For All Of Life's Celebrations

1-800-flowers.com[SM]

2002 Annual Report

About 1-800-FLOWERS.COM®

With one of the most recognized brands in gift retailing, 1-800-FLOWERS.COM provides a broad range of thoughtful gift products including flowers, plants, gourmet foods, candies, gift baskets and other unique gifts to customers around the world via: the Internet at (www.1800flowers.com); by calling 1-800-FLOWERS® (1-800-356-9377) 24 hours a day; or by visiting one of its Company-operated or franchised stores. The Company's gift product line is extended by the merchandise sold under its collection of brands, including home décor and garden merchandise under Plow & Hearth® (phone: 1-800-627-1712 and web: www.plowandhearth.com), premium popcorn and other food gifts under The Popcorn Factory® (phone: 1-800-541-2676 and web: www.thepopcornfactory.com), gourmet food products under GreatFood.com® (www.greatfood.com), and children's gifts under HearthSong® (www.hearthsong.com) and Magic Cabin Dolls® (www.magiccabindolls.com). The Company's Class A common stock is listed on the NASDAQ National Market (ticker symbol "FLWS").

Our Mission Statement

"1-800-FLOWERS.COM will be the leading provider of thoughtful gifts, helping our customers connect with the important people in their lives. We will continue to build on the trusted relationships with our customers by providing them with ease of access, tasteful and appropriate gifts, and superior service."

Special Note Regarding Forward-Looking Statements

A number of statements contained in this report, other than statements of historical fact, are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the applicable statements. These risks and uncertainties include, but are not limited to: the Company's ability to achieve solid, cost efficient growth; its ability to maintain and enhance its online shopping web sites to attract customers; its ability to successfully introduce new products and product categories; its ability to maintain and enhance profit margins for its various products; its ability to provide timely fulfillment of customer orders; its ability to cost effectively acquire and retain customers; its ability to continue growing revenues; its ability to compete against existing and new competitors; its ability to manage expenses associated with necessary general and administrative and technology investments; its ability to cost efficiently manage inventories; its ability to improve its bottom line results and build long-term shareholder value; its ability to leverage its operating infrastructure; its ability to achieve its stated results guidance for fiscal 2003, and general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products. For a more detailed description of these and other risk factors, please refer to the Company's SEC filings including the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. The Company expressly disclaims any intent or obligation to update any of the forward looking statements made in this report or in any of its SEC filings except as may be otherwise stated by the Company.

Table Of Contents

Financial Highlights 1

Letter to Shareholders 2

Thoughtful Gifts for Every Celebration 4

Deepening Our Customer Relationships 6

Growing our Unique Fulfillment Network 8

Exceptional Customer Service 10

Selected Financial Statements 11

MD&A 12

Consolidated Financial Statements 18

Company Information IBC

Financial Highlights

	Years Ended				
	June 30, 2002	July 2, 2001	June 27, 2000	June 28, 1999	June 29, 1998
	(in thousands, except percentages and customer data)				
Total Net Revenues	$497,205	$442,239	$379,528	$292,852	$218,212
Telephonic Revenues	248,931	230,723	227,380	201,467	159,715
Online Revenues	218,179	182,924	116,810	52,668	26,684
Non-floral Revenues*	46%	41%	32%	25%	13%
Gross Profit Margin Percentage	41.0%	39.4%	37.4%	38.6%	37.2%
EBITDA	11,396	(23,757)	(59,102)	214	10,583
EPS	(0.02)	(0.64)	(1.10)	(0.27)	0.07
Customer Base (millions)	18.1	13.4	9.1	6.6	4.7

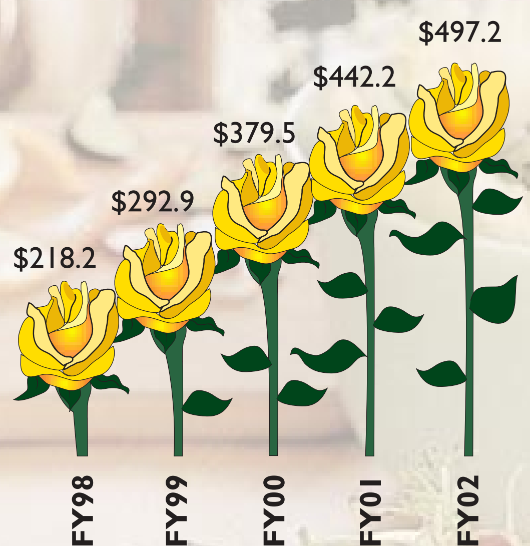
* *As a percentage of combined online and telephonic net revenues*

Fiscal 2002 Achievements

- Increased total revenues 12.4 percent to $497 million despite challenging retail economy
- Grew online revenues 19.3 percent to $218 million, representing 44 percent of total revenues
- Increased Gross Profit Margin 160 basis points to 41 percent
- Achieved EBITDA of $11.4 million, an increase of $35 million
- Cost efficiently added 3 million new customers
- Deepened customer relationships, increasing quarterly repeat order rate to 50+ percent
- Acquired The Popcorn Factory® in May, 2002; completed integration of website and customer service functions October 1, 2002

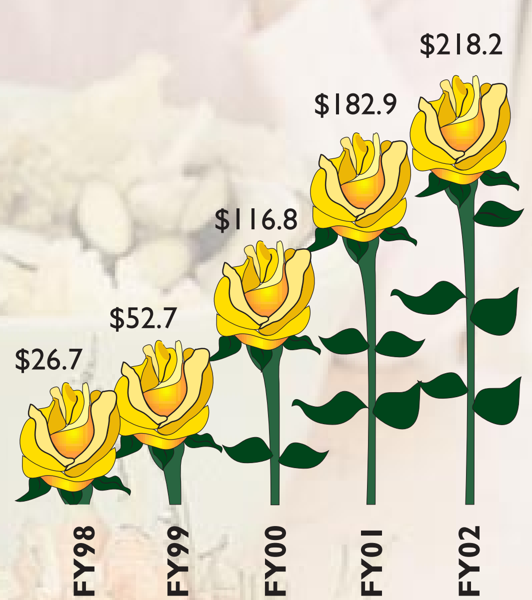
Total Revenues

(in $ millions)

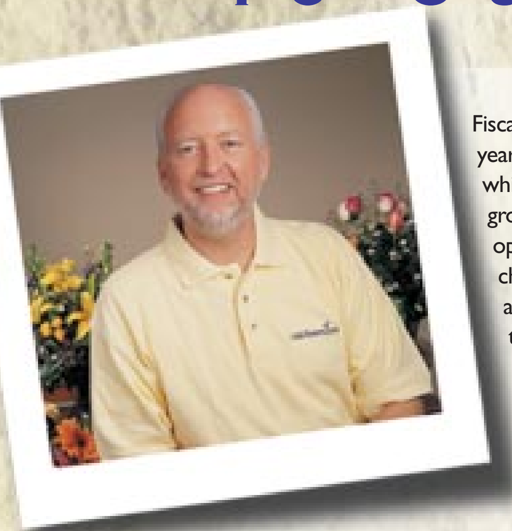


Rapid Online Revenue Growth

(in $ millions)



To Our Shareholders



Fiscal 2002 was a very important year for our company, one in which we achieved solid revenue growth and significantly improved operating results despite a challenging retail economy. We accomplished this by leveraging the investments made during the past several years, particularly those in our technology platform, our fulfillment system and our expanded marketing and merchandising programs.

Two years ago, we advised our shareholders that our approach to future growth would not be the "high spend/hyper growth" typical of much of the retail sector in the late 1990's, but rather one of building sustainable growth with lower spending requirements. We believed this would allow us to achieve two important objectives. It would demonstrate the financial leverage in our business model by producing improved operating margins that would grow at a rate greater than our revenue growth rate, which in turn would accelerate our return to being EBITDA and EPS positive. Our fiscal 2002 results reflect the benefits of this initiative and we plan to continue to drive our business in this manner.

> *"Total revenues increased 12 percent fueled by a 19 percent increase in our online business..."*

Leveraging Our Investments

During fiscal 2002, we reduced our operating expenses, both as a percent of revenue and in absolute dollars, while continuing to grow our business. Total revenues increased 12 percent, fueled by a 19 percent increase in our online business. Importantly, our ability to leverage our operating infrastructure enabled us to achieve EBITDA of more than $11 million, an improvement of $35 million compared with fiscal 2001. In addition, we achieved positive EPS in three of four quarters during the fiscal year, resulting in a reduction in our net loss of approximately $40 million to a loss of $0.02 per share compared with a loss of $0.64 per share a year earlier.

Deepening Customer Relationships

This was accomplished while we cost-efficiently added three million new customers during the year. We believe our cost to acquire a new customer, at less than $20, is among the lowest in the multi-channel, specialty retail industry. Concurrent with new customer additions, we deepened our relationship with the more than 10 million existing customers in our database, increasing the percent of repeat business to more than 50 percent during the fourth quarter and to approximately 40 percent for the full year.

In fact, throughout fiscal 2002, we saw a continuation of several similarly favorable trends:

- On the customer front: an increasing percentage of new customers and repeat business came to us online, representing approximately 44 percent of total revenues, up from 41 percent in the prior year. This trend is important for several reasons:
  - orders placed online enable us to leverage the efficiency of our technology platform, providing lower order handling costs compared with telephonic orders.
  - customers online can see our expanded range of non-floral gifts which carry a higher gross profit margin (averaging approximately 44 percent compared with floral gifts at approximately 37 percent) and help increase purchase frequency as customers bookmark us for more of their gifting occasions, and…
  - when customers come to us online we get an opportunity to interact with them through the use of our extensive service offerings including gift search and gift reminder functions, as well as through e-mail marketing programs.
- On product mix: the strong growth in our non-floral gift sales – up to 46 percent of total revenues in fiscