believe our brand strength, product selection, customer relationships, technology infrastructure and fulfillment capabilities position us to compete effectively against our current and potential competitors. However, increased competition could result in:

- price reductions, decreased revenues and lower profit margins;

- loss of market share; and - increased marketing expenditures.

These and other competitive factors may adversely impact our business and results of operations.

## *Government Regulation and Legal Uncertainties*

The Internet is rapidly evolving and there are few laws or regulations directly applicable to e-commerce. Legislatures are considering an increasing number of laws and regulations pertaining to the Internet, including laws and regulations addressing:

- user privacy;

- pricing;

- content;

- connectivity;

- intellectual property;

- distribution;

- taxation;

- liabilities;

- antitrust; and

- characteristics and quality of products and services.

Further, the growth and development of the market for online services may prompt more stringent consumer protection laws that may impose additional burdens on those companies conducting business online. The adoption of any additional laws or regulations may impair the growth of the Internet or commercial online services. This could decrease the demand for our services and increase our cost of doing business. Moreover, the applicability to the Internet of existing laws regarding issues like property ownership, taxes, libel and personal privacy is uncertain. Any new legislation or regulation that has an adverse impact on the Internet or the application of existing laws and regulations to the Internet could have a material adverse effect on our business, financial condition and results of operations.

States or foreign countries might attempt to regulate our business or levy sales or other taxes relating to our activities. Because our products and services are available over the Internet anywhere in the world, multiple jurisdictions may claim that we are required to do business as a foreign corporation in one or more of those jurisdictions. Our failure to qualify as a foreign corporation in a jurisdiction where we are required to do so could subject us to taxes and penalties. States or foreign governments may charge us with violations of local laws.

## *Intellectual Property and Proprietary Rights*

We regard our service marks, trademarks, trade secrets, domain names and similar intellectual property as critical to our success. We have applied for or received trademark and/or service mark registration for, among others, the marks "1-800-FLOWERS.COM", "1-800-FLOWERS", and "Plow & Hearth". We

also have rights to numerous domain names, including WWW.1800FLOWERS.COM, WWW.FLOWERS.COM and WWW.PLOWHEARTH.COM. In addition, we have developed a transaction processing system and operating systems as well as marketing data, including customer information databases.

We rely on trademark, unfair competition and copyright law, trade secret protection and contracts such as confidentiality and license agreements with our employees, customers, partners and others to protect our proprietary rights. Despite our precautions, it may be possible for competitors to obtain and/or use our proprietary information without authorization or to develop technologies similar to ours and independently create a similarly functioning infrastructure. Furthermore, the protection of proprietary rights in Internet-related industries is uncertain and still evolving. The laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. Our means of protecting our proprietary rights in the United States or abroad may not be adequate.

We intend to continue to license certain technology from third parties, including Oracle, Microsoft and AT&T, for our communications technology and the software that underlies our business systems. The market is evolving and we may need to license additional technologies to remain competitive. We may not be able to license these technologies on commercially reasonable terms or at all. In addition, we may fail to successfully integrate licensed technology into our operations.

Third parties have in the past infringed or misappropriated our intellectual property or similar proprietary rights. We believe infringements and misappropriations will continue to occur in the future. We intend to police against infringement or misappropriation. However, we cannot guarantee we will be able to enforce our rights and enjoin the alleged infringers from their use of confusingly similar trademarks, servicemarks, telephone numbers and domain names.

In addition, third parties may assert infringement claims against us. We cannot be certain that our technologies or marks do not infringe valid patents, trademarks, copyrights or other proprietary rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. Intellectual property litigation is expensive and time-consuming and could divert management resources away from running our business.

## *Employees*

As of April 29, 1999, we had 1,464 full-time and 227 part-time employees, of which 185 worked in administration, 887 in customer service and 619 in retail and fulfillment operations. During peak periods, we substantially increase the number of customer service and retail and fulfillment personnel. Our personnel are not represented under collective bargaining agreements and we consider our relations with our employees to be good.

# *Properties*

Our headquarters and one of our customer service centers are located in approximately 71,000 square feet office space in Westbury, New York, under a lease that expires in May 2005. In addition, we own an approximately 185,000 square foot fulfillment center in Madison, Virginia, with an additional 115,000 square feet under construction, and lease an approximately 27,000 square foot local distribution center in Phoenix, Arizona and an approximately 24,000 square foot local distribution center in Denver, Colorado. We lease a total of approximately 53,000 square feet for our customer service centers in:

- Westbury, New York;

- Marietta, Georgia;

- San Antonio, Texas;

- Phoenix, Arizona;

- Madison, Virginia;

- Bethpage, New York; and - Long Beach, California.

As of March 28, 1999, we leased approximately 239,000 gross square feet for our owned or franchised retail stores. Most of the existing stores are leased by 1-800-FLOWERS.COM with lease terms typically ranging from five to 20 years. Most of our leases provide for a minimum rent plus a percentage rent based upon sales after certain minimum thresholds are achieved. The leases generally require us to pay insurance, utilities, real estate taxes and repair and maintenance expenses.

# *Legal Proceedings*

From time to time, we may be involved in legal proceedings and litigation incidental to the normal conduct of our business. We are not currently involved in any material legal proceedings or litigation.

# *Management*

# *Directors and Executive Officers*

The executive officers, directors and key employees of 1-800-FLOWERS.COM, their ages as of May 20, 1999 and the positions held by them are set forth below:

# *Name Age Position*

| | | |
|---|---|---|
| EXECUTIVE OFFICERS AND DIRECTORS: | | |
| James F. McCann..... | 47 | Chairman and Chief Executive Officer |
| Christopher G. McCann..... | 38 | Director and Senior Vice President |
| John W. Smolak..... | 50 | Senior Vice President--Finance and Administration |

| | | |
|---|---|---|
| Peter G. Rice..... | 53 | President--Plow & Hearth |
| Kerry W. Coin..... | 51 | Vice President--Retail and Fulfillment |
| Kenneth J. Mesnik..... | 49 | Vice President--Merchandising |
| T. Guy Minetti..... | 48 | Director |
| Jeffrey C. Walker..... | 43 | Director |
| KEY EMPLOYEES: | | |
| Donna M. Iucolano..... | 35 | Vice President--Interactive Services |
| Vincent J. McVeigh..... | 38 | Vice President--Customer Service Centers |
| Thomas G. Hartnett..... | 35 | Vice President--Development |
| William E. Shea..... | 40 | Treasurer and Vice President--Finance |
| Guru P. Ghosh..... | 54 | Vice President--Information Technology |
| Brian McGee..... | 35 | Vice President--Real Estate and Construction |

JAMES F. MCCANN has been our Chairman and Chief Executive Officer since our inception in 1992. Prior to that, Mr. McCann founded Flora Plenty, a chain of 14 flower shops in the New York metropolitan area. Mr. McCann is a member of the boards of directors of Gateway 2000, OfficeMax, Inc., PETCO Animal Supplies, Inc., the National Retail Federation and Very Special Arts, as well as the boards of Hofstra University and Winthrop-University Hospital. James F. McCann is the brother of Christopher G. McCann.

CHRISTOPHER G. MCCANN has been our Senior Vice President and one of our directors since our inception in 1992. Prior to joining us, Mr. McCann was President of Flora Plenty. Mr. McCann serves on the board of directors of Neoware, Inc. and is a member of the Advisory Board of the Marist College School of Management, the National Retail Federation Marketing Committee and the Society of American Florists Marketing Committee. Christopher G. McCann is the brother of James F. McCann.

JOHN W. SMOLAK has been our Senior Vice President--Finance and Administration since January 1999. From February 1995 until joining us, Mr. Smolak was senior vice president and chief financial officer of Lechters, Inc., a national housewares specialty retailer. Prior to that, Mr. Smolak was senior vice president of finance and administration of Jungle Jim's Playlands, Inc.

PETER G. RICE, President--Plow & Hearth, was co-founder of The Plow & Hearth, Inc. and served as its President and Chairman of the Board since its inception in November 1980. Mr. Rice was also involved in the formation of Blue Ridge Mountain Sports, a retail chain of backpacking/outdoor stores, and Phoenix Products, a manufacturer of kayaks. He is a director of the New England Mail Order Association and a member of the U.S. Senate Productivity and Quality Award Board for Virginia.

KERRY W. COIN has been our Vice President--Retail and Fulfillment since January 1999. From February 1998 until joining us, Mr. Coin was an independent consultant.

From August 1996 until February 1998, Mr. Coin was the president and chief operating officer of Diedrich Coffee, a California-based purveyor of gourmet coffee. Prior to that, Mr. Coin founded and served as president and chief executive officer of Boston West, the largest area developer of Boston Chicken, from January 1993.

KENNETH J. MESNIK has been our Vice President--Merchandising since January 1999. From May 1993 until joining us, Mr Mesnik was the Senior Vice President of Federated Merchandising. Prior to that, Mr. Mesnik served as Vice President of May Company in charge of home furnishings from January 1990.

T. GUY MINETTI has been one of our directors since December 1993. Mr. Minetti serves as President of Bayberry Advisors, an investment banking firm which he founded in March 1989. In September 1993, Mr. Minetti co-founded American Sports Products Group Inc., a holding company which has acquired nine niche sporting goods manufacturers. Prior to forming Bayberry, Mr. Minetti was a Managing Director at Kidder, Peabody & Company.

JEFFREY C. WALKER has been one of our directors since February 1995. Mr. Walker has been General Managing Partner of Chase Capital Partners, the private equity division of The Chase Manhattan Corporation, since 1988, and a General Partner thereof since 1984. Mr. Walker is a director of the Monet Group, Guitar Center, House of Blues and Domain.

DONNA M. IUCOLANO has been our Vice President--Interactive Services since August 1998. Prior to that role, Ms. Iucolano held various positions within 1-800- FLOWERS.COM since her arrival in June 1994, including Director, Manager and Marketing Coordinator of our interactive services division. Before joining us, Ms. Iucolano was a marketing and creative services consultant to educational and other non-profit organizations.

VINCENT J. MCVEIGH has been our Vice President--Customer Service Centers since September 1998. He joined us in May 1991 as a BloomNet manager, assisting in the development of our independently owned BloomNet affiliates. He was promoted to general manager of the New York customer service center in May 1993, and then in October 1995 to Director of Call Center Operations. From February 1988 until joining us, Mr. McVeigh worked with Hyundai Motor America as a district manager.

THOMAS G. HARTNETT has been our Vice President--Development since January 1999. Prior to that role, Mr. Hartnett held various positions within 1-800-FLOWERS.COM since his arrival in August 1991, including Controller, director of Store Operations and Vice President of Retail Operations. From June 1984 until joining us, Mr. Hartnett was a certified public accountant at Ernst & Young.

WILLIAM E. SHEA has been our Treasurer and Vice President of Finance since August 1998. Prior to that role, Mr. Shea served as our Corporate Controller after joining us in April 1996. From 1980 until joining us, Mr. Shea was a certified public accountant with Ernst & Young.

GURU P. GHOSH has been our Vice President--Information Technology since July 1996. From August 1989 until joining us, Mr. Ghosh was the director of information technology at Independence Blue Cross, a nationwide health insurance company. Prior to that, Mr. Ghosh was a senior vice president at Prudential Securities Incorporated from January 1984.

BRIAN MCGEE has been our Vice President--Real Estate and Construction since February 1996. From August 1990 until joining us, Mr. McGee was the Northeast construction manager for Blockbuster Entertainment Corp.

## *Classified Board of Directors*

Pursuant to our third amended and restated certificate of incorporation, which will become effective upon consummation of this offering, our board of directors will be divided into three classes of directors serving staggered three-year terms. As a result, approximately one-third of the board of directors will be elected each year. These provisions, when coupled with the provision of our third amended and restated certificate of incorporation authorizing the board of directors to fill vacant directorships or increase the size of the board of directors, may delay a stockholder from removing incumbent directors and simultaneously gaining control of the board of directors by filling the vacancies with its own nominees. We intend to expand the size of our board after this offering.

Mr. Walker had originally been elected to our board of directors pursuant to an agreement we entered into with Chase. The provision of this agreement providing Chase with the right to select one of our directors has terminated in connection with the amendment to the Chase agreement. However, Mr. Walker will remain on our board following this offering.

## *Board Committees*

The audit committee reports to the board regarding the appointment of our independent public accountants, the scope and results of our annual audits, compliance with our accounting and financial policies and management's procedures and policies relative to the adequacy of our internal accounting controls. The audit committee consists of Messrs. Minetti and James F. McCann. After this offering, an additional outside director will be added to the audit committee.

The compensation committee of the board of directors reviews and makes recommendations to the board regarding our compensation policies and all forms of compensation to be provided to our executive officers and directors. In addition, the compensation committee reviews bonus and stock compensation arrangements for all of our other employees. The current members of the compensation committee are Messrs. Minetti, Walker and James F. McCann.

No interlocking relationships exist between our board of directors or compensation committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

## *Director Compensation*

Directors currently do not receive a stated salary from 1-800-FLOWERS.COM for their service as members of the board of directors, although by resolution of the board they may receive a fixed sum and reimbursement for expenses in connection with the attendance at board and committee meetings. We currently do not provide additional compensation for committee participation or special assignments of the board of directors.

We have entered into an agreement with Bayberry Advisors, Inc., pursuant to which Bayberry provides us with consulting and advisory services. T. Guy Minetti, one of our directors, serves as Bayberry's President and owns 70% of its outstanding stock, and James F. McCann, our Chairman and Chief Executive Officer, owns 30% of its outstanding stock. We pay Bayberry a retainer fee of $100,000 per year for these services. In connection with our April 1998 acquisition of Plow & Hearth, we paid Bayberry advisory fees in the amount of $210,000, against which the $100,000 retainer for that year was credited.

In July 1998, we granted Mr. Minetti options to purchase shares of class B common stock with an exercise price of $ per share for his services on our board of directors.

## *Employment Contracts*

We have entered into employment agreements with each of John W. Smolak, Peter G. Rice and Kerry W. Coin.

Mr. Smolak's employment agreement with us became effective on January 4, 1999. The annual salary for Mr. Smolak is $260,000, with the possibility of a bonus of up to 30% of his salary. In addition, he has received options to purchase shares of our class B common stock, which options vest at the rate of 25% per year beginning on the first anniversary of the date of grant. Mr. Smolak is not entitled to any compensation from us after his employment is terminated, except that if Mr. Smolak's employment is terminated within the first 12 months following his commencement of employment, then we will continue to pay his salary for a period of six months following the date of termination.

Mr. Rice has entered into an employment agreement with Plow & Hearth, which became effective April 3, 1998. The agreement terminates on April 3, 2001, with automatic one year renewals unless prior notice is given. Mr. Rice's annual salary is $200,000 and he is eligible to participate in Plow & Hearth's annual profit sharing bonus plan. Upon termination without cause, Mr. Rice is entitled to an amount equal to his salary through the end of the agreement, any amounts earned, accrued or owing but not yet paid as of the date of the termination and other benefits, if any, as are payable to or for the benefit of Mr. Rice as of the date of his termination until the end of the agreement.

Mr. Coin's agreement with us became effective on January 18, 1999. Mr. Coin's annual salary is $170,000, with the possibility of a bonus of up to 25% of his salary. In addition, Mr. Coin is entitled to receive options to purchase shares of our class B common stock, which options vest at the rate of 25% per year beginning on the first anniversary of the date of grant. Mr. Coin is not entitled to any compensation from us after his employment is terminated, except that if Mr. Coin's employment is terminated within the first 12 months following his commencement of employment, then we will continue to pay his salary for a period of six months following the date of termination. Each of these executives has agreed not to compete with us or solicit our clients or other employees during their term of employment and for two years immediately following their termination. Each of these executives is

also bound by confidentiality provisions, which prohibit the executive from, among other things, disseminating or using confidential information about our clients in any way that would be adverse to us.

We are in the process of finalizing employment agreements for James F. McCann and Christopher G. McCann, which we expect will include similar non-competition and confidentiality provisions. We expect these agreements to be in place prior to the consummation of this offering.

## *Executive Compensation*

The following table sets forth the total compensation paid or accrued for the year ended June 28, 1998 to our Chief Executive Officer and to our most highly compensated executive officer, other than the Chief Executive Officer, whose salary and bonus for that fiscal year exceeded $100,000.

## *Summary Compensation Table*

| | | | LONG-TERM COMPENSATION AWARDS |
|---|---|---|---|
| | ANNUAL COMPENSATION | | |
| NAME AND PRINCIPAL POSITION | SALARY ($) | BONUS ($) | SECURITIES UNDERLYING OPTIONS(#) |
| James F. McCann.....<br>Chairman and Chief Executive Officer | $ 1,229,930 | $ -- | -- |
| Christopher G. McCann.....<br>Senior Vice President | 191,667 | 42,600 | -- |

## *Option Grants in Last Fiscal Year*

We did not grant options to either our Chief Executive Officer or the named executive officer for the fiscal year ended June 28, 1998. In addition, we have never granted any stock appreciation rights to our Chief Executive Officer or the named executive officer.

## *Fiscal Year-end Option Values*

The following table provides information about stock options held as of June 28, 1998 by our Chief Executive Officer and the named executive officer. No options were exercised during fiscal 1998 by either of these executive officers. There was no pubic trading market for the common stock as of June 28, 1998. Accordingly, the value of unexercised in-the-money options at fiscal year-end is based on the

assumed initial public offering price of $ per share, less the exercise price per share, multiplied by the number of shares underlying the options. All options indicated are to purchase shares of class B common stock.

## *Fiscal Year-end Option Values*

| | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END | | VALUE OF IN-THE-MONEY OPTIONS AT FISCAL YEAR-END |
|---|---|---|---|
| NAME | EXERCISABLE | UNEXERCISABLE | EXERCISABLE UNEXERCISABLE |
| James F. McCann | -- | -- | $ -- $ -- |
| Christopher G. McCann | | | |

## *Stock Option Plans*

## *1997 Stock Option Plan*

Our 1997 Stock Option Plan was adopted by the board of directors in January 1997 and was subsequently approved by the stockholders in December 1997. Options to purchase shares of class B common stock have been granted under the 1997 Plan. No further options will be granted under the 1997 Plan.

The 1997 Plan is administered by the compensation committee. This committee has complete discretion to determine which eligible individuals in our employ or service (including officers, non-employee board members and consultants) are to receive option grants, the exercise price of each such option, the time or times when such option grants are to be made, the number of shares subject to each such grant, the status of any granted option as either an incentive stock option or a non-statutory stock option under the federal tax laws, the vesting schedule to be in effect for the option grant and the maximum term for which any granted option is to remain outstanding.

The exercise price for the shares of our class B common stock subject to option grants made under the 1997 Plan may be paid in cash or in shares of our common stock valued at fair market value on the exercise date. The option may also be exercised through a same-day sale program without any cash outlay by the optionee.

In the event of an acquisition of 1-800-FLOWERS.COM, whether by merger or asset sale, each outstanding option which is not to be assumed by the successor corporation will automatically accelerate in full.

The board may amend or modify the 1997 Plan at any time, subject to any required stockholder approval.

# *Certain Transactions*

In January 1995, we entered into an investment agreement with the predecessor of Chase Venture Capital Associates whereby Chase purchased 26,345 shares of our class C common stock and warrants to purchase 237,104 shares of class A common stock with a nominal exercise price for an aggregate of $10.0 million, in both cases prior to adjustment for the redemption of our class C common stock and -for-1 stock split. Chase currently holds over 5% of our class A common stock, assuming exercise of their warrants, and Jeffrey C. Walker, one of our directors, is a managing partner of Chase. In connection with the private placement completed in May 1999, we entered into an amendment to the investment agreement, whereby Chase agreed to allow us to redeem the class C common stock owned by them in exchange for shares of class A common stock and approximately $14.9 million. We sold shares of preferred stock to Chase in our May 1999 private placement for a purchase price equal to the $14.9 million proceeds from the redemption of their class C common stock. In connection with the private placement, Chase has waived its registration rights for this offering, but retained registration rights for the future pursuant to the investors' rights agreement described below. See "Description of Capital Stock--Registration Rights" for a description of these registration rights.

Concurrent with the closing of the May 1999 private placement, we redeemed the 8,747 shares of existing class C common stock owned by Mr. James McCann in exchange for $4.4 million and shares of class A common stock.

In March 1999, we entered into a credit agreement with The Chase Manhattan Bank, an affiliate of Chase Venture Capital Associates and Jeffrey C. Walker, whereby Chase agreed to provide us with a term loan of $18.0 million and a revolving loan commitment of $12.0 million. At March 28, 1999, the amount of indebtedness to Chase outstanding was $18.0 million. The term loan matures in March 2004 and the revolving loan commitment terminates in September 2000. In connection with this offering, we have amended the terms of the credit agreement to provide, among other things, that the indebtedness outstanding under the credit agreement matures on the earlier of the consummation of this offering and July 3, 2000. We intend to use a portion of the proceeds from this offering to repay all of our outstanding indebtedness under the credit facility.

In connection with our acquisition of 88% of the outstanding common stock of Plow & Hearth, we entered into a stockholders agreement, pursuant to which the remaining stockholders of Plow & Hearth have the right to either convert their shares of Plow & Hearth and Plow & Hearth options granted under one of its option plans into cash or shares of our class A common stock after the completion of this offering. In connection with this offering, we have amended the Plow & Hearth stockholders agreement to provide that each of these minority holders will have their interests redeemed upon consummation of this offering for an aggregate of $8.4 million. In addition, we have amended Plow & Hearth's other option plan so that upon consummation of this offering, 40% of these options will accelerate and be redeemed for an aggregate of $354,000 and the remaining 60% will terminate. Peter G. Rice, an executive officer, will receive an aggregate of $4.0 million pursuant to these amendments.

In connection with our private placement of preferred stock to Forum Holding, SOFTBANK, Benchmark and other investors and the amendment to our Chase investment agreement, we entered into an investors' rights agreement with these investors and James F. McCann and Christopher G. McCann. Pursuant to the investors' rights agreement, we will be required to register the stock held by these investors and Messrs. McCann upon their request. See "Description of Capital Stock--Registration Rights" for a description of these registration rights.

We have entered into an agreement with Bayberry Advisors, Inc., pursuant to which Bayberry provides us with consulting and advisory services. T. Guy Minetti, one of our directors, serves as Bayberry's President and owns 70% of its outstanding stock, and James F. McCann, our Chairman and Chief Executive Officer, owns 30% of its outstanding stock. We pay Bayberry a retainer fee of $100,000 per year for these services. In connection with our April 1998 acquisition of Plow & Hearth, we paid Bayberry advisory fees in the amount of $210,000, against which the $100,000 retainer for that year was credited.

In July 1998, we loaned Christopher G. McCann, our Senior Vice President, an amount of $67,631 at an interest rate of 7% per annum. Mr. Christopher McCann repaid those borrowings in May 1999.

We maintain life insurance for each of our executive officers in the amount of $50,000 and also maintain a directors and officers insurance policy.

We have adopted a policy providing that all future material transactions between us and our officers, directors and other affiliates must:

- be approved by a majority of the members of our Board of Directors and by a majority of the disinterested members of our Board of Directors; and - be on terms no less favorable to us than could be obtained from unaffiliated third parties.

# *Principal Stockholders*

The following table sets forth information with respect to beneficial ownership of our common stock, as of , 1999 and as adjusted to reflect the sale of class A common stock offered by us in this offering for:

- each person known by us to beneficially own more than 5% of our common stock;

- each of our directors;

- each executive officer named in the Summary Compensation Table; and - all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting or investment power with respect to the securities. Unless otherwise indicated, the address for those listed below is c/o 1-800-FLOWERS.COM, 1600 Stewart Avenue, Westbury, New York 11590. Except as indicated by footnote, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. The number of shares of common

stock outstanding used in calculating the percentage for each listed person includes the shares of common stock underlying options or warrants held by such persons that are exercisable within 60 days of , 1999, but excludes shares of common stock underlying options held by any other person. Percentage of beneficial ownership is based on shares of class A common stock, assuming conversion of our preferred stock, and shares of class B common stock outstanding as of , 1999 and shares of class A common stock outstanding after completion of this offering.

| | SHARES BENEFICIALLY OWNED | | PERCENTAGE OF SHARES BENEFICIALLY OWNED PRIOR TO THE OFFERING | | PERCENTAGE OF SHARES BENEFICIALLY OWNED AFTER THE OFFERING | |
|---|---|---|---|---|---|---|
| NAME OF BENEFICIAL OWNER | A SHARES | B SHARES | A SHARES | B SHARES | A SHARES | B SHARES |
| James F. McCann(1) | | | | | | |
| Christopher G. McCann(2) | | | | | | |
| T. Guy Minetti(3) | | | | | | |
| Jeffrey C. Walker(4) | | | | | | |
| Chase Venture Capital Associates(5) | | | | | | |
| Benchmark Capital Partners(6) | | | | | | |
| SOFTBANK America Inc. (7) | | | | | | |
| All directors and executive officers as a group (7 persons)(8) | | | | | | |

(1) Includes shares of class B common stock held by a limited partnership, of which Mr. McCann is a general partner and exercises control. (2) Includes (a) shares of class B common stock held by a limited partnership, of which Mr. McCann is a general partner and exercises control and (b) shares of class B common stock issuable upon the exercise of currently exercisable stock options and options which vest within 60 days. (3) Includes shares of class B common stock issuable upon the exercise of currently exercisable stock options and options which vest within 60 days. The address of Mr. Minetti is c/o Bayberry Advisors, 70 West Red Oak Lane, White Plains, New York 10604. (4) All shares indicated as owned by Mr. Walker are included because of Mr. Walker's affiliation with Chase Venture Capital Associates. Mr. Walker disclaims beneficial ownership of all shares owned by Chase. Mr. Walker's address is c/o Chase Venture Capital Associates, 380 Madison Avenue, 12th Floor, New York, New York 10017. (5) Includes shares of class A common stock subject to currently exercisable warrants. The address of Chase is 380 Madison Avenue, 12th Floor, New York, New York 10017. (6) Benchmark's address is 2480 Sand Hill Road, Suite 200, Menlo Park, California 94025. (7) SOFTBANK's address is 10 Langley Road, Suite 202, Newton Center, Massachusetts 02159. (8) Includes shares of class B common stock issuable upon the exercise of currently exercisable stock options and options which vest within 60 days.

# *Description of Capital Stock*

## *General*

Our third amended and restated certificate of incorporation, which will become effective upon the completion of this offering, authorizes the issuance of up to 200,000,000 shares of class A common stock, par value $.01 per share, 200,000,000 shares of class B common stock, par value $.01 per share, and 10,000,000 shares of preferred stock, par value $.01 per share, the rights and preferences of which may be established from time to time by our board of directors. As of ,1999 shares of class A common stock were outstanding, shares of class B common stock were outstanding and shares of preferred stock were outstanding. Each outstanding share of preferred stock will be automatically converted into shares of class A common stock upon consummation of this offering. As of May 17, 1999, we had 66 stockholders.

No additional shares of class B common stock may be issued except (a) upon the exercise of stock options existing upon the closing of this offering or (b) in connection with a stock split or stock dividend on the class B common stock in which the class A common stock is similarly split or receives a similar dividend.

## *Common Stock*

Holders of our class A and class B common stock have identical rights, except that holders of class A common stock are entitled to one vote for each share held of record and holders of class B common stock are entitled to 10 votes for each share held of record on all matters submitted to a vote of the stockholders, including the election of directors. Stockholders do not have cumulative voting rights. Holders of class A common stock and class B common stock vote together as a single class on all matters presented to the stockholders for their vote or approval, except as may be required by Delaware law. Each share of class B common stock is convertible at any time, at the option of the holder, into one share of class A common stock. Each share of class B common stock shall convert automatically into on share of class A common stock upon transfer, with limited exceptions for related party and estate planning transfers. Once transferred and converted to class A common stock, the class B common stock shall be terminated and shall not be reissued. None of the class A common stock or the class B common stock may be subdivided or combined in any manner unless the shares of the other class are subdivided or combined in the same proportion.

Subject to preferences that may be applicable to any then-outstanding preferred stock, holders of our common stock are entitled to receive ratably dividends, if any, as may be declared by the board of directors out of legally available funds. In case of a liquidation, dissolution or winding up of 1-800-FLOWERS.COM, the holders of common stock will be entitled to share ratably in the net assets legally available for distribution to shareholders after payment of all of our liabilities and the liquidation preferences of any preferred stock then outstanding. Holders of common stock have no preemptive or

subscription rights and no conversion rights except as described above. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of class A common stock are, and the shares of class A common stock sold in this offering when issued and paid for will be, fully paid and non-assessable.

The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future. After the closing of this offering, there will be no shares of preferred stock outstanding.

## *Preferred Stock*

Our board of directors has the authority, without further action by the stockholders, to issue from time to time shares of preferred stock in one or more series. The board of directors may fix the number of shares, designations, preferences, powers and other special rights of the preferred stock. The preferences, powers, rights and restrictions of different series of preferred stock may differ. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to holders of common stock or adversely affect the rights and powers, including voting rights, of the holders of common stock. The issuance may also have the effect of delaying, deferring or preventing a change in control of 1-800-FLOWERS.COM. We have no plans to issue any preferred stock.

## *Registration Rights*

We have entered into an investors' rights agreement with Forum Holding, SOFTBANK, Benchmark, Chase, James F. McCann, Christopher G. McCann and other investors. Pursuant to this agreement, these parties will have the right to require us to register shares of class A common stock they own, or will own upon the conversion of their preferred stock at the closing of this offering, on various occasions. One year after the completion of this offering, a majority in interest of Forum Holding, SOFTBANK, Benchmark and Chase will have the right to require us on one occasion to register their stock. In addition, one year after this offering, these investors, as well as Messrs. McCann, have the right to require us to register their shares of stock at any time we propose to register any of our common stock for offerings to the public. The investors and Messrs. McCann can also require us to register their shares on a registration statement on Form S-3 up to two times per year. These registration rights expire on the earlier of the third anniversary of this offering and the date on which all shares held by these parties can be sold pursuant to Rule 144 under the Securities Act of 1933, as amended, and are subject to customary limitations. We have agreed to pay the offering expenses in connection with the registration of these shares, other than underwriters' commissions.

## *Warrants*

We have issued warrants to purchase an aggregate of shares of class A common stock to Chase Capital Partners. Each warrant entitles Chase to purchase one share of class A common stock for a nominal purchase price. The exercise price and number and kind of shares are subject to adjustment upon a stock split, stock dividend or other recapitalization of our common stock. The warrants do not give Chase any voting or other rights until exercised for shares of class A common stock.

## *Certain Charter and Bylaws Provisions and Delaware Anti-takeover Statute*

We are subject to Section 203 of the Delaware General Corporation Law, or DGCL, regulating corporate takeovers. This section prevents Delaware corporations from engaging under specified circumstances in a "business combination", which includes a merger or sale of more than 10% of the corporation's assets, with any "interested stockholder", or a stockholder who owns 15% or more of the corporation's outstanding voting stock, as well as affiliates and associates of any such persons, for three years following the date such stockholder became an "interested stockholder" unless:

- the transaction in which such stockholder became an "interested stockholder" is approved by the board of directors prior to the date the "interested stockholder" attained this status;

- upon consummation of the transaction that resulted in the stockholder's becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding those shares owned by persons who are directors and also officers; or - on or after the date the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Our third amended and restated certificate of incorporation will provide that, upon the completion of this offering, our board of directors will be divided into three classes of directors with each class serving a staggered three-year term. The classification system of electing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of 1-800-FLOWERS.COM and may maintain the incumbency of the board of directors, because the classification of the board of directors generally increases the difficulty of replacing a majority of the directors. In addition, our third amended and restated certificate of incorporation will provide that directors may be removed only for cause and only by the vote of the holders of 66.67% of the combined voting power of the outstanding class A and class B common stock, which also will increase the difficulty of replacing a majority of directors. Our third amended and restated certificate of incorporation will eliminate the right of stockholders to act by written consent without a meeting and our amended and restated bylaws eliminate the right of stockholders to call special meetings of stockholders. The third amended and restated certificate of incorporation and amended and restated bylaws will not provide for cumulative voting in the election of directors. The authorization of

undesignated preferred stock makes it possible for the board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of 1-800-FLOWERS.COM. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of 1-800- FLOWERS.COM. The amendment of any of these provisions would require approval by holders of at least 66.67% of the combined voting power of the outstanding class A and class B common stock.

## *Indemnification of Directors and Executive Officers and Limitation of Liability*

Section 145 of the DGCL empowers a corporation to indemnify its directors and officers and to purchase insurance with respect to liability arising out of their capacity or status as directors and officers, provided that this provision shall not eliminate or limit the liability of a director: (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) arising under Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit. The DGCL provides further that the indemnification permitted thereunder shall not be deemed exclusive of any other rights to which the directors and officers may be entitled under the corporation's bylaws, any agreement, a vote of stockholders or otherwise.

Our third amended and restated certificate of incorporation provides for indemnification of our directors and officers against, and absolution of, liability to us and our stockholders. We maintain directors' and officers' liability insurance covering certain liabilities that may be incurred by our directors and officers in connection with the performance of our duties.

## *Transfer Agent and Registrar*

The Transfer Agent and Registrar for the class A common stock is ChaseMellon Shareholder Services, LLC.

## *Listing*

We have applied to list our class A common stock on the Nasdaq National Market under the trading symbol "FLWS".

## *Shares Eligible for Future Sale*

Sales of substantial amounts of our class A common stock in the public market could adversely affect prevailing market prices of our class A common stock and our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding an aggregate of shares of our class A common stock, assuming no exercise of the underwriters' over-allotment option, and shares of class B common stock, assuming no exercise of outstanding options. Each share of class B common stock is convertible at any time, at the option of the holder, into one share of class A common stock. Each share of class B common stock shall convert automatically into one share of class A common stock upon their transfer, with limited exceptions for related party and estate planning transfers. Of the outstanding shares, all of the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless such shares are purchased by "affiliates" as that term is defined in Rule 144 under the Securities Act. The remaining shares of class A and class B common stock held by existing stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 or 701 under the Securities Act, which rules are summarized below.

## *Lock-up Agreements*

All of our executive officers, directors, key employees and significant stockholders, who together will hold an aggregate of shares of class A or class B common stock following this offering, have signed lock-up agreements under which they agreed not to transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock, for a period of 180 days after the date of this prospectus. Transfers or dispositions can be made sooner:

- with the prior written consent of Goldman, Sachs & Co.;

- in the case of transfers to specified trusts; or - as a bona fide gift.

As a result of these lock-up agreements and the provisions of Rules 144 and 701, additional shares will be available for sale in the public market as follows:

- approximately restricted securities will be eligible for immediate sale on the date of this prospectus;

- approximately restricted securities will be eligible for sale beginning 90 days after the date of this prospectus, subject in some cases to compliance with Rule 144;

- approximately additional restricted securities will be eligible for sale beginning 180 days after the effective date of this offering upon expiration of the lock-up agreements, subject in some cases to compliance with Rule 144; and - the remainder of the restricted securities will be eligible for sale from time to time thereafter, subject in some cases to compliance with Rule 144.

# *Rule 144*

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of shares of class A common stock then outstanding, which will equal approximately shares immediately after this offering; or - the average weekly trading volume of the class A common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

# *Rule 144(K)*

Under Rule 144(k), a person who is not one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an affiliate, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of this offering.

# *Rule 701*

In general, under Rule 701 of the Securities Act as currently in effect, each of our employees, consultants or advisors who purchases shares from us in connection with a compensatory stock plan or other written agreement is eligible to resell such shares 90 days after the effective date of this offering in reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144.

# *Registration Rights*

Upon completion of this offering, the holders of shares of our class A common stock or their transferees will be entitled to certain rights with respect to the registration of their shares under the Securities Act. See "Description of Capital Stock-Registration Rights".

# *Stock Options*

Immediately after this offering, we intend to file a registration statement under the Securities Act covering shares of class A common stock that may be issued upon the conversion of class B common stock reserved for issuance

under our 1997 Stock Plan. As of April 30, 1999, options to
purchase shares of class B common stock were issued and outstanding.

Upon the expiration of the lock-up agreements described above, at least shares of class B common stock will be subject to vested options, based on options outstanding as of April 30, 1999. Such registration statement is expected to be filed and effective as soon as practicable after the effective date of this offering. Accordingly, shares registered under such registration statement will, subject to vesting provisions and Rule 144 volume limitations applicable to our affiliates, be available for sale in the open market immediately after the 180-day lock-up agreements expire.

## *Legal Matters*

The validity of the class A common stock offered hereby will be passed upon for 1-800-FLOWERS.COM by Brobeck, Phleger & Harrison LLP, New York, New York. Certain legal matters will be passed upon for the underwriters by Hale and Dorr LLP, Boston, Massachusetts.

## *Experts*

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements and schedule at March 28, 1999, June 28, 1998 and June 29, 1997, and for the nine months ended March 28, 1999 and for each of the three years in the period ended June 28, 1998, as set forth in their report. We have included our consolidated financial statements and schedule in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

The consolidated financial statements of The Plow & Hearth, Inc. as of December 31, 1996 and December 31, 1997 and for the years ended December 31, 1996 and December 31, 1997 included in this prospectus have been so included in reliance upon the report of KPMG LLP, independent certified public accountants, given on the authority of said firm as experts in accounting and auditing.

## *Where You Can Find More Information*

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 (including exhibits and schedules thereto) under the Securities Act with respect to the class A common stock to be sold in this offering. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules which are part of the registration statement. For further information with respect to 1-800-FLOWERS.COM and the class A common stock, reference is made to the registration statement and the exhibits and schedules thereto. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and in each case

reference is made to the copy of such contract, agreement or other document filed as an exhibit to the registration statement for a more complete description of the matter involved, and each such statement is qualified in its entirety by such reference.

You may read and copy all or any portion of the registration statement or any reports, statements or other information in our files in the Commission's public reference room at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C., 20549 and at the regional offices of the Commission located at Seven World Trade Center, 13th Floor, New York, New York 10048 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You can request copies of these documents upon payment of a duplicating fee by writing to the Commission. Please call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Our Commission filings, including the registration statement, will also be available to you on the Commission's Internet site (http://www.sec.gov).

We intend to furnish to our stockholders annual reports containing financial statements audited by our independent auditors and to make available to our stockholders quarterly reports containing unaudited financial data for the first three quarters of each fiscal year.

## *Index to Consolidated Financial Statements*

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## *Report of Independent Auditors*

The Board of Directors and Stockholders of 1-800-FLOWERS.COM, Inc. and Subsidiaries We have audited the accompanying consolidated balance sheets of 1-800-FLOWERS.COM, Inc. and Subsidiaries (the "Company") as of March 28, 1999, June 28, 1998 and June 29, 1997, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the nine months ended March 28, 1999 and for each of the three years in the period ended June 28, 1998. 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 generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of 1-800-FLOWERS.COM, Inc. and Subsidiaries at March 28, 1999, June 28, 1998 and June 29, 1997, and the consolidated results of their operations and their cash flows for the nine months ended March 28, 1999 and for each of the three years in the period ended June 28, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP Melville, New York May 20, 1999

# -800-Flowers.com, Inc. and Subsidiaries

## Consolidated Balance Sheets

## (In Thousands, Except Share Data)

## June 29, 1997 June 28, 1998 March 28, 1999

| | | | |
|---|---|---|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and equivalents | $ 11,443 | $ 8,873 | $ 2,632 |
| Short-term investments | 3,210 | 5,034 | -- |
| Receivables, net | 6,520 | 8,432 | 10,966 |
| Inventories | 786 | 4,971 | 8,060 |
| Prepaid and other | 538 | 1,026 | 1,318 |
| Recoverable income taxes | -- | -- | 3,217 |
| Deferred tax assets | 738 | 1,637 | 1,175 |
| Total current assets | 23,235 | 29,973 | 27,368 |
| Property, plant and equipment at cost, net | 8,486 | 19,379 | 24,832 |
| Investments | 2,854 | 1,383 | 987 |
| Capitalized investment in leases | 2,149 | 1,837 | 1,529 |
| Notes receivable, net | 1,243 | 902 | 780 |
| Licenses, goodwill and other | 6,163 | 28,272 | 31,103 |
| Total assets | $ 44,130 | $ 81,746 | $ 86,599 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | | |
| Current liabilities: | | | |
| Accounts payable | $ 15,448 | $ 20,790 | $ 27,037 |
| Accrued expenses | 2,625 | 3,101 | 4,321 |
| Current maturities of long-term debt and obligations under capital leases | 2,055 | 3,287 | 5,500 |
| Income taxes payable | 1,132 | 845 | -- |
| Total current liabilities | 21,260 | 28,023 | 36,858 |
| Long-term debt and obligations under capital leases | 6,591 | 22,463 | 28,148 |
| Deferred tax liabilities | 168 | 1,332 | 237 |
| Deferred rent and other liabilities | 2,697 | 2,904 | |

```
3,955
Management put liability.....                    --            8,660
6,300
Total liabilities.....                        30,716           63,382
75,498
```

Redeemable Class C common stock, $.01 par value, 100,000 shares authorized, 34,822 shares issued and outstanding, stated at liquidation and redemption value..... 16,084 17,692 19,020 Commitments and contingencies

```
Stockholders' equity (deficit):
  Preferred stock, $.01 par value, 200,000 shares authorized,
    none issued.....                              --              --
--
  Class A common stock, $.01 par value, 50,000 shares
    authorized, 48,087 shares issued.....          0               0
0
  Class B common stock, $.01 par value, 10,000,000 shares
    authorized, 4,884,993 shares issued.....      49              49
49
  Additional paid-in capital.....              2,183           2,183
3,863
  Accumulated other comprehensive income.....     5              14
--
  Retained earnings (deficit).....            (1,932)          1,534
(7,148)
  Deferred compensation.....                      --              --
(1,575)
  Treasury stock, at cost--5,140 Class A and 514,000 Class B
    shares in 1997 and 5,280 Class A and 528,000 Class B shares
    in 1998 and 1999.....                     (2,975)         (3,108)
(3,108)
      Total stockholders' equity (deficit).....   (2,670)          672
(7,919)
Total liabilities and stockholders' equity (deficit).....   $  44,130   $  81,746   $
86,599
```

*See Accompanying Notes.*

*-800-Flowers.com, Inc. and Subsidiaries*

*Consolidated Statements of Operations (In Thousands, Except Per Share Data)*

```
                                                YEARS ENDED                    NINE MONTHS
ENDED
                                JUNE 30, 1996   JUNE 29, 1997   JUNE 28, 1998   MARCH 29, 1998
MARCH 28, 1999
                                                                                (UNAUDITED)
Net revenues.....               $  153,128      $  186,430      $  220,592      $ 146,217
$ 203,668
Cost of revenues.....              92,820         115,078         136,966         91,773
123,738
Gross profit.....                  60,308          71,352          83,626         54,444
```

| | | | | | |
|---|---|---|---|---|---|
| 79,930 | | | | | |
| Operating expenses: | | | | | |
| Marketing and sales..... | 42,952 | 47,464 | 55,417 | 38,089 | 67,204 |
| Technology and development..... | 851 | 1,411 | 1,794 | 1,128 | 5,207 |
| General and administrative..... | 11,556 | 12,338 | 15,832 | 10,315 | 10,528 |
| Depreciation and amortization..... | 2,247 | 3,287 | 4,168 | 2,768 | 6,043 |
| Total operating expenses..... | 57,606 | 64,500 | 77,211 | 52,300 | 88,982 |
| Operating income (loss)..... | 2,702 | 6,852 | 6,415 | 2,144 | (9,052) |
| Other income (expense): | | | | | |
| Interest income..... | 1,205 | 1,121 | 1,290 | 812 | 702 |
| Interest expense..... | (1,444) | (912) | (1,177) | (720) | (1,863) |
| Other, net..... | 30 | 465 | 1,541 | 1,637 | 32 |
| Total other income (expense)... | (209) | 674 | 1,654 | 1,729 | (1,129) |
| Income (loss) before income taxes and minority interests..... | 2,493 | 7,526 | 8,069 | 3,873 | (10,181) |
| Provision (benefit) for income taxes..... | 1,255 | 3,135 | 3,181 | 1,515 | (2,926) |
| Income (loss) before minority interests..... | 1,238 | 4,391 | 4,888 | 2,358 | (7,255) |
| Minority interests in operations of consolidated subsidiaries..... | 59 | (4) | 186 | 38 | (99) |
| Net income (loss)..... | 1,297 | 4,387 | 5,074 | 2,396 | (7,354) |
| Redeemable Class C common stock dividends..... | (1,029) | (1,462) | (1,608) | (1,206) | (1,328) |
| Net income (loss) applicable to common stockholders..... | $ 268 | $ 2,925 | $ 3,466 | $ 1,190 | $ (8,682) |
| Net income (loss) per common share applicable to common stockholders: | | | | | |
| Basic..... | $ 0.06 | $ 0.66 | $ 0.79 | $ 0.27 | $ (1.97) |
| Diluted..... | $ 0.05 | $ 0.63 | $ 0.74 | $ 0.25 | $ (1.97) |
| Shares used in the calculation of net income (loss) per common share: | | | | | |
| Basic..... | 4,705 | 4,414 | 4,412 | 4,414 | 4,400 |
| Diluted..... | 4,942 | 4,674 | 4,661 | 4,675 | 4,400 |

*See Accompanying Notes.*

-800-FLOWERS.COM, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) YEARS ENDED JUNE 30, 1996, JUNE 29, 1997 AND JUNE 28, 1998 AND NINE MONTHS ENDED MARCH 28, 1999 (IN THOUSANDS, EXCEPT SHARE DATA)

| | COMMON STOCK | | | | | |
|---|---|---|---|---|---|---|
| | CLASS A | | CLASS B | | ADDITIONAL | ACCUMULATED OTHER |
| | SHARES | AMOUNT | SHARES | AMOUNT | PAID-IN CAPITAL | COMPREHENSIVE INCOME |
| Balance at July 2, 1995 | 48,087 | $ 0 | 4,808,700 | $ 48 | $ 1,691 | $ 70 |
| Issuance of warrants | -- | -- | -- | -- | 492 | -- |
| Issuance of common stock | -- | -- | 76,293 | 1 | -- | -- |
| Accrual of Redeemable Class C common stock dividends | -- | -- | -- | -- | -- | -- |
| Purchase of treasury stock | -- | -- | -- | -- | -- | -- |
| Comprehensive income: | | | | | | |
| Net income | -- | -- | -- | -- | -- | -- |
| Unrealized loss on marketable securities | -- | -- | -- | -- | -- | (85) |
| Total comprehensive income | -- | -- | -- | -- | -- | -- |
| Balance at June 30, 1996 | 48,087 | 0 | 4,884,993 | 49 | 2,183 | (15) |
| Accrual of Redeemable Class C common stock dividends | -- | -- | -- | -- | -- | -- |
| Comprehensive income: | | | | | | |
| Net income | -- | -- | -- | -- | -- | -- |
| Unrealized gain on marketable securities | -- | -- | -- | -- | -- | 20 |
| Total comprehensive income | -- | -- | -- | -- | -- | -- |
| Balance at June 29, 1997 | 48,087 | 0 | 4,884,993 | 49 | 2,183 | 5 |
| Accrual of Redeemable Class C common stock dividends | -- | -- | -- | -- | -- | -- |
| Purchase of treasury stock | -- | -- | -- | -- | -- | -- |
| Comprehensive income: | | | | | | |
| Net income | -- | -- | -- | -- | -- | -- |
| Unrealized gain on marketable securities | -- | -- | -- | -- | -- | -- |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 9 | | | | | | | | | | |
| Total comprehensive income..... | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Balance at June 28, 1998..... | 48,087 | 0 | 4,884,993 | 49 | 2,183 | 14 | | | | |
| Accrual of Redeemable Class C common stock dividends..... | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Employee stock options..... | -- | -- | -- | -- | 1,680 | -- | | | | |
| Amortization of deferred compensation..... | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Comprehensive loss: | | | | | | | | | | |
| Net loss..... | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Unrealized loss on marketable securities..... | -- | -- | -- | -- | -- | (14) | | | | |
| Total comprehensive loss..... | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Balance at March 28, 1999..... | 48,087 | $ 0 | 4,884,993 | $ 49 | $ 3,863 | $ -- | | | | |

| | RETAINED EARNINGS (DEFICIT) | DEFERRED COMPENSATION | TREASURY STOCK SHARES | TREASURY STOCK AMOUNT | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|
| Balance at July 2, 1995..... | $ (5,125) | $ -- | -- | $ -- | $ (3,316) |
| Issuance of warrants..... | -- | -- | -- | -- | 492 |
| Issuance of common stock..... | -- | -- | -- | -- | 1 |
| Accrual of Redeemable Class C common stock dividends..... | (1,029) | -- | -- | -- | (1,029) |
| Purchase of treasury stock..... | -- | -- | 519,140 | (2,975) | (2,975) |
| Comprehensive income: | | | | | |
| Net income..... | 1,297 | -- | -- | -- | 1,297 |
| Unrealized loss on marketable securities..... | -- | -- | -- | -- | (85) |
| Total comprehensive income..... | -- | -- | -- | -- | 1,212 |
| Balance at June 30, 1996..... | (4,857) | -- | 519,140 | (2,975) | (5,615) |
| Accrual of Redeemable Class C common stock dividends..... | (1,462) | -- | -- | -- | (1,462) |
| Comprehensive income: | | | | | |
| Net income..... | 4,387 | -- | -- | -- | 4,387 |
| Unrealized gain on marketable securities..... | -- | -- | -- | -- | 20 |
| Total comprehensive income..... | -- | -- | -- | -- | 4,407 |
| Balance at June 29, 1997..... | (1,932) | -- | 519,140 | (2,975) | (2,670) |

| | | | | | |
|---|---|---|---|---|---|
| Accrual of Redeemable Class C common stock dividends..... | (1,608) | -- | -- | -- | (1,608) |
| Purchase of treasury stock..... | -- | -- | 14,140 | (133) | (133) |
| Comprehensive income: | | | | | |
| Net income..... | 5,074 | -- | -- | -- | 5,074 |
| Unrealized gain on marketable securities..... | -- | -- | -- | -- | 9 |
| Total comprehensive income..... | -- | -- | -- | -- | 5,083 |
| Balance at June 28, 1998..... | 1,534 | -- | 533,280 | (3,108) | 672 |
| Accrual of Redeemable Class C common stock dividends..... | (1,328) | -- | -- | -- | (1,328) |
| Employee stock options..... | -- | (1,680) | -- | -- | - - |
| Amortization of deferred compensation..... | -- | 105 | -- | -- | 105 |
| Comprehensive loss: | | | | | |
| Net loss..... | (7,354) | -- | -- | -- | (7,354) |
| Unrealized loss on marketable securities..... | -- | -- | -- | -- | (14) |
| Total comprehensive loss..... | -- | -- | -- | -- | (7,368) |
| Balance at March 28, 1999..... | $ (7,148) | $ (1,575) | 533,280 | $ (3,108) | $ (7,919) |

*See Accompanying Notes.*

# *-800-Flowers.com, Inc. and Subsidiaries Consolidated Statements of Cash Flows*

## *(In Thousands)*

## *Years Ended Nine Months Ended*

| | JUNE 30, 1996 | JUNE 29, 1997 | JUNE 28, 1998 | MARCH 29, 1998 | MARCH 28, 1999 |
|---|---|---|---|---|---|
| *(Unaudited)* | | | | | |
| OPERATING ACTIVITIES: | | | | | |
| Net income (loss)..... | $ 1,297 | $ 4,387 | $ 5,074 | $ 2,396 | |

| | | | | | |
|---|---|---|---|---|---|
| $ (7,354) | | | | | |
| Reconciliation of net income (loss) to net cash provided by (used in) operations: | | | | | |
| Depreciation and amortization | 2,247 | 3,287 | 4,168 | 2,768 | 6,043 |
| Deferred income taxes | 645 | (170) | 265 | 126 | (633) |
| Management put liability | -- | -- | 1,631 | -- | (1,631) |
| Bad debt expense | 319 | 553 | 383 | 235 | 231 |
| Minority interest | (59) | 4 | (186) | (38) | 99 |
| Issuance of warrants | 492 | -- | -- | -- | -- |
| Amortization of deferred compensation | -- | -- | -- | -- | 105 |
| Loss on disposal of equipment and other | -- | -- | 313 | -- | 151 |
| Changes in operating items, excluding the effects of acquisitions: | | | | | |
| Working capital items | 891 | 2,547 | (284) | (3,229) | (2,741) |
| Nonworking capital items | (13) | 56 | (1,864) | (1,493) | (3,972) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 5,819 | 10,664 | 9,500 | 765 | (9,702) |
| INVESTING ACTIVITIES: | | | | | |
| Acquisitions, net of cash acquired | -- | (1,057) | (15,206) | (939) | -- |
| Proceeds on sale of retail operations | -- | 83 | -- | -- | -- |
| Capital expenditures, net of noncash expenditures--$2,071, $1,114, $561, $245 and $3,009, for fiscal 1996, 1997, 1998 and nine months ended March 29, 1998 and March 28, 1999, respectively | (2,890) | (1,814) | (10,302) | (2,965) | (7,254) |
| (Purchases) sales of investments | (741) | (1,305) | (296) | (800) | 5,428 |
| Notes receivable, net | (47) | (97) | 341 | (650) | 122 |
| Other, net | (336) | -- | -- | -- | -- |
| NET CASH USED IN INVESTING ACTIVITIES | (4,014) | (4,190) | (25,463) | (5,354) | (1,704) |
| FINANCING ACTIVITIES: | | | | | |
| Proceeds from bank borrowings | -- | -- | 15,500 | -- | 32,402 |
| Acquisition of treasury stock | (2,975) | -- | (133) | -- | -- |
| Payments of capital lease obligations | (1,032) | (1,408) | (1,648) | (1,523) | (1,062) |
| Payments of related party debt | (1,886) | -- | -- | -- | -- |
| Repayment of notes payable | (48) | (262) | (326) | (231) | (26,175) |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (5,941) | (1,670) | 13,393 | (1,754) | 5,165 |
| Net change in cash and equivalents | (4,136) | 4,804 | (2,570) | (6,343) | (6,241) |
| Cash and equivalents: | | | | | |
| Beginning of period | 10,775 | 6,639 | 11,443 | 11,443 | |

```
8,873
  End of period.....................................   $   6,639    $  11,443   $   8,873   $    5,100
$   2,632
```

*See Accompanying Notes.*

*-800-Flowers.com, Inc. and Subsidiaries*

*Notes to Consolidated Financial Statements*

*March 28, 1999*

*(Information for the Nine Months Ended March 29, 1998 Is Unaudited)*

## *1. Description of Business*

1-800-FLOWERS.COM, Inc. (the "Company") is a leading e-commerce provider of floral products and gifts. Customers can purchase products through any of three sales channels: online, by calling toll-free and by visiting one of 123 retail stores (owned or franchised) located across the United States. The Company has broadened its product lines to include home and garden merchandise through its acquisition of The Plow & Hearth, Inc. ("P&H") in April 1998 (see Note 3).

## *2. Significant Accounting Policies*

## *Principles of Consolidation*

The consolidated financial statements include the accounts of 1-800-FLOWERS.COM, Inc. and its wholly-owned and majority-owned subsidiaries and partnerships. All significant intercompany balances and transactions have been eliminated in consolidation.

## *Interim Financial Statements*

The financial statements for the nine months ended March 29, 1998, have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the results of operations and cash flows for the nine

months ended March 29, 1998 have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or eliminated. The results of operations for the nine months ended March 28, 1999, are not necessarily indicative of the results to be expected for any future interim period or for the year ending June 27, 1999.

## *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## *Cash and Equivalents*

Cash and equivalents consist of demand deposits with banks, highly liquid money market funds, overnight repurchase agreements and commercial paper with maturities of three months or less when purchased.

## *Receivables and Concentration of Credit Risk*

Concentration of credit risk with respect to accounts receivable are limited due to the Company's large number of customers and their dispersion substantially throughout the United States. A substantial portion of receivables are related to balances owed by major credit card



companies. The timing of the related cash realization and fees accrued are determined based upon agreements with these companies. Credit is also extended to customers based upon an evaluation of the customer's financial condition and collateral is generally not required. Allowances relating to accounts receivable (June 29, 1997--$509,000, June 28, 1998--$784,000 and March 28, 1999--$998,000) have been recorded based upon previous experience and other relevant factors, in addition to management's periodic evaluation. Credit losses have been within management's expectations.

## *Inventories*

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method of accounting.

## *Deferred Catalog Costs*

The Company capitalizes the costs of producing and distributing its catalogs. These costs are amortized in direct proportion with actual sales from the corresponding catalog over a period not to exceed twenty-six weeks. No costs were deferred at June 29, 1997. The unamortized balance of deferred catalog costs at June 28, 1998 and March 28, 1999 was approximately $669,000 and $1,772,000, respectively, and is included in other non-current assets.

## *Depreciation and Amortization*

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Amortization of assets held under capital leases is calculated using the straight-line method over the estimated useful life of the asset. Amortization of leasehold improvements is calculated using the straight-line method over the shorter of the lease terms, including renewal options expected to be exercised, or estimated useful lives of the improvements. The useful lives of property, plant and equipment are as follows:

## *Years*

| | |
|---|---|
| Building | 40 |
| Leasehold improvements | 15-20 |
| Furniture, fixtures and equipment (including computer equipment, software development costs and telecommunication equipment) | 3-5 |

## *Computer Software Developed for Internal Use*

The Company follows the provisions of Statement of Position 98-1, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE, which requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. These costs are amortized over a period of three years, the estimated useful life of the software. Internet and Web site development costs are expensed as incurred. No costs for computer software developed for internal use were capitalized during the year ended June 30, 1996. Capitalized computer software developed for internal use approximated $828,000, $5,169,000, $3,860,000 and $626,000 for the years ended June 29, 1997 and June 28, 1998 and for the nine months ended March 29, 1998 and March 28, 1999, respectively.

# -800-Flowers.com, Inc. and Subsidiaries

# Notes to Consolidated Financial Statements (Continued)

# (Information for the Nine Months Ended March 29, 1998 Is Unaudited)

## Investments

The Company's investments, consisting primarily of debt and equity securities, are classified as available-for-sale and are stated at fair value, with unrealized gains and losses, net of tax, reported in accumulated other comprehensive income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income. The cost of investments sold is determined using the specific identification method. Estimated fair values of investments are based on quoted market prices on the last business day of the fiscal year. Interest, dividends and other distributions of earnings are included in other income.

## Notes Receivable

Notes receivable are principally the result of (i) an acquired entity's land and building sales from prior years, which mature through 2011 and bear interest at rates ranging from 8% to 11% per annum; (ii) converting certain past due franchise receivables into three-year promissory notes bearing interest of up to 10% per annum; (iii) the sale of certain Company-owned stores to new franchisees; (iv) the resale of franchises and (v) the license fees associated with certain termination agreements designed to compensate the Company for the loss of future license fees. Gains resulting from the sale of stores described in (iii) and the transactions in (iv) above have been deferred and are included in other liabilities and will be recognized over the life of the related notes. The balance of deferred gains at June 29, 1997, June 28, 1998 and March 28, 1999 are approximately $233,000, $127,000 and $103,000, respectively. Allowances relating to such notes (1997--$423,000, 1998--$593,000 and, 1999--$258,000) have been recorded based upon previous experience and management's periodic evaluation of other relevant factors.

## Licenses, Goodwill and Other Assets

Licenses represent the fair value of franchise agreements acquired in the Company's acquisition of Amalgamated Consolidated Enterprises, Inc. ("ACE") and are amortized on a straight-line basis over a 16-year period.

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Amortization expense relating to goodwill is amortized on a straight-line basis over periods ranging from 15 to 20 years.

## *Fair Values of Financial Instruments*

The recorded amounts of the Company's cash and equivalents, notes and accounts receivable, accounts payable, and accrued liabilities approximate their fair values principally because of the short-term nature of the significant items. The fair value of the Company's long-term obligations are estimated based on the current rates offered to the Company for obligations of similar terms and maturities. Under this method, the Company's fair value of long-term obligations was not significantly different than the stated values at June 29, 1997, June 28, 1998 and March 28, 1999.

## *Revenue Recognition*

Net revenues are generated by online, telephonic and retail fulfillment operations and primarily consist of the selling price of merchandise, net of returns and credits, and include customer service and shipping charges. Net revenues are recognized upon delivery of the order to the recipient of



floral products and upon shipment of non-floral products. The Company provides an allowance for sales returns in the period of sale, based upon historical experience.

## *Cost of Revenues*

Cost of revenues consists primarily of florist fulfillment costs (fees paid to wire services that serve as clearinghouses for floral orders, net of rebates), the cost of floral and non-floral merchandise sold from inventory or through third parties, and the associated costs of inbound freight and outbound shipping. Additionally, cost of revenues includes labor and facility costs related to wholesale operations.

## *Marketing and Sales*

Marketing and sales expenses consist primarily of advertising and promotional expenditures, catalog costs, fees paid to strategic online partners, fulfillment (other than costs included in cost of revenues) and customer service center expenses as well as payroll and non-payroll related expenses for those areas engaged in marketing, selling, merchandising, customer service and fulfillment activities. All such marketing and sales costs are expensed when incurred.

In accordance with Statement of Position 93-7, REPORTING OF ADVERTISING COSTS, the Company expenses all advertising costs at the time the advertisement is first shown. Advertising expense (including the amortization of deferred catalog costs of approximately $2,604,000, $0 and $13,771,000 for the year ended June 28, 1998 and for the nine months ended March 29, 1998 and March 28, 1999, respectively) was approximately $15,100,000, $16,700,000, $16,691,000, $11,421,000 and $27,581,000 for the years ended June 30, 1996, June 29, 1997 and June 28, 1998 and for the nine months ended March 29, 1998 and March 28, 1999, respectively.

## *Technology and Development*

Technology and development expenses consist primarily of the payroll and operating expenses for the information technology group, maintenance, support and licensing costs pertaining to the order entry, customer service, fulfillment and database systems as well as all costs associated with the Web site, including designing, developing and third party hosting. All such technology and development costs are expensed as incurred.

## *Long-lived Assets*

When impairment indicators are present, the Company reviews the carrying value of its assets in determining the ultimate recoverability of their unamortized values using future undiscounted cash flow analysis expected to be generated by the asset. If such assets are considered impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the future discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

## *Income Taxes*

Income taxes are provided using the liability method. Accordingly, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as

determined under enacted tax laws and rates that will be in effect when the differences are expected to reverse.

## *Stock-based Compensation*

The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, ACCOUNTING FOR STOCK BASED COMPENSATION ("Statement 123").

## *Segment Disclosures*

Effective June 29, 1998, the Company adopted Statement of Financial Accounting Standards No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION ("Statement 131"). Statement 131 superseded Statement of Financial Accounting Standards No. 14, FINANCIAL REPORTING FOR SEGMENTS OF A BUSINESS ENTERPRISE. Statement 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. Statement 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company operates in one business segment through any of its three access channels. The adoption of Statement 131 did not affect the Company's consolidated results of operations or financial position.

## *Comprehensive Income*

Effective June 29, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, REPORTING COMPREHENSIVE INCOME ("Statement 130"). Statement 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this statement had no impact on the Company's net income (loss) or stockholders' equity (deficit). Statement 130 requires unrealized gains or losses on the Company's available-for-sale securities, which prior to adoption was reported separately in stockholders' equity, to be included in comprehensive

income. The related tax effect on comprehensive income is not material for the periods presented. Prior year consolidated financial statements have been restated to conform to the requirements of Statement 130.

## *3. Acquisitions*

During the three years ended June 28, 1998, the Company made the acquisitions described below, each of which has been accounted for as a purchase. Accordingly, the consolidated financial statements include the operating results of each business from the respective date of acquisition. No acquisitions were consummated during the nine month period ended March 28, 1999.

## *The Plow & Hearth, Inc.*

In April 1998, the Company acquired 88% of the issued and outstanding shares of common stock of P&H (70% of the fully diluted equity of P&H due to the existence of 28,334 outstanding management stock options). P&H is a catalog company located in Virginia. The acquisition price was $16,100,000, exclusive of the management put liability described below, of which $14,700,000 was financed through the Company's credit agreement (see Note 5). The purchase price has been

## *-800-Flowers.com, Inc. and Subsidiaries*

## *Notes to Consolidated Financial Statements (Continued)*

## *(Information for the Nine Months Ended March 29, 1998 Is Unaudited)*

3. ACQUISITIONS (CONTINUED) allocated to the assets acquired and the liabilities assumed based on fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired of $19,600,000 has been recorded as goodwill and is being amortized over 20 years.

The Company, P&H and P&H management shareholders and option holders (collectively, "Management Stockholders") entered into a Stockholders' Agreement effective with the acquisition. In accordance with the Management Stockholder put option contained within the agreement, as amended, each Management Stockholder has the right to cause P&H to purchase all of its outstanding management stock options at a price contingent upon the operating profits of P&H, with a minimum obligation, as defined, upon the occurrence of a put event, as defined in the agreement, or a put period which represents the 60-day period commencing on April 3, 2002 and terminating on June 3, 2002. Accordingly, the Company recorded a put liability of $6,300,000 at the acquisition date. The put

liability at June 28, 1998 was adjusted to approximately $8,700,000 and, subsequently at March 28, 1999, to $6,300,000, based on the formula defined in the Stockholders' Agreement. This resulted in an increase and subsequent reduction of general and administrative expenses of approximately $1,631,000 for the year ended June 28, 1998 and the nine months ended March 28, 1999, respectively, reflecting the option holders percentage of the increase (decrease), with the remainder adjusted to goodwill. The Company's minimum obligation under the put liability increases to $8,400,000 upon the completion of an initial public offering, as defined, of the Company's common stock.

Additionally, under P&H's Amended and Restated Stock Option Plan, 35,342 shares of unissued P&H common stock are reserved for issuance. The aforementioned 28,334 management stock options are immediately exercisable and expire in February 2008. In April 1998, P&H issued 3,504 stock options to management at an exercise price equal to the per share acquisition price of $153.65. Such options do not contain the management stockholder put option as defined in the preceding paragraph. Such options will expire ten years from the issuance date and vest ratably over five years.

Concurrently with the acquisition of P&H, the Company also acquired an 85% interest in Plow & Hearth, LP (the "Partnership"). P&H owns the remaining 15%. The Partnership owns the land and distribution center/office facility of P&H and leases the facility to P&H. The $800,000 purchase price has been allocated to the assets acquired and the liabilities assumed based on fair values at the date of acquisition. The purchase price approximates the estimated fair values of the net assets acquired, including the assumption of a $2,400,000 construction loan payable.



3. ACQUISITIONS (CONTINUED) The following table reflects unaudited pro forma results of operations of the Company and P&H on the basis that the acquisition had taken place at the beginning of the year for each of the periods presented:

## *Years Ended*

## *June 29, 1997 June 28, 1998*

## *(In Thousands, Except Per Share Data)*

| | | |
|---|---|---|
| Net revenues | $ 222,324 | $ 257,747 |
| Net income | $ 4,468 | $ 3,464 |
| Net income applicable to common stockholders | $ 3,006 | $ 1,856 |
| Net income per common share applicable to common stockholders: | | |
| Basic | $ 0.68 | $ 0.42 |
| Diluted | $ 0.64 | $ 0.40 |
| Shares used in the calculation of net income per common share: | | |
| Basic | 4,414 | 4,412 |
| Diluted | 4,674 | 4,661 |

The unaudited pro forma consolidated results of operations are not necessarily indicative of the actual results that would have occurred had the acquisition been consummated on July 1, 1996 or June 30, 1997 or of future operations of the combined companies.

## *Great Plains Wholesale Florists, Inc.*

In July 1997, the Company's subsidiary, Floral Works, Inc. ("Floral Works"), acquired the business and assets of Great Plains Wholesale Florists, Inc. ("Great Plains"), a supplier of fresh cut flowers and arrangements to the supermarket industry, for $900,000 in cash and the issuance of a $900,000 four-year seller financed note bearing interest at 6.5% per annum. The purchase price has been allocated to the assets acquired and the liabilities assumed based on their fair values at the date of acquisition.

The excess of the purchase price over the net assets acquired, of approximately $1,744,000, has been recorded as goodwill and is being amortized over 15 years. Had this acquisition been consummated as of July 1, 1996, the unaudited pro forma consolidated net revenues and results of operations would not have been considered material for the year ended June 29, 1997.

## *Floral Works, Inc.*

In September 1996, the Company invested $1,100,000 in cash for an 80% interest in Floral Works, Inc. which was formed in order to acquire specific assets and liabilities of FLS Floral Wholesalers Ltd. The purchase price has been allocated to the assets acquired and the liabilities assumed based on fair values at the date of acquisition. The excess of the purchase price over the

3. ACQUISITIONS (CONTINUED) estimated fair value of the net assets acquired of approximately $826,000 has been recorded as goodwill and is being amortized over 15 years.

Under certain circumstances, the Company may elect to issue shares of its common stock in exchange for the minority stockholders' shares. Additionally, the minority stockholders received 75 Stock Appreciation Rights ("SARs") with an exercise price of $2,800 per right. The SARs vest ratably over 5 years and the exercise price increases 10% annually. At March 28, 1999, 40% of the SARs are exercisable. Since issuance, the Company has not recorded any provision related to such SARs.

Had this acquisition been consummated as of July 3, 1995, the unaudited pro forma consolidated net revenues and results of operations would not have been considered material for the year ended June 30, 1996.

## *American Floral Services, Inc.*

In February 1994, the Company completed an investment transaction with American Floral Services, Inc. ("AFS"), a floral wire service. The investment consisted of the Company purchasing a minority interest in AFS Class A common stock and 15% preferred stock and a long-term note receivable. During the year ended June 30, 1996, the long-term note receivable was converted into additional preferred stock of AFS. On June 30, 1997, AFS repurchased, on a pro-rata basis, 59% of its then outstanding shares of Class A common stock in the amount of $387.16 per share. This transaction resulted in a gain on the Company's investment in AFS of approximately $1,545,000 which was received and recorded as other income during the year ended June 28, 1998. In addition, during the years ended June 29, 1997 and June 28, 1998 and the nine months ended March 29, 1998 and March 28, 1999, the Company recorded $318,000, $123,000, $92,000 and $92,000, respectively, of other income representing the accrual of cumulative preferred stock dividends. Accrued preferred stock dividends at June 29, 1997 of $318,000 were paid in July 1997.

## *4. Capital Stock Investment Agreements*

In January 1995, the Company, its principal shareholder and a venture capital firm ("Investor") entered into an Investment Agreement ("Investment Agreement"), whereby each existing share of Common Stock was converted into one share of Class A common stock (which shares contain all voting rights of

the Company) and 100 shares of Class B common stock. Additionally, Class C common stock and a preferred stock class were established.

Pursuant to the Investment Agreement, the Company, upon obtaining certain targets, has the right to draw up to $25,000,000 in funds. As of March 28, 1999, the Company has taken $10,000,000 and based upon the structure and targets of the Investment Agreement, an additional $10,000,000 is immediately available. In exchange for each funds takedown, the Company provides the Investor a predetermined number of shares of Class C common stock and warrants to acquire shares of Class B common stock at $.02 per share. Upon the takedown of $10,000,000 by the Company in January 1995, the Investor received 26,345 shares of Class C common stock and warrants to acquire 237,104 shares of Class B common stock expiring in 2005. The fair value of the warrants was estimated by the Company at approximately $1,375,000. As of March 28, 1999, all of



4. CAPITAL STOCK INVESTMENT AGREEMENTS (CONTINUED) such warrants are outstanding. The Class C common stock accrues a cumulative dividend at the rate of 10% per annum and has a liquidation preference as to unpaid dividends and the original investment. The Company may, at its option, under certain terms and conditions, repurchase and/or retire the shares of Class B and/or C common stock held by the Investor in advance of the Class C common stock's 2005 stated redemption date, at which time the redemption value, including accrued dividends, of the Class C common stock would be approximately $970 per share. The Investment Agreement contains certain covenants with which the Company is in compliance as of March 28, 1999.

On June 28, 1996, the Company retired related party debt obligations of approximately $5,800,000, through $2,500,000 in cash and the balance in shares of Class B and Class C common stock. Accordingly, $3,300,000 of debt was converted to equity under terms similar to the terms of the Investment Agreement. As such, 8,477 shares of Class C common stock and 76,293 Class B warrants were issued. The fair value of the warrants was estimated by the Company at approximately $492,000 and was charged to operations during the year ended June 30, 1996. The Class B warrants were immediately exercised into 76,293 shares of Class B common stock. The redemption value, including accrued dividends, of the Class C common stock at the 2005 stated redemption date would be approximately $917 per share.

Additionally, upon the completion of an exchange event, as defined in the Investment Agreement, each share of Class C common stock is convertible into one share of preferred stock and one share of Class B common stock.

On May 8, 1998, the Company entered into a Stock Purchase Agreement with a stockholder whereby the Company purchased 140 shares of its Class A common stock and 14,000 shares of its Class B common stock for $133,000.

## -800-Flowers.com, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

## (Information for the Nine Months Ended March 29, 1998 Is Unaudited)

## 5. Long-term Debt

The Company's long-term debt obligations are as follows:

## June 29, 1997 June 28, 1998 March 28, 1999 (In Thousands)

| | | | |
|---|---|---|---|
| Bank term loan (1) | $ -- | $ -- | $ 18,000 |
| Standby credit note (2) | -- | 15,500 | -- |
| Commercial notes and revolving credit line (3-5) | -- | 2,333 | 6,497 |
| Seller financed acquisition obligations (6-11) | 3,277 | 3,867 | 3,430 |
| Obligations under capital leases (see Note 11) | 5,369 | 4,050 | 5,721 |
| | 8,646 | 25,750 | 33,648 |
| Less current maturities of long-term debt and obligations under capital leases | 2,055 | 3,287 | 5,500 |
| | $ 6,591 | $ 22,463 | $ 28,148 |

(1) On March 19, 1999, the Company entered into an agreement with a bank that provided for an $18,000,000 term loan and a $12,000,000 revolving credit line, bearing interest at LIBOR Index plus 2.25% per annum (7.31% at March 28, 1999) payable monthly. The Company received the proceeds

under the term loan during the nine-month period ended March 28, 1999 and used such proceeds to repay amounts outstanding under its previous credit agreement. Subsequent to March 28, 1999, the Company borrowed $3,000,000 under the $12,000,000 revolving credit line.

As of March 28, 1999, the Company is in default of certain covenants within the agreement. The bank has subsequently waived such defaults and amended the agreement whereby the term loan will be due and payable on the earlier of the Company's successful completion of an initial public offering of its common stock or July 3, 2000. Additionally, the revolving credit line was reduced to $5,000,000. The amended agreement contains limited restrictive financial covenants.

(2) On April 3, 1998, the Company entered into a Credit Agreement (the "Agreement") with a bank that provided for a $15,500,000 Standby Credit Note and a $5,000,000 revolving credit facility. The Company borrowed the full amount under the Standby Credit Note in connection with the acquisitions of P&H and the Partnership (see Note 3). The Agreement requires interest to be paid monthly. On March 19, 1999, the Company repaid amounts then outstanding and entered into a new credit agreement with the same bank (see (1) above).

Other components of long-term debt, relating to obligations of P&H, are as follows:

(3) $2,400,000 commercial note dated June 13, 1997 ($2,278,000 outstanding at March 28, 1999) assumed in the P&H and the Partnership acquisitions, bearing interest at 8.19% per annum. The note is payable in 203 equal monthly installments of principal and interest commencing June 13, 1997.

(4) $4,500,000 revolving credit line dated September 28, 1998 ($2,789,000 outstanding at March 28, 1999) bearing interest equal to the monthly LIBOR Index plus 1.75% per annum



5. LONG-TERM DEBT (CONTINUED) (6.7% at March 28, 1999). Interest is paid monthly on the outstanding principal balance. The note is payable upon expiration of the line on September 15, 1999.

(5) $1,460,000 note dated July 1, 1998 ($1,430,000 outstanding at March 28, 1999) bearing interest equal to the monthly LIBOR Index plus 1.75% per annum (6.7% at March 28, 1999). The note is payable in 180 equal monthly installments of principal and interest commencing November 1, 1998.

The following notes relate to seller-financed acquisition obligations, all of which have been collateralized by either the stock or assets of various subsidiaries of the Company:

(6) $2,225,000 in promissory notes payable dated October 10, 1994 bearing interest at rates between 9% and 12% per annum. Interest is paid monthly on the outstanding principal balance until the notes have been paid in full. The notes are payable in 60 equal monthly installments commencing November 1, 1999.

(7) $800,000 promissory note payable assumed October 10, 1994 ($133,000 outstanding at March 28, 1999) and dated September 1, 1993 bearing interest at 12% per annum. Interest is paid monthly on the outstanding principal balance until the note has been paid in full. The note is payable in 36 equal monthly installments commencing October 1, 1996.

(8) $200,000 promissory note payable assumed October 10, 1994 and dated September 1, 1993 bearing interest at 9% per annum. Interest is paid monthly on the outstanding principal balance until the note has been paid in full. The note is payable in 60 equal monthly installments commencing November 1, 1999.

(9) $275,000 promissory note payable dated November 1, 1994 ($180,000 outstanding at March 28, 1999) bearing interest at 8% per annum. The note is payable in 120 equal monthly installments of principal and interest commencing December 1, 1994.

(10) $95,000 note payable assumed November 1, 1994 ($17,000 outstanding at March 28, 1999) bearing interest at 8% per annum. The note is payable in 60 equal monthly installments of principal and interest commencing February 1, 1995.

(11) $900,000 promissory note payable dated July 1,1997 ($675,000 outstanding at March 28, 1999) bearing interest at 6.5% per annum. The note is payable in four equal installments of principal and interest commencing July 1, 1998.



5. LONG-TERM DEBT (CONTINUED) As of March 28, 1999, long-term debt maturities, excluding amounts relating to capital leases, are as follows (in thousands):

| YEAR | DEBT MATURITIES |
|---|---|
| 2000 | $ 3,532 |
| 2001 | 5,655 |
| 2002 | 5,658 |
| 2003 | 5,436 |
| 2004 | 5,439 |

| | |
|---|---|
| Thereafter | 2,207 |
| | $ 27,927 |

The aggregate fair value of the long-term debt approximated the recorded amounts at March 28, 1999.

# 6. Income Taxes

Significant components of the provision (benefit) for income taxes are as follows (in thousands):

## Years Ended Nine Months Ended

| | JUNE 30, 1996 | JUNE 29, 1997 | JUNE 28, 1998 | MARCH 29, 1998 | MARCH 28, 1999 |
|---|---|---|---|---|---|
| Current: | | | | | |
| Federal | $ 430 | $ 2,600 | $ 2,039 | $ 971 | $ (2,293) |
| State and local | 180 | 705 | 877 | 418 | -- |
| | 610 | 3,305 | 2,916 | 1,389 | (2,293) |
| Deferred | 645 | (170) | 265 | 126 | (633) |
| | $ 1,255 | $ 3,135 | $ 3,181 | $ 1,515 | $ (2,926) |

The reconciliation of income tax computed at the U.S. federal statutory tax rates to income tax expense is as follows:

## Years Ended Nine Months Ended

| | JUNE 30, 1996 | JUNE 29, 1997 | JUNE 28, 1998 | MARCH 29, 1998 | MARCH 28, 1999 |
|---|---|---|---|---|---|
| Tax at U.S. statutory rates | 34.0% | 34.0% | 34.0% | 34.0% | (34.0)% |
| State income taxes, net of federal tax benefit | 8.0 | 6.0 | 7.5 | 7.5 | (3.1) |
| Nondeductible goodwill amortization | 4.3 | 1.9 | 2.1 | 2.1 | 3.8 |
| Dividends received deduction | -- | (1.0) | (4.4) | (4.4) | (0.2) |
| Other | 3.3 | 0.8 | 0.2 | (0.1) | 0.6 |
| Nondeductible expense | 6.5 | -- | -- | -- | -- |
| (Decrease) increase in valuation allowance | (5.8) | -- | -- | -- | 4.2 |
| | 50.3% | 41.7% | 39.4% | 39.1% | (28.7)% |

6. INCOME TAXES (CONTINUED) Significant components of the Company's deferred tax assets (liabilities) are as follows:

| June 29, 1997 | June 28, 1998 | March 28, 1999 (In Thousands) |
|---|---|---|
| Deferred tax assets: | | |
| Bad debts | $ 321 | $ 481 | $ 400 |
| Other accrued expenses and reserves | 353 | 1,156 | 775 |
| Book in excess of tax depreciation | 64 | -- | -- |
| State tax operating losses | -- | -- | 334 |
| Tax credits | -- | -- | 93 |
| Valuation allowance | -- | -- | (427) |
| Deferred tax liabilities: | | | |
| Installment sales | (168) | (157) | (152) |
| Tax in excess of book depreciation | -- | (1,175) | (85) |
| Net deferred taxes | $ 570 | $ 305 | $ 938 |

The Company paid income taxes of approximately $1,244,000, $1,700,000, $2,930,000, $2,194,000 and $1,726,000 for the years ended June 30, 1996, June 29, 1997 and June 28, 1998 and for the nine months ended March 29, 1998 and March 28, 1999, respectively.

## 7. Supplementary Financial Information

## Property, Plant and Equipment

## June 29, 1997 June 28, 1998 March 28, 1999 (In Thousands)

| | | | |
|---|---|---|---|
| Computer equipment | $ 5,948 | $ 9,648 | $ 14,447 |
| Software development costs | 828 | 5,997 | 6,623 |
| Telecommunication equipment | 3,547 | 3,854 | 4,207 |
| Leasehold improvements | 2,497 | 3,715 | 6,554 |
| Building and building improvements | -- | 3,463 | 3,848 |
| Equipment | 1,015 | 1,917 | 2,266 |
| Furniture and fixtures | 1,012 | 1,437 | 2,198 |
| Land | -- | 389 | 389 |
| | 14,847 | 30,420 | 40,532 |
| Accumulated depreciation and amortization | 6,361 | 11,041 | 15,700 |
| | $ 8,486 | $ 19,379 | $ 24,832 |

*(Information for the Nine Months Ended March 29, 1998 Is Unaudited)*

## *7. Supplementary Financial Information (Continued) Investments*

*June 29, 1997 June 28, 1998 March 28, 1999 (In Thousands)*

| | | | |
|---|---|---|---|
| Investments available-for-sale: | | | |
| Federal and municipal government bonds | $ 4,581 | $ 5,178 | $ -- |
| Equity securities | 6 | 275 | -- |
| Corporate notes | 559 | -- | -- |
| Other investments: | | | |
| Equity investment in AFS | 918 | 918 | 918 |
| Other | -- | 46 | 69 |
| | 6,064 | 6,417 | 987 |
| Less short-term investments | 3,210 | 5,034 | -- |
| | $ 2,854 | $ 1,383 | $ 987 |

Maturities of investments classified as available-for-sale were as follows (in thousands):

| | JUNE 29, 1997 | | JUNE 28, 1998 | |
|---|---|---|---|---|
| | AMORTIZED COST | FAIR VALUE | AMORTIZED COST | FAIR VALUE |
| Due in one year or less | $ 3,134 | $ 3,210 | $ 5,034 | $ 5,034 |
| Due after one year | 2,002 | 1,930 | 139 | 144 |
| Equity securities not due at a specific date | 5 | 6 | 266 | 275 |
| | $ 5,141 | $ 5,146 | $ 5,439 | $ 5,453 |

## *Licenses, Goodwill and Other Assets*

## *June 29, 1997 June 28, 1998 March 28, 1999 (In Thousands)*

| | | | |
|---|---|---|---|
| Goodwill | $ 1,420 | $ 23,259 | $ 23,055 |
| Investment in licenses | 4,927 | 4,927 | 4,927 |
| Exclusive online marketing contract | -- | -- | 3,125 |
| Deferred catalog costs | -- | 669 | 1,772 |
| Other assets | 999 | 1,429 | 1,451 |
| | 7,346 | 30,284 | 34,330 |
| Accumulated amortization | 1,183 | 2,012 | 3,227 |
| | $ 6,163 | $ 28,272 | $ 31,103 |

## *-800-Flowers.com, Inc. and Subsidiaries*

## *Notes to Consolidated Financial Statements (Continued)*

## *(Information for the Nine Months Ended March 29, 1998 Is Unaudited)*

## *7. Supplementary Financial Information (Continued) Statements of Cash Flows*

Changes in operating working capital items, excluding the effects of acquisitions:

| | YEARS ENDED | | | NINE MONTHS ENDED | |
|---|---|---|---|---|---|
| | JUNE 30, 1996 | JUNE 29, 1997 | JUNE 28, 1998 | MARCH 29, 1998 | MARCH 28, 1999 |
| | | | (IN THOUSANDS) | | |
| Receivables | $ (1,381) | $ (1,475) | $ (1,908) | $ (1,033) | $ (2,765) |
| Inventories | (158) | 32 | (373) | (169) | (3,089) |
| Prepaid and other | (1,159) | 838 | 732 | (2,207) | (292) |
| Accounts payable | 3,833 | 1,742 | 3,655 | 317 | 6,247 |
| Accrued expenses | (131) | 278 | (2,010) | 945 | 1,220 |
| Recoverable income taxes | -- | -- | -- | -- | (3,217) |
| Taxes payable | (113) | 1,132 | (380) | (1,082) | (845) |
| | $ 891 | $ 2,547 | $ (284) | $ (3,229) | $ (2,741) |

Changes in operating nonworking capital items, excluding the effects of acquisitions:

| | YEARS ENDED | | | NINE MONTHS ENDED |
|---|---|---|---|---|
| | JUNE 30, 1996 | JUNE 29, 1997 | JUNE 28, 1998 | MARCH 29, 1998 | MARCH 28, 1999 |
| | | | (IN THOUSANDS) | | |
| Other assets | $ (75) | $ (24) | $ (1,821) | $ (984) | $ (4,913) |
| Other liabilities | 62 | 80 | (43) | (509) | 941 |
| | $ (13) | $ 56 | $ (1,864) | $ (1,493) | $ (3,972) |

Interest paid amounted to approximately $3,360,000, $912,000, $879,000, $720,000 and $2,113,000 for the years ended June 30, 1996, June 29, 1997 and June 28, 1999 and for the nine months ended March 29, 1998 and March 28, 1999, respectively.

## *Accrued Expenses*

## *June 29, 1997 June 28, 1998 March 28, 1999 (In Thousands)*

| | | | |
|---|---|---|---|
| Payroll and payroll related items | $ 1,510 | $ 1,877 | $ 2,354 |
| Credits and chargeback reserve | 400 | 425 | 320 |
| Sales and use taxes | 289 | 61 | 409 |
| Interest | -- | 298 | 48 |
| Other | 426 | 440 | 1,190 |
| | $ 2,625 | $ 3,101 | $ 4,321 |

# -800-Flowers.com, Inc. and Subsidiaries

# Notes to Consolidated Financial Statements

# (Information for the Nine Months Ended March 29, 1998 Is Unaudited)

## 8. Profit Sharing Plan

The Company established a 401(k) Profit Sharing Plan ("401(k)") which covers substantially all eligible employees of the Company. All full-time employees of the Company and its subsidiaries who have attained the age of 21 are eligible to participate upon completion of one year of service. Participants may elect to make voluntary contributions to the 401(k) in amounts not exceeding federal guidelines. On an annual basis the Company, as determined by its Board of Directors, may make certain discretionary contributions. Employees are vested in the Company's contribution based upon years of service. The Company made contributions of $50,000, $101,000, $92,000, $63,000 and $54,000 for the years ended June 30, 1996, June 29, 1997 and June 28, 1999 and for the nine months ended March 29, 1998 and March 28, 1999, respectively.

## 9. Stock Option Plan

In January 1997, the Company's Board of Directors approved the Company's 1997 Stock Option Plan (the "Plan"). The Plan authorizes the granting to key employees, officers, directors and consultants of the Company options to purchase an aggregate of 598,544 shares of the Company's Class B common stock, $0.01 par value. The options may be either Incentive Stock Options or non-qualified stock options. The exercise price of an option shall be determined by the Company's Board of Directors or Compensation Committee of the Board at the time of grant, provided, however, that in the case of an Incentive Stock Option the exercise price may not be less than 100% of the fair market value of such stock at the time of the grant, or less than 110% of such fair market value in the case of options granted to a 10% owner of the Company's stock. The vesting and expiration periods of options issued under this Plan are determined by the Company's Board of Directors or Compensation Committee as set forth in the applicable option agreement, provided that the expiration date shall not be later than ten years from the date of grant.

During January 1999, the Company issued stock options to employees to purchase 20,000 shares of common stock at $20.00 per share, which was considered to be the fair value of the common stock at that time. Soon thereafter, the Company entered into discussions with an investor to purchase shares of common stock at $104.26 per share; accordingly, for accounting purposes, the Company used such

per share value to record a deferred compensation charge of $1,680,000, of which $105,000 was amortized during the nine months ended March 28, 1999, associated with the option grants in January 1999.

## *-800-Flowers.com, Inc. and Subsidiaries*

## *Notes to Consolidated Financial Statements (Continued)*

## *(Information for the Nine Months Ended March 29, 1998 Is Unaudited)*

9. STOCK OPTION PLAN (CONTINUED) The following table summarizes activity in stock options:

| | YEARS ENDED | | | | NINE MONTHS ENDED | |
|---|---|---|---|---|---|---|
| | JUNE 29, 1997 | | JUNE 28, 1998 | | MARCH 28, 1999 | |
| | SHARES UNDER OPTION | WEIGHTED AVERAGE EXERCISE PRICE | SHARES UNDER OPTION | WEIGHTED AVERAGE EXERCISE PRICE | SHARES UNDER OPTION | WEIGHTED AVERAGE EXERCISE PRICE |
| Balance, beginning of year | -- | $ -- | 42,775 | $ 12.99 | 52,550 | $ 13.61 |
| Grants | 42,775 | 12.99 | 10,250 | 16.14 | 71,200 | 20.00 |
| Forfeitures | -- | -- | (475) | 11.82 | -- | -- |
| Balance, end of year | 42,775 | 12.99 | 52,550 | 13.61 | 123,750 | 17.29 |
| Weighted-average fair value of options issued during the period | | $ 2.23 | | $ 7.28 | | $ 9.02 |

The following table summarizes information about stock options outstanding at March 28, 1999:

| EXERCISE PRICE | OPTIONS OUTSTANDING | OPTIONS EXERCISABLE | WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE |
|---|---|---|---|
| $12.99 | 42,300 | 25,380 | 2.8 years |
| 16.14 | 10,250 | 2,563 | 8.8 |
| 20.00 | 71,200 | 39,300 | 9.4 |
| | 123,750 | 67,243 | 7.1 |

At March 31, 1999, the Company has reserved approximately 871,000 shares of common stock for issuance under common stock options, warrants and conversion of Class C common stock.

## *Fair Value Disclosures*

Pro forma information regarding net income (loss) is required by Statement 123, which also requires that the information be determined as if the Company had accounted for its stock options under the fair value method of that statement. The fair value of these options was estimated at the date of grant using the minimum value option pricing model with the following assumptions: risk free interest rate of 6%; no dividend yield and a weighted-average expected life of the options of 5 years at date of grant. Because the determination of fair value of all options granted after such time as the Company becomes a public entity will include an expected volatility factor in addition to the factors described above, the results presented below may not be indicative of future periods.

## *-800-Flowers.com, Inc. and Subsidiaries*

## *Notes to Consolidated Financial Statements (Continued)*

## *(Information for the Nine Months Ended March 29, 1998 Is Unaudited)*

9. STOCK OPTION PLAN (CONTINUED) For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma financial information is as follows:

## *Years Ended Nine Months Ended*

## *June 29, 1997 June 28, 1998 March 29, 1998 March 28, 1999*

## *(In Thousands, Except Per Share Data)*

| | | | | |
|---|---|---|---|---|
| Net income (loss) applicable to common stockholders: | | | | |
| As reported | $ 2,925 | $ 3,466 | $ 1,190 | $ (8,682) |
| Pro forma | 2,898 | 3,438 | 1,172 | (9,095) |
| Basic earnings (loss) per share applicable to common stockholders: | | | | |
| As reported | $0.66 | $0.79 | $0.27 | $(1.97 ) |
| Pro forma | 0.66 | 0.78 | 0.27 | (2.07 ) |

| | | | | |
|---|---|---|---|---|
| Diluted earnings (loss) per share applicable to common stockholders: | | | | |
| As reported | $0.63 | $0.74 | $0.25 | $(1.97) |
| Pro forma | 0.62 | 0.74 | 0.25 | (2.07) |

# -800-Flowers.com, Inc. and Subsidiaries

# Notes to Consolidated Financial Statements (Continued)

# (Information for the Nine Months Ended March 29, 1998 Is Unaudited)

## 10. Basic and Diluted Earnings Per Share

The following sets forth the computation of basic and diluted earnings (loss) per common share data:

## Years Ended Nine Months Ended

## June 30, 1996 June 29, 1997 June 28, 1998 March 29, 1998 March 28, 1999

## (In Thousands)

Numerator: Net income (loss)..... $ 1,297 $ 4,387 $ 5,074 $ 2,396 $ (7,354) Redeemable Class C common stock dividends..... (1,029) (1,462) (1,608) (1,206) (1,328) Net income (loss) applicable to common stockholders.... $268 $ 2,925 $ 3,466 $ 1,190 $ (8,682 ) Denominator: Denominator for basic earnings (loss) per share- weighted average common shares outstanding..... 4,705 4,414 4,412 4,414 4,400 Effect of dilutive securities: Employee stock options..... -- 23 12 24 -- Warrants..... 237 237 237 237 -- Dilutive potential common shares..... 237 260 249 261 -- Denominator for diluted earnings (loss) per share- weighted average common shares outstanding and assumed conversions..... 4,942 4,674 4,661 4,675 4,400 During the nine months ended March 28, 1999, options and warrants to purchase 342,000 shares of common stock (using the treasury stock method) were excluded from the diluted loss per share computation as their effect would be antidilutive. Additionally, for all periods presented, 35,000 shares of common stock to be issued upon the conversion of Class C common stock (See Note 4) was excluded from the diluted loss per share computation as its effect would be antidilutive.

# 11. Commitments and Contingencies

## Leases

The Company currently leases office, store facilities, and equipment under various operating leases through fiscal 2009. As leases expire, it can be expected that in the normal course of business they will be renewed or replaced. Most lease agreements contain renewal options and rent escalation clauses and require the Company to pay real estate taxes, insurance, common area maintenance and operating expenses applicable to the leased properties. The Company has also entered into leases that are on a month-to-month basis.

The Company also leases certain computer, telecommunication and related equipment under capital leases, which are included in property and equipment with a capitalized cost of

# -800-Flowers.com, Inc. and Subsidiaries

# Notes to Consolidated Financial Statements (Continued)

# (Information for the Nine Months Ended March 29, 1998 Is Unaudited)

11. COMMITMENTS AND CONTINGENCIES (CONTINUED) approximately $6,500,000, $7,037,000 and $10,124,000 at June 29, 1997, June 28, 1998 and March 28, 1999, respectively, and accumulated amortization of $3,500,000, $5,031,000 and $6,453,000 respectively. Under the terms of one of these leases, the Company is required to maintain an irrevocable standby letter of credit in the amount of approximately $785,000 which is renewable annually.

As of March 28, 1999, future minimum payments under noncancelable equipment lease obligations and operating leases with initial terms of one year or more consist of the following:

| | OBLIGATIONS UNDER EQUIPMENT LEASES | OPERATING LEASES |
|---|---|---|
| | (IN THOUSANDS) | |
| 2000 | $ 2,015 | $ 4,848 |
| 2001 | 1,240 | 4,273 |
| 2002 | 935 | 4,107 |
| 2003 | 735 | 3,817 |
| 2004 | 95 | 3,457 |
| Thereafter | 3 | 4,372 |
| Total minimum lease payments | 5,023 | $ 24,874 |
| Less: amounts representing interest | (684) | |
| Present value of net minimum lease payments | $ 4,339 | |

The Company, through the ACE acquisition, subleases land and buildings (which are leased from third parties) to the Company's franchisees. Certain of the leases, other than land leases which have been classified as operating leases, are classified as capital leases and have initial lease terms of approximately 20 years (including option periods in some cases).

The following schedule, as of March 28, 1999, reflects the lease receipts due from franchisees (shown as Capitalized Investment in Leases) and capital lease payment obligations of the Company:

| | CAPITALIZED INVESTMENT IN LEASES | OBLIGATIONS UNDER CAPITAL LEASES |
|---|---|---|
| | (IN THOUSANDS) | |
| 2000 | $ 490 | $ 409 |
| 2001 | 454 | 401 |
| 2002 | 394 | 359 |
| 2003 | 280 | 245 |
| 2004 | 185 | 177 |
| Thereafter | 202 | 202 |
| Total minimum lease payments | 2,005 | 1,793 |
| Less interest | (476) | (411) |
| Present value of net minimum lease payments | $ 1,529 | $ 1,382 |



11. COMMITMENTS AND CONTINGENCIES (CONTINUED) At March 28, 1999, the aggregate future rental expense under long-term operating leases for land and buildings and corresponding sublease rental income under long-term operating subleases were as follows:

| | SUBLEASE INCOME | SUBLEASE EXPENSE |
|---|---|---|
| | (IN THOUSANDS) | |
| 2000 | $ 3,283 | $ 3,216 |
| 2001 | 2,952 | 2,900 |
| 2002 | 2,451 | 2,411 |
| 2003 | 2,049 | 2,015 |
| 2004 | 1,781 | 1,749 |
| Thereafter | 5,729 | 5,573 |
| | $ 18,245 | $ 17,864 |

In addition to the above, the Company has agreed to provide rent guarantees for leases entered into by certain franchisees with third party landlords. At March 28, 1999, the aggregate minimum rent due by franchisees guaranteed by the Company during the eight-year period ending in fiscal year 2006 was approximately $581,000.

Rent expense was approximately $5,000,0000, $5,800,000, $5,637,000, $4,508,000 and $5,543,000 for the years ended June 30, 1996, June 29, 1997 and June 28, 1998 and for the nine months ended March 29, 1998 and March 28, 1999.

The Company has commitments under exclusive online marketing agreements whereby the Company will pay a minimum of $11,500,000 over a four-year period commencing July 1, 1997. Certain online marketing costs are capitalized and amortized over the life of the agreement. The unamortized balance of such costs were approximately $0 and $3,125,000 at June 28, 1998 and March 28, 1999, respectively, and were included in other non-current assets.

## *Litigation*

There are various claims, lawsuits, and pending actions against the Company and its subsidiaries incident to the operations of its businesses. It is the opinion of management, after consultation with counsel, that the ultimate resolution of such claims, lawsuits and pending actions will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

## *12. Subsequent Event*

On May 20, 1999, the Company completed a private placement of a series of preferred stock, yielding net proceeds of $102.6 million. In connection with this private placement, all shares of Redeemable Class C common stock were redeemed at their redemption value and a portion reinvested in such preferred stock.

## *Independent Auditors' Report*

The Board of Directors The Plow & Hearth, Inc.:

We have audited the accompanying consolidated balance sheets of The Plow & Hearth, Inc. (the "Company") as of December 31, 1996 and 1997, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 financial position of The Plow & Hearth, Inc. as of December 31, 1996 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

*Kpmg Llp*

March 9, 1998

# *The Plow & Hearth, Inc.*

# *Consolidated Balance Sheets*

# *December 31, 1996 and 1997*

1996 1997

| | | |
|---|---|---|
| ASSETS (NOTE 2) | | |
| Current assets: | | |
| Cash and cash equivalents (note 7) | $ 4,318,609 | $ 3,686,460 |
| Accounts receivable (note 7): | | |
| Trade | 315,054 | 561,292 |
| Other | 143,588 | 201,194 |
| Inventories | 2,132,218 | 3,563,486 |
| Deferred catalog costs | 858,390 | 723,537 |
| Deferred income taxes (note 6) | 89,954 | 194,216 |
| Prepaid expenses and other current assets | 25,260 | 63,122 |
| Total current assets | 7,883,073 | 8,993,307 |
| Property, plant and equipment (note 3): | | |
| Land and improvements | 345,295 | 345,295 |
| Building | 2,626,979 | 2,626,979 |
| Leasehold improvements | 113,872 | 117,920 |
| Furniture, fixtures and equipment | 1,755,545 | 1,993,735 |
| | 4,841,691 | 5,083,929 |
| Less accumulated depreciation and amortization | 1,483,781 | 1,755,751 |
| Net property, plant and equipment | 3,357,910 | 3,328,178 |
| Deferred income taxes (note 6) | 17,694 | |

3,634
Purchased software costs, net (note 1)..... 136,067
130,145
Intangibles, net (note 1)..... --
20,005
Other assets, net..... 43,887
43,845
197,648
197,629
$ 11,438,631 $
12,519,114
LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:
Current maturities of long-term debt and obligations under capital leases
(notes 2 and 3)..... $ 602,706 $
83,769
Accounts payable..... 2,890,881
1,843,734
Accrued expenses..... 852,010
1,214,156
Customer deposits..... 153,021
152,283
Income taxes payable..... 817,321
1,307,424
Total current liabilities..... 5,315,939
4,601,366
Long-term debt and obligations under capital leases, excluding current maturities
(notes 2 and 3)..... 2,588,839
2,317,222
Minority interest (note 1)..... 573,347
528,818
Stockholders' equity (notes 4 and 8):
Common stock, $.10 par value, 200,000 shares authorized; issued and outstanding
107,256 and 105,356 at December 31, 1996 and 1997, respectively..... 10,726
10,536
Additional paid-in capital..... 1,397,926
1,336,366
Retained earnings..... 1,551,854
3,724,806
Total stockholders' equity..... 2,960,506
5,071,708
Commitments and contingencies (notes 1, 2, 3, 5 and 8)
$ 11,438,631 $
12,519,114

See accompanying notes to consolidated financial statements.

# *The Plow & Hearth, Inc.*

# *Consolidated Statements of Income*

YEARS ENDED
THREE MONTHS ENDED
DECEMBER 31, 1996
DECEMBER 31, 1997
MARCH 31,

| | | | |
|---|---|---|---|
| 1998 | | | |
| (UNAUDITED) | | | |
| Operating revenues: | | | |
| Merchandise sales, net | $ 29,045,513 | $ 38,996,352 | $ 4,901,994 |
| Mailing list rental income | 290,569 | 188,495 | 52,994 |
| Membership fee income | 231,711 | 13,056 | -- |
| Shipping income, net of shipping costs | 418,896 | 433,947 | (38,278) |
| | 29,986,689 | 39,631,850 | 4,916,710 |
| Operating costs and expenses: | | | |
| Cost of goods sold | 16,101,851 | 21,653,476 | 2,913,920 |
| Catalog production and marketing costs | 7,864,827 | 9,539,107 | 1,134,658 |
| Selling, general and administrative expenses | 3,759,736 | 4,619,167 | 5,017,158 |
| | 27,726,414 | 35,811,750 | 9,065,736 |
| Income from operations | 2,260,275 | 3,820,100 | (4,149,026) |
| Other income (expense): | | | |
| Interest expense | (325,108) | (248,449) | (38,967) |
| Interest income | 24,490 | 101,041 | 43,261 |
| Other, net | 90,940 | (37,265) | (77,311) |
| Minority interest | (25,462) | (25,471) | (19,713) |
| | (235,140) | (210,144) | (92,730) |
| Income before income taxes | 2,025,135 | 3,609,956 | (4,241,756) |
| Income tax expense (note 6) | 767,941 | 1,437,004 | (1,689,886) |
| Net income | $ 1,257,194 | $ 2,172,952 | $ (2,551,870) |

See accompanying notes to consolidated financial statements.

# *The Plow & Hearth, Inc.*

## *Consolidated Statements of Changes in Stockholders' Equity*

## *Years Ended December 31, 1996 and 1997 and*

## *Three Months Ended March 31, 1998 (Unaudited)*

| | COMMON STOCK | | ADDITIONAL PAID-IN | RETAINED | TOTAL STOCKHOLDERS' |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | EARNINGS | EQUITY |
| Balances, December 31, 1995 | 107,006 | $ 10,701 | $ 1,394,851 | $ 294,660 | $ 1,700,212 |
| Exercise of employee stock options ($22.50 per share) (note 4) | 810 | 81 | 18,144 | -- | 18,225 |
| Common stock purchased ($32.50 per share) | (560) | (56) | (18,144) | -- | (18,200) |
| Tax benefit of stock options exercised (note 4) | -- | -- | 3,075 | -- | 3,075 |
| Net income | -- | -- | -- | 1,257,194 | 1,257,194 |
| Balances, December 31, 1996 | 107,256 | 10,726 | 1,397,926 | 1,551,854 | 2,960,506 |
| Common stock purchased ($32.50 per share) | (1,900) | (190) | (61,560) | -- | (61,750) |
| Net income | -- | -- | -- | 2,172,952 | 2,172,952 |
| Balances, December 31, 1997 | 105,356 | 10,536 | 1,336,366 | 3,724,806 | 5,071,708 |
| Employee stock options (unaudited) | -- | -- | 3,945,826 | -- | 3,945,826 |
| Net loss (unaudited) | -- | -- | -- | (2,551,870) | (2,551,870) |
| Balances, March 31, 1998 (unaudited) | 105,356 | $ 10,536 | $ 5,282,192 | $ 1,172,936 | $ 6,465,664 |

See accompanying notes to consolidated financial statements.

# *The Plow & Hearth, Inc.*

## *Consolidated Statements of Cash Flows*

| | YEARS ENDED |
|---|---|

| ------ | THREE MONTHS | | | | | |
|---|---|---|---|---|---|---|
| | | | | | DECEMBER 31, | |
| DECEMBER 31, | | ENDED | | | | |
| | | | | | 1996 | |
| 1997 | | MARCH 31, 1998 | | | | |
| (UNAUDITED) | | | | | | |
| Cash flows from operating activities: | | | | | | |
| Net income (loss) | | | | | $ 1,257,194 | $ |
| 2,172,952 | $ (2,551,870) | | | | | |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | | |
| Employee stock options | | | | | -- | |
| -- | 3,945,826 | | | | | |
| Depreciation and amortization | | | | | 392,480 | |
| 366,022 | 90,340 | | | | | |
| Minority interest | | | | | 25,462 | |
| 25,471 | 19,713 | | | | | |
| Provision for deferred income taxes | | | | | (53,161) | |
| (90,202) | 106,075 | | | | | |
| Provision for inventory obsolescence | | | | | (5,000) | |
| 47,000 | 36,000 | | | | | |
| (Increase) decrease in: | | | | | | |
| Accounts receivable | | | | | 245,342 | |
| (303,844) | 375,872 | | | | | |
| Inventories | | | | | 119,881 | |
| (1,478,268) | (145,412) | | | | | |
| Deferred catalog costs | | | | | (418,457) | |
| 134,853 | (190,414) | | | | | |
| Income taxes refundable | | | | | 93,477 | |
| -- | (1,589,137) | | | | | |
| Prepaid expenses and other current assets | | | | | (586) | |
| (37,862) | (35,884) | | | | | |
| Other assets | | | | | (7,702) | |
| 9,555 | -- | | | | | |
| Increase (decrease) in: | | | | | | |
| Accounts payable | | | | | 335,387 | |
| (1,047,147) | (156,517) | | | | | |
| Accrued expenses | | | | | 297,258 | |
| 362,146 | (925,276) | | | | | |
| Customer deposits | | | | | 46,269 | |
| (738) | (33,830) | | | | | |
| Income taxes payable | | | | | 820,396 | |
| 490,103 | (1,307,424) | | | | | |
| Net cash provided by (used in) operating activities | | | | | 3,148,240 | |
| 650,041 | (2,361,938) | | | | | |
| Cash flows from investing activities: | | | | | | |
| Purchases of property, plant and equipment | | | | | (62,694) | |
| (242,238) | (21,916) | | | | | |
| Purchases of software | | | | | (49,312) | |
| (82,368) | (692) | | | | | |
| Purchase of intangible assets | | | | | -- | |
| (21,058) | (9,699) | | | | | |
| Net cash used in investing activities | | | | | (112,006) | |
| (345,664) | (32,307) | | | | | |
| Cash flows from financing activities: | | | | | | |
| Borrowings under line of credit agreement | | | | | 6,848,000 | |
| 2,588,000 | -- | | | | | |
| Payments under line of credit agreement | | | | | (6,848,000) | |
| (2,588,000) | -- | | | | | |
| Proceeds from issuance of long-term debt | | | | | 420,000 | |
| 2,400,000 | -- | | | | | |
| Principal payments on long-term debt and obligations under | | | | | | |

```
    capital leases.....................................................       (552,938)
(3,190,554)         (20,773)
  Financing costs for long-term debt...................................             --
(14,222)              --
  Common stock options exercised.......................................         18,225
--                --
  Purchase of common stock.............................................        (18,200)
(61,750)              --
  Return of capital to limited partners................................        (70,000)
(70,000)         (17,500)
Net cash used in financing activities..................................       (202,913)
(936,526)         (38,273)
Net increase (decrease) in cash and cash equivalents...................      2,833,321
(632,149)      (2,432,518)
Cash and cash equivalents, beginning of period.........................      1,485,288
4,318,609         3,686,460
Cash and cash equivalents, end of period...............................   $  4,318,609    $
3,686,460    $   1,253,942
Supplemental cash flow information:
  Income taxes paid (refunded) during the period.......................   $    (92,771)   $
1,037,103    $   1,100,600
  Interest paid during the period......................................        324,949
242,166               924
Noncash investing and financing activities:
  Capital lease obligations incurred for telephone equipment...........   $      3,375    $
--    $           --
  Income tax benefit from exercise of stock options....................          3,075
--                --
```

See accompanying notes to consolidated financial statements.

# *The Plow & Hearth, Inc.*

# *Notes to Consolidated Financial Statements*

# *December 31, 1996 and 1997 and Three Months Ended March 31, 1998*

# *(Information for the Three Months Ended March 31, 1998 Is Unaudited)*

## *(1) Summary of Significant Accounting Policies*

## *Organization*

The Plow & Hearth, Inc. ("Plow & Hearth") is a retail and catalog sales outlet, incorporated under the laws of the Commonwealth of Virginia on April 2, 1980.

## *Basis of Presentation*

The consolidated financial statements include the accounts and operations of The Plow & Hearth, Inc. and P&H, L.P. (the "Partnership") (collectively, the "Company"). The Partnership was organized to finance the acquisition of 39.549 acres of land (the "Property") and the construction of a 108,000-square foot distribution center/office facility (the "Facility"). The Facility is leased to Plow & Hearth for a 20-year term. The Partnership is owned by Plow & Hearth (15 percent general partner interest with an initial $50,000 contribution) and 28 limited partners (85 percent limited partnership interest with an aggregate of $700,000 in initial contributions). Due to the interrelationship of the investments, loan guarantees, collateral and control among Plow & Hearth, its stockholders and the Partnership, the accounts of the Partnership have been consolidated with those of Plow & Hearth and all significant intercompany transactions have been eliminated.

The Partnership agreement requires quarterly cash distributions to the partners equal to an annual rate of 10 percent of their initial cash investment. Total distributions to the partners amounted to $75,000 for the years ended December 31, 1996 and 1997, of which Plow & Hearth, as general partner, received $5,000.

## *Unaudited Interim Consolidated Financial Statements*

The consolidated financial statements for the three months ended March 31, 1998 have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the results of operations and cash flows for the three months ended March 31, 1998 have been made. Certain information and footnote disclosures normally included in fiancial statements prepared in accordance with generally accepted accounting principles have been condensed or eliminated. The results of operations for the three months ended March 31, 1998 are not necessarily indicative of the results to be expected for any future interim period.

## *Cash and Cash Equivalents*

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents, which consist of commercial paper and an overnight repurchase agreement aggregating $5,317,926 and $7,841,971 at December 31, 1996 and 1997, respectively, are stated at cost which approximates fair value.

## *Accounts Receivable--other*

Accounts receivable--other consist of amounts due for rental of the Company's mailing list and miscellaneous receivables.

# *The Plow & Hearth, Inc.*

## *Notes to Consolidated Financial Statements (Continued)*

## *December 31, 1996 and 1997 and Three Months Ended March 31, 1998*

## *(Information for the Three Months Ended March 31, 1998 Is Unaudited)*

## *(1) Summary of Significant Accounting Policies (Continued)*

### *Inventories*

Inventories are stated at the lower of cost or market. The allowance to reduce inventories to the lower of cost or market was $40,000 and $87,000 at December 31, 1996 and 1997, respectively. Cost is determined using the first-in, first-out method.

### *Deferred Catalog Costs*

The Company capitalizes the costs of producing and distributing its catalogs. These costs are amortized in direct proportion with actual sales from the corresponding catalog over a period not to exceed twenty-six weeks.

### *Deferred Financing Costs*

Financing costs are amortized over the life of the loan using the interest method and are included as a component of interest expense.

### *Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is calculated by use of the straight-line and accelerated methods over the estimated useful lives of the related assets. Amortization of assets held under capital leases and leasehold improvements is calculated by use of the straight-line method over the shorter of the lease terms, including renewal options expected to be exercised, or estimated useful lives of the improvements. The useful lives of property, plant and equipment are as follows:

## Years

| | |
|---|---|
| Building | 39 |
| Leasehold improvements | 15-20 |
| Furniture, fixtures and equipment | 5-10 |

## Purchased Software Costs

The Company capitalizes costs for purchased software which is used internally in operating activities. These costs are amortized over a period of three years, the estimated useful life of the software. Amortization expense for the years ended December 31, 1996 and 1997 was $95,905 and $88,290, respectively. Purchased software costs consisted of the following at December 31, 1996 and 1997:

1996 1997

| | | |
|---|---|---|
| Purchased software costs | $ 496,540 | $ 578,908 |
| Accumulated amortization | (360,473) | (448,763) |
| Purchased software costs, net | $ 136,067 | $ 130,145 |

## The Plow & Hearth, Inc.

## Notes to Consolidated Financial Statements (Continued)

## December 31, 1996 and 1997 and Three Months Ended March 31, 1998

## (Information for the Three Months Ended March 31, 1998 Is Unaudited)

## (1) Summary of Significant Accounting Policies (Continued) Intangibles

Intangibles consisted of the following at December 31, 1996 and 1997:

1996 1997

| | | |
|---|---|---|
| Customer mailing list | $ 81,405 | $ 102,463 |
| Other | 2,069 | 2,069 |
| | 83,474 | 104,532 |
| Accumulated amortization | (83,474) | (84,527) |
| Intangibles, net | $ -- | $ 20,005 |

Amortization expense for the years ended December 31, 1996 and 1997 was $8,466 and $1,053, respectively.

## *Membership Fee Income*

The Company derives membership fee income from offering its customers membership in its "Buyers' Club." An annual membership fee of $10 per customer is recognized when received. Annual membership privileges entitle the customer to a 5 percent discount on all purchases during the membership year and various other special offers throughout the year. As a result of the Buyers' Club, the Company recorded net discounts of $351,942 and $76,610 for the years ended December 31, 1996 and 1997, respectively. This program was discontinued during 1997.

## *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

No income taxes are payable by the partnership and none have been provided in the accompanying financial statements. The partners include the respective shares of the partnership's profits or losses in their individual tax returns.

## *Health Insurance Plan*

The Company is partially self-insured for health claims up to an aggregate annual claim amount of $119,000 and $103,000 at December 31, 1996 and 1997, respectively. The Company's stop loss insurance covers aggregate annual claims costs in excess of this limit. Self-insurance accruals are provided based upon the liability for reported claims and an estimated liability for claims incurred

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) but not reported. Total expense under the plan amounted to $90,902 and $76,500 for the years ended December 31, 1996 and 1997, respectively.

## *Impairment of Long-lived Assets and Long-lived Assets to Be Disposed of*

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

## *Minority Interest*

Minority interest represents the 85 percent ownership of the limited partners of the Partnership.

## *Use of Estimates*

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

# *(2) Line of Credit and Long-term Debt*

Plow & Hearth currently has a line of credit with Central Fidelity Bank. Under this agreement, Plow & Hearth has a revolving line of credit under which it can borrow up to a maximum of $2,500,000 at an interest rate of LIBOR plus 1.75 percent. The line of credit matures on June 30, 1998. The line of credit is collateralized by Plow & Hearth's accounts receivable, inventories, equipment and general intangibles. No amounts were outstanding under this line at December 31, 1996 or December 31, 1997.

Under the line of credit, Plow & Hearth must comply with certain restrictive covenants. The most restrictive financial covenants relate to the ratio of debt to tangible net worth, a fixed charge coverage ratio and a minimum equity balance. Plow & Hearth was in compliance with these covenants at December 31, 1997.

# *The Plow & Hearth, Inc.*

# *Notes to Consolidated Financial Statements (Continued)*

# *December 31, 1996 and 1997 and Three Months Ended March 31, 1998*

# *(Information for the Three Months Ended March 31, 1998 Is Unaudited)*

(2) LINE OF CREDIT AND LONG-TERM DEBT (CONTINUED) Long-term debt, including obligations under capital leases, consisted of the following at December 31, 1996 and 1997:

1996 1997

```
Construction term loan with an interest rate of 8.19% payable in equal monthly
  installments amortized over a 20-year period, due and payable in full June 2014,
  collateralized by a deed of trust and assignment of all leases.....  $   2,370,553  $
2,367,319
Term loan with an interest rate of 8.37%, paid in full during 1997.....        350,634
--
11.00% subordinated notes payable to seven members of Plow & Hearth's board of
  directors, paid in full during 1997.....................................        425,000
--
Obligations under capital leases (note 3).....................................         45,358
33,672
                                                                                 3,191,545
2,400,991
Less current maturities of long-term debt and obligations under capital leases......        602,706
83,769
Long-term debt and obligations under capital leases, excluding current maturities...  $   2,588,839  $
2,317,222
```

The construction term loan to the Partnership was used to finance the construction of the Facility and is collateralized by a first lien deed of trust on the Facility and an assignment of all leases with respect to the Facility including the lease with Plow & Hearth. The loan is also unconditionally and fully guaranteed by Plow & Hearth. The loan's financial covenants require the Partnership to meet a debt coverage ratio of at least 1.10 to 1.00. The Partnership was in compliance with this covenant at December 31, 1997.

As of December 31, 1997, long-term debt maturities, excluding amounts relating to capital leases, are as follows:

YEAR MATURITY

| | |
|---|---|
| 1998 | $ 70,831 |
| 1999 | 76,920 |
| 2000 | 83,532 |
| 2001 | 90,713 |
| 2002 | 98,511 |
| Thereafter | 1,946,812 |
| | $ 2,367,319 |



## *(3) Leases*

The Company is obligated under various capital leases for certain telephone and duplicating equipment which expire in 2000. The cost and accumulated amortization of equipment held under capital leases at December 31, 1996 and 1997 were as follows:

1996 1997

| | | |
|---|---|---|
| Equipment | $ 60,145 | $ 60,145 |
| Accumulated amortization | (30,195) | (42,175) |
| | $ 29,950 | $ 17,970 |

The Company also has several noncancellable operating leases for a retail store facility, outlet store facility and certain equipment. Total rental expense for operating leases amounted to $183,292 and $211,707 for the years ended December 31, 1996 and 1997, respectively.

Minimum future payments under capital leases and noncancellable operating leases at December 31, 1997 were as follows:

| | CAPITAL LEASES | OPERATING LEASES |
|---|---|---|
| 1998 | $ 15,782 | $ 259,382 |
| 1999 | 15,782 | 269,716 |
| 2000 | 6,576 | 222,748 |
| 2001 | -- | 160,886 |
| 2002 | -- | 133,286 |
| Thereafter | -- | 22,214 |
| Total minimum lease payments | 38,140 | $ 1,068,232 |
| Less amount representing interest and administrative costs | 4,468 | |
| Present value of net minimum lease payments | 33,672 | |
| Less current installments of obligations under capital leases | 12,938 | |
| Obligations under capital leases, excluding current installments | $ 20,734 | |

# *(4) Common Stock and Common Stock Options*

## *Common Stock*

The Company and its stockholders are parties to a buy-sell agreement which imposes certain restrictions on the transferability of the Company's outstanding stock. Under the agreement, most transfers of stock require the approval of stockholders representing at least two-thirds of the outstanding shares of the Company. Any stock offered for resale must first be offered, at the selling price, to the Company and the existing stockholders (see note 8).

## *(4) Common Stock and Common Stock Options (Continued)*

### *Common Stock Options*

The Company's stock option plan (the "Plan"), adopted on November 13, 1990, provides for the issuance of stock options at a price not less than the fair value of the shares on the date of grant. The options are exercisable for a period not to exceed ten years from the date an option is granted. Following is a summary of stock option activity for the years ended December 31, 1996 and 1997:

| | NUMBER OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE |
|---|---|---|
| Outstanding at December 31, 1995 | 32,128 | $ 27.53 |
| Granted in 1996 | 810 | 32.50 |
| Exercised in 1996 | (810) | 22.50 |
| Forfeited in 1996 | (810) | 32.50 |
| Outstanding at December 31, 1996 | 31,318 | 27.66 |
| Granted in 1997 | -- | |
| Exercised in 1997 | -- | |
| Forfeited in 1997 | -- | |
| Outstanding at December 31, 1997 (exercise prices ranging from $22.50 to $32.50 per share) | 31,318 | 27.66 |

Prior to October 21, 1997, the Plan included a vesting schedule based on years of service. Effective October 21, 1997, the Company's Board of Directors approved the immediate vesting of all previously unvested options.

Options exercisable at December 31, 1996 and 1997 were 30,022 and 31,318, respectively.

Effective February 28, 1998, the Company adopted The Plow & Hearth, Inc. Amended and Restated Stock Option Plan (the "Amended Plan") to replace the existing November 13, 1990 Plan. The Company canceled the grant of the previously granted options and, simultaneously therewith, granted new options at the same price and for the same number of shares, to the optionholders in accordance with the Amended Plan. Accordingly, the Company recorded compensation expense during the Three Months Ended March 31, 1998 of $3,945,826 (Unaudited) representing the difference between the exercise price of the stock options and the fair value of the common stock on the date of grant. Under the Amended Plan, 31,318 shares of unissued common stock are reserved for the exercise of outstanding stock options and the maximum number of shares of common stock which may be issued and sold under the Amended Plan is 31,318 shares. The new options will expire ten years from the effective date of the Amended Plan and are immediately exercisable.

The Company accounts for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations. As such, compensation expense would be recorded on the date of



(4) COMMON STOCK AND COMMON STOCK OPTIONS (CONTINUED) grant only if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, ("SFAS 123") was issued in October 1995 and if fully adopted, changes the methods of recognition of cost on plans similar to those of the Company. Adoption of SFAS 123 is optional; however, pro forma disclosures as if the Company adopted the cost recognition requirements under SFAS 123 in 1996 and 1997 are presented below.

The per share weighted average fair value of stock options granted during 1996 was $8.76 on the date of grant using the minimal value option pricing model with the following weighted average assumptions: expected dividend yield 0%, risk-free interest rate of 6.48 percent and an expected life of 5 years.

Had the Company determined compensation cost based on the fair value at the grant date for its stock options granted during 1995 and 1996 under SFAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated below:

1996 1997

| | | |
|---|---|---|
| Net income: | | |
| As reported | $ 1,257,194 | $ 2,217,928 |
| Pro forma | 1,248,550 | 2,211,889 |

Pro forma net income reflects only options granted in 1995 and 1996. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income amounts presented above because compensation cost for options granted prior to January 1, 1995 is not considered.

## *(5) 401(K) Retirement Plan*

The 401(k) retirement plan covers substantially all employees who meet eligibility requirements and provides an opportunity for employees to make tax deferred contributions with the Company matching, at their discretion, 25 percent of the employees' contribution up to 3 percent of the employees' annual compensation. The Company incurred $11,910 of expense related to the 401(k) retirement plan for the year ended December 31, 1997. No Company contributions were made in 1996.



## *(6) Income Taxes*

Income tax expense for the years ended December 31, 1996 and 1997 consists of the following:

1996 1997

| | | |
|---|---|---|
| Current: | | |
| Federal | $ 691,407 | $ 1,286,847 |
| State | 129,695 | 240,359 |
| Total current | 821,102 | 1,527,206 |
| Deferred: | | |
| Federal | (44,759) | (75,945) |
| State | (8,402) | (14,257) |
| Total deferred | (53,161) | (90,202) |
| Total income tax expense | $ 767,941 | $ 1,437,004 |

Income tax expense for the years ended December 31, 1996 and 1997 differed from amounts computed by applying the U.S. Federal income tax rate of 34 percent to income before income taxes as a result of the following:

1996 1997

| | | |
|---|---|---|
| Computed "expected" income tax expense | $ 688,546 | $ 1,227,385 |
| Increase (reduction) in income tax expense resulting from: | | |
| State income tax expense, net of effect of federal income taxes | 80,053 | 149,227 |
| Nondeductible acquisition costs | -- | 40,284 |
| Other, net | (658) | 20,108 |
| Total income tax expense | $ 767,941 | $ 1,437,004 |



(6) INCOME TAXES (CONTINUED) The tax effects of temporary differences which comprise the deferred tax assets and deferred tax liabilities at December 31, 1996 and 1997 are as follows:

1996 1997

| | | |
|---|---|---|
| Deferred tax assets: | | |
| Depreciation | $ 7,428 | $ 9,397 |
| Inventories | 76,705 | 137,208 |
| Intangible assets | 15,486 | 266 |
| Allowances for returns | 82,305 | 151,183 |
| Other | 20,111 | 27,438 |
| Total gross deferred tax assets | 202,035 | 325,492 |
| Less valuation allowance | -- | -- |
| Net deferred tax assets | 202,035 | 325,492 |
| Deferred tax liabilities: | | |
| Deferred catalog costs | (89,167) | (121,613) |
| Other | (5,220) | (6,029) |
| Total gross deferred tax liabilities | (94,387) | (127,642) |
| Net deferred tax asset | $ 107,648 | $ 197,850 |

The Company has determined that a valuation allowance for the gross deferred tax assets is not necessary at December 31, 1996 and 1997, since substantially all deferred tax assets can be recognized during the carryback period available under current tax laws.

## *(7) Concentration of Credit Risk and Financial Instruments*

Financial instruments which potentially subject the Company to concentration of credit risk consist of cash equivalents and accounts receivable. The Company's cash equivalents consisted of commercial paper and an overnight repurchase agreement at December 31, 1996 and 1997. The Company's policy is not to hold collateral, and the amount of loss which could be incurred in the event the commercial paper or overnight repurchase agreement failed to perform is equal to the Company's investment in commercial paper and overnight repurchase agreement, less any depository insurance proceeds. Accounts receivable consist principally of trade accounts receivable resulting primarily from credit card sales to customers and receivables for the rental of the Company's mailing list. Concentrations of credit risk with respect to accounts receivable are limited due to the Company's large number of customers and their dispersion throughout geographic regions.

## *(8) Subsequent Event*

On March 9, 1998, certain stockholders of Plow & Hearth executed a stock purchase agreement with 1-800-Flowers, Inc., providing for the purchase of 70 percent, on a fully diluted basis, of the outstanding common stock and common stock options of Plow & Hearth. The transaction is expected to close during April 1998.

# -800-Flowers.com, Inc. and Subsidiaries

## Unaudited Pro Forma Consolidated Statement of Operations

## Year Ended June 28, 1998

## (In Thousands, Except Per Share Data)

| | 1-800-FLOWERS.COM, INC. AND SUBSIDIARIES | THE PLOW & HEARTH, INC. | PRO FORMA ADJUSTMENTS (NOTE 2) | PRO FORMA |
|---|---|---|---|---|
| Net revenues | $ 220,592 | $ 37,155 | $ -- | $ 257,747 |
| Cost of revenues | 136,966 | 20,118 | -- | 157,084 |
| Gross profit | 83,626 | 17,037 | -- | 100,663 |
| Operating expenses: | | | | |
| Marketing and sales | 55,417 | 12,075 | -- | 67,492 |
| Technology and development | 1,794 | 332 | -- | 2,126 |
| General and administrative | 15,832 | 4,537 | -- | 20,369 |
| Depreciation and amortization | 4,168 | 285 | 735 | 5,188 |
| Total operating expenses | 77,229 | 17,229 | 735 | 95,175 |
| Operating income (loss) | 6,415 | (192) | (735) | 5,488 |
| Other income (expense): | | | | |
| Interest income | 1,290 | 87 | -- | 1,377 |
| Interest expense | (1,177) | (157) | (900) | (2,234) |
| Other, net | 1,541 | (490) | -- | 1,051 |
| | 1,654 | (560) | (900) | 194 |
| Income (loss) before income taxes and minority interests | 8,069 | (752) | (1,635) | 5,682 |
| Provision for income taxes | 3,181 | (291) | (342) | 2,548 |
| Income (loss) before minority interests | 4,888 | (461) | (1,293) | 3,134 |
| Minority interests in operations of consolidated subsidiaries | 186 | -- | 144 | 330 |
| Net income (loss) | 5,074 | (461) | (1,149) | 3,464 |
| Redeemable Class C common stock dividends | (1,608) | -- | -- | (1,608) |
| Net income (loss) applicable to common stockholders | $ 3,466 | $ (461) | $ | |

| | | | | |
|---|---|---|---|---|
| (1,149) | $ 1,856 | | | |
| Net income (loss) per common share applicable to common stockholders: | | | | |
| Basic | $ 0.79 | $ 0.42 | | |
| Diluted | $ 0.74 | $ 0.40 | | |
| Shares used in calculation of net income (loss) per common share: | | | | |
| Basic | 4,412 | 4,412 | | |
| Diluted | 4,661 | 4,661 | | |

*See Accompanying Notes.*

*-800-Flowers.com, Inc. and Subsidiaries*

*Unaudited Pro Forma Consolidated Statement of Operations*

*Nine Months Ended March 28, 1998*

*(In Thousands, Except Per Share Data)*

| | 1-800-FLOWERS.COM, INC. AND SUBSIDIARIES | THE PLOW & HEARTH, INC. | PRO FORMA ADJUSTMENTS (NOTE 2) | PRO FORMA |
|---|---|---|---|---|
| Net revenues | $ 146,217 | $ 37,155 | $ -- | $ 183,372 |
| Cost of revenues | 91,773 | 20,118 | -- | 111,891 |
| Gross profit | 54,444 | 17,037 | -- | 71,481 |
| Operating expenses: | | | | |
| Marketing and sales | 36,089 | 12,075 | -- | 50,164 |
| Technology and development | 1,128 | 332 | -- | 1,460 |
| General and administrative | 10,315 | 4,537 | -- | 14,852 |
| Depreciation and amortization | 2,768 | 285 | 735 | 3,788 |
| Total operating expenses | 52,300 | 17,229 | 735 | 70,264 |
| Operating income (loss) | 2,144 | (192) | (735) | 1,217 |
| Other income (expense): | | | | |
| Interest income | 812 | 87 | -- | 899 |

```
  Interest expense.....................................          (720)         (157)
(900)       (1,777)
  Other, net...........................................         1,637          (490)          --
1,147
                                                               1,729          (560)
(900)          269
Income (loss) before income taxes and minority interests...    3,873          (752)
(1,635)        1,486
Provision (benefit) for income taxes.....................      1,515          (291)
(342)          882
Income (loss) before minority interests..................      2,358          (461)
(1,293)          604
Minority interests in operations of consolidated
  subsidiaries.......................................             38            --          144
182
Net income (loss)........................................      2,396          (461)
(1,149)          786
Redeemable Class C common stock dividends................     (1,206)           --           --
(1,206)
Net income (loss) applicable to common stockholders.....  $    1,190     $     (461)   $
(1,149)  $      (420)
Net income (loss) per common share applicable to common
  stockholders:
  Basic..................................................  $     0.27
$     (0.10)
  Diluted................................................  $     0.25
$     (0.10)
Shares used in calculation of net income (loss) per common
  share:
  Basic..................................................      4,414
4,414
  Diluted................................................      4,675
4,414
```

*See Accompanying Notes.*

*-800-Flowers.com, Inc. and Subsidiaries*

*Notes to Unaudited Pro Forma Consolidated Statements of Operations*

*Year Ended June 28, 1998 and the Nine Months Ended March 29, 1998*

## *1. Basis of Presentation*

The unaudited pro forma consolidated statements of operations give effect to the acquisition by 1-800-FLOWERS.COM, Inc. and Subsidiaries ("Flowers") of The Plow & Hearth, Inc. ("P&H") as if it occurred on June 30, 1997. Such unaudited pro forma consolidated financial statements sets forth the historical

results of operations of Flowers for the year ended June 28, 1998 and the nine months ended March 29, 1998, as applicable, and P&H for the nine months ended March 29, 1998. The operations of P&H for the three months ended June 28, 1998 are included in the operations of Flowers.

The unaudited pro forma statements of operations have been prepared by management and should be read in conjunction with the historical financial statements of Flowers and P&H. The statements do not purport to be indicative of the results of operations that might have occurred if the P&H acquisition was consummated on June 30, 1997, and do not purport to be indicative of future results.

Management believes additional synergies and operational improvements, not reflected in the accompanying unaudited pro forma consolidated statements of operations, will be realized by the combined companies. Such amounts cannot be reasonably quantified and, therefore, are not reflected in the unaudited pro forma consolidated statements of operations.

## *2. Pro Forma Adjustments*

The pro forma adjustments reflect the additional amortization required for a full year's amortization of the intangibles acquired, additional interest expenses incurred on the borrowings to fund the acquisition and the related tax effects.

# *Underwriting*

1-800-FLOWERS.COM and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co., Credit Suisse First Boston Corporation and Wit Capital Corporation are the representatives of the underwriters.

NUMBER OF UNDERWRITERS SHARES Goldman, Sachs & Co..... Credit Suisse First Boston Corporation..... Wit Capital Corporation..... Total.....

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional shares from 1-800-FLOWERS.COM to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following tables show the per share and total underwriting discounts and commissions to be paid to the underwriters by 1-800-FLOWERS.COM. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

# *Paid by 1-800-Flowers.com*

# *No Exercise Full Exercise*

| | | |
|---|---|---|
| Per Share..... | $ | $ |
| Total..... | $ | $ |

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to $ per share from the initial public offering price. If all the shares are not sold at the initial offering price, the representatives may change the offering price and the other selling terms.

1-800-FLOWERS.COM and its directors, officers and stockholders have agreed with the underwriters not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of Goldman, Sachs & Co. This agreement does not apply to any existing employee benefit plans. Please see "Shares Eligible for Future Sale" for a discussion of certain transfer restrictions.

At the request of 1-800-FLOWERS.COM, the underwriters have reserved at the initial public offering price up to shares of common stock for sale to certain directors, employees and associates of 1-800-FLOWERS.COM. There can be no assurance that any of the reserved shares will be purchased. The number of shares available for sale to the general public in this offering will be reduced by the number of reserved shares sold. Any reserved shares not so purchased will be offered to the general public on the same basis as the other shares offered hereby.

Prior to this offering, there has been no public market for the shares. The initial public offering price will be negotiated among 1-800-FLOWERS.COM and the representatives. Among the factors to be considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, will be 1-800-FLOWERS.COM's historical performance, estimates of the business potential and earnings prospects of 1-800-FLOWERS.COM, an assessment of 1-800-FLOWERS.COM's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

A prospectus in electronic format is being made available on an Internet Web site maintained by Wit Capital Corporation. In addition, all dealers purchasing shares from Wit Capital in this offering have agreed to make a prospectus in electronic format available on Web sites maintained by each of these dealers. Other than the prospectus in electronic format, the information on such Web sites and any information contained on any other Web site maintained by Wit Capital Corporation or such dealers is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by 1-800-FLOWERS.COM or any underwriter in such capacity and should not be relied on by prospective investors.

Wit Capital, a member of the National Association of Securities Dealers, Inc., will participate in the offering as one of the underwriters. The National Association of Securities Dealers, Inc. approved the membership of Wit Capital on September 4, 1997. Since that time, Wit Capital has acted as an underwriter, e-Manager or selected dealer in over 65 public offerings. Except for its participation as a manager in this offering, Wit Capital has no relationship with 1-800-FLOWERS.COM, or any of its founders or significant stockholders.

1-800-FLOWERS.COM has applied to list the class A common stock on the Nasdaq National Market under the symbol "FLWS".

In connection with this offering, the underwriters may purchase and sell shares of class A common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Underwriters of a greater number of shares than they are required to purchase in this offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the class A common stock. As a result, the price of the class A common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the Nasdaq National Market, in the over-the-counter market or otherwise.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

1-800-FLOWERS.COM estimates that the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately $ .

1-800-FLOWERS.COM has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

NO DEALER, SALESPERSON OR OTHER PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO REPRESENT ANYTHING NOT CONTAINED IN THIS PROSPECTUS. YOU MUST NOT RELY ON ANY UNAUTHORIZED INFORMATION OR REPRESENTATIONS. THIS PROSPECTUS IS AN OFFER TO SELL ONLY THE SHARES OFFERED HEREBY, BUT ONLY UNDER CIRCUMSTANCES AND IN JURISDICTIONS WHERE IT IS LAWFUL TO DO SO. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS CURRENT ONLY AS OF ITS DATE.

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THROUGH AND INCLUDING , 1999 (THE 25TH DAY AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THESE SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO A DEALER'S OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITER AND WITH RESPECT TO AN UNSOLD ALLOTMENT OR SUBSCRIPTION.

*Shares*

*1-800-Flowers.com, Inc.*

*Class a Common Stock*

*[Logo]*

*Goldman, Sachs & Co.*

*Credit Suisse First Boston*

*Wit Capital Corporation*

*Representatives of the Underwriters*

## *Part Ii: Information Not Required in Prospectus*

## *Item 13. Other Expenses of Issuance and Distribution*

The following table sets forth an estimate of the costs and expenses, other than the underwriting discounts and commissions, payable by the Registrant in connection with the issuance and distribution of the class A common stock being registered.

| | |
|---|---|
| SEC registration fee | $ 41,700 |
| NASD filing fee | 15,500 |
| NASDAQ listing fee | * |
| Legal fees and expenses | * |
| Accountants' fees and expenses | * |
| Printing expenses | * |
| Blue sky fees and expenses | * |
| Transfer Agent and Registrar fees and expenses | * |
| Miscellaneous | * |
| Total | $ * |

* To be completed by amendment.

# *Item 14. Indemnification of Directors and Officers*

Section 145 of the Delaware General Corporation Law, or DGCL, makes provision for the indemnification of officers and directors in terms sufficiently broad to indemnify officers and directors under certain circumstances from liabilities (including reimbursement for expenses incurred) arising under the Securities Act. Section 145 of the DGCL empowers a corporation to indemnify its directors and officers and to purchase insurance with respect to liability arising out of their capacity or status as directors and officers, provided that this provision shall not eliminate or limit the liability of a director: (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) arising under Section 174 of the DGCL, or (iv) for any transaction from which the director derived an improper personal benefit. The DGCL provides further that the indemnification permitted thereunder shall not be deemed exclusive of any other rights to which the directors and officers may be entitled under the corporation's bylaws, any agreement, a vote of stockholders or otherwise.

The certificate of incorporation of 1-800-FLOWERS.COM provides for indemnification of our directors against, and absolution of, liability to 1-800-FLOWERS.COM and its stockholders to the fullest extent permitted by the DGCL. 1-800-FLOWERS.COM maintains directors' and officers' liability insurance covering certain liabilities that may be incurred by our directors and officers in connection with the performance of their duties.

# *Item 15. Recent Sales of Unregistered Securities*

The following information regarding the issuance of the Registrant's securities does not give effect to the recapitalization or subsequent split of its common stock. Pursuant to the Registrant's recapitalization, each share of class A common stock outstanding will be automatically converted into one share of new class B common stock and each share of class B common stock will be automatically converted into one share of new class B common stock. In May 1999, each share of class C common stock was converted into one share of class B common stock and cash. Pursuant to the stock split, each share of common stock will be split into a to be determined number of shares. The Registrant has issued the following securities since May 1996:

1. On April 28, 1996, the Registrant issued 76,292 shares of class B common stock to James F. McCann as partial repayment for a debt owed by the Registrant to Mr. McCann.

2. On June 28, 1996, the Registrant issued 8,476.97 shares of class C common stock to James F. McCann as partial repayment for a debt owed by the Registrant to Mr. McCann.

3. From February 3, 1997 to January 18, 1999, the Registrant granted 123,750 options to purchase Class B common stock to 29 employees at exercise prices ranging from $13.00 to $20.00.

4. In May 1999, the Registrant issued 1,127,546 shares of preferred stock for an aggregate amount of $117.6 million. The preferred stock automatically converts into class A common stock upon the closing of the initial public offering.

The issuances of the above securities were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving a public offering or transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each of these transactions represented their intention to acquire the securities for investment only and not with view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and instruments issued in such transactions. All recipients had adequate access, through their relationship with the Registrant, to information about the Registrant.

## *Item 16. Exhibits and Financial Statement Schedules*

(a) Exhibits

## *Index to Exhibits*

## *Number Description*

1.1(*) Form of Underwriting Agreement.

3.1(*) Third Amended and Restated Certificate of Incorporation.

3.2(*) Form of Amendment No. 1 to Third Amended and Restated Certificate of Incorporation to be effective upon the initial public offering.

3.3 Amended and Restated By-laws.

3.4(*) Form of Amendment No. 1 to Amended and Restated By-laws to be effective upon the initial public offering.

4.1(*) Specimen class A common stock certificate.

4.2 See Exhibits 3.1, 3.2, 3.3 and 3.4 for provisions of the Certificate of Incorporation and By-laws of the Registrant defining the rights of holders of Common Stock of the Registrant.

4.3 Form of Warrant.

5.1(*) Opinion of Brobeck, Phleger & Harrison LLP.

10.1 Lease, commencing on May 15, 1998, between 1600 Stewart Avenue, L.L.C and 800-FLOWERS, Inc.

10.2(*) Investment Agreement, dated as of January 16, 1995, among Chemical Venture Capital Associates, Teleway, Inc. and James F. McCann.

*Number Description*

10.3* Consent and Amendment No. 1 to Investment Agreement, dated as of May 20, 1999, among Chase Capital Partners, 1-800-FLOWERS.COM, Inc. and James F. McCann.

10.4 Credit Agreement, dated as of March 19,1999, between 1-800-FLOWERS, Inc. and The Chase Manhattan Bank.

10.5(+*) Interactive Marketing Agreement, dated as of May 1, 1997, between America Online, Inc. and 800-FLOWERS, Inc.

10.6(+*) Interactive Marketing Agreement, dated as of January 1, 1998, between America Online, Inc. and 800-FLOWERS, Inc.

10.7(+*) E-Commerce Merchant Agreement for The Plaza on MSN, with a term start date of October 21, 1997, between The Microsoft Network, L.L.C. and 800-FLOWERS, Inc., as amended.

10.8(+*) Sponsorship Agreement, dated as of May 1, 1998, between Excite, Inc. and 800-FLOWERS, Inc.

10.9 [Reserved]

10.10 1997 Stock Option Plan, as amended.

10.11 Stockholders' Agreement, dated as of April 3, 1998, among The Plow & Hearth, Inc., 1-800-FLOWERS, Inc. and the Persons Set Forth on Schedule A thereto.

10.12(*) Amendment to Stockholders' Agreement, dated as of May 17, 1999, among The Plow & Hearth, Inc., 1-800-FLOWERS.COM, Inc. and the Persons Set Forth on Schedule A thereto.

10.13 Employment Agreement, effective as of January 4, 1999, between John W. Smolak and 1-800-FLOWERS, Inc.

10.14 Employment Agreement, effective as of April 3, 1998, between Peter G. Rice and 1-800-FLOWERS, Inc.

10.15 Employment Agreement, effective as of January 18, 1999, between Kerry W. Coin and 1-800-FLOWERS, Inc.

10.16(*) Investors' Rights' Agreement, dated May 20, 1999, among 1-800-FLOWERS.COM, Inc. James F. McCann, Christopher G. McCann and the Investors listed therein.

10.17(*) Stock Purchase Agreement, dated May 20, 1999, among 1-800-FLOWERS.COM, Inc., James F. McCann, Christopher G. McCann and the Investors listed therein.

21.1 Subsidiaries of the Registrant.

23.1(*) Consent of Brobeck, Phleger & Harrison LLP (included in Exhibit 5.1).

23.2 Consent of Ernst & Young LLP.

23.3 Consent of KPMG LLP.

24.1 Powers of Attorney (included in the Signature Page).

27.1 Financial Data Schedule for the year ended June 28, 1998.

27.2 Financial Data Schedule for the nine months ended March 28, 1999.

(*) To be filed by amendment.

(+) Confidential treatment to be requested for certain portions of this Exhibit pursuant to Rule 406 promulgated under the Securities Act.

(b) Financial Statement Schedules Schedule II--Valuation and Qualifying Accounts Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

## *Item 17. Undertakings.*

The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

## *Signatures*

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on this 20th day of May, 1999.

## *1-800-Flowers.com, Inc.*

BY: /S/ JAMES F. MCCANN James F. McCann CHIEF EXECUTIVE OFFICER

## *Power of Attorney*

We, the undersigned directors and/or officers of 1-800-FLOWERS.COM, Inc. (the "Company"), hereby severally constitute and appoint James F. McCann and John W. Smolak, and each of them individually, with full powers of substitution and resubstitution, our true and lawful attorneys, with full powers to them and each of them to sign for us, in our names and in the capacities indicated below, the registration statement on Form S-1 filed with the Securities and Exchange Commission, and any and all amendments to said registration statement (including post-effective amendments), and any registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended, in connection with the registration under the Securities Act of 1933, as amended, of equity securities of the Company, and to file or cause to be filed the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as each of them might or could do in person, and hereby ratifying and confirming all that said attorneys, and each of them, or their substitute or substitutes, shall do or cause to be done by virtue of this Power of Attorney.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated below:

Dated: May 20, 1999 /s/ JAMES F. MCCANN James F. McCann Chairman and Chief Executive Officer (Principal Executive Officer) Dated: May 20, 1999 /s/ JOHN W. SMOLAK John W. Smolak Senior Vice President--Finance and Administration (Principal Financial and Accounting Officer) Dated: May 20, 1999 /s/ CHRISTOPHER G. MCCANN Christopher G. McCann Director, Senior Vice President Dated: May 20, 1999 /s/ T. GUY MINETTI T. Guy Minetti Director Dated: May 20, 1999 /s/ JEFFREY C. WALKER Jeffrey C. Walker Director

## *Report of Independent Auditors*

We have audited the consolidated financial statements of 1-800-FLOWERS.COM, Inc. and subsidiaries (the "Company") as of March 28, 1999, June 28, 1998 and June 29, 1997, and for the nine months ended March 28, 1999 and for each of the three years in the period ended June 28, 1998, and have

issued our report thereon dated May 20, 1999 (included elsewhere in this Registration Statement). Our audits also included the financial statement schedule listed in Item 16(b) of this Registration Statement. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Melville, New York May 20, 1999

# *-800-Flowers.com, Inc.*

# *Schedule Ii - Valuation and Qualifying Accounts*

# *Additions*

| DESCRIPTION | BALANCE AT BEGINNING OF PERIOD | CHARGED TO COSTS AND EXPENSES | CHARGED TO OTHER ACCOUNTS- DESCRIBE | DEDUCTIONS- DESCRIBE | BALANCE AT END OF PERIOD |
|---|---|---|---|---|---|
| Year ended June 28,1998: Reserves and allowances deducted from asset accounts: Reserve for estimated doubtful accounts--accounts receivable..... | $ 509,000 | $ 213,000 | $ 62,000(c) | $ -- | $ 784,000 |
| Reserve for estimated doubtful accounts--notes receivable..... | 423,000 | 170,000 | -- | -- | 593,000 |
| | $ 932,000 | $ 383,000 | $ 62,000 | $ -- | $1,377,000 |
| Year ended June 29,1997: Reserves and allowances deducted from asset accounts: Reserve for estimated doubtful accounts--accounts receivable..... | $ 359,000 | $ 269,000 | $ -- | $ (119,000)(b) | $ 509,000 |
| Reserve for estimated doubtful accounts--notes receivable..... | 185,000 | 284,000 | -- | (46,000)(b) | 423,000 |
| | $ 544,000 | $ 553,000 | $ -- | $ (165,000) | $ 932,000 |
| Year ended June 30, 1996: Reserves and allowances deducted from asset accounts: Reserve for estimated doubtful accounts--accounts receivable..... | $ 262,000 | $ 289,000 | $ -- | $ (192,000)(a) | $ 359,000 |
| Reserve for estimated doubtful accounts--notes receivable..... | 155,000 | 30,000 | -- | -- | 185,000 |
| Valuation allowance on deferred tax assets..... | 150,000 | -- | -- | (150,000)(b) | -- |
| | $ 567,000 | $ 319,000 | $ -- | $ (342,000) | $ 544,000 |

(a) Reduction in allowance (b) Reduction in valuation allowance for deferred tax assets (c) Increase in reserve

# *S-2 </Text>*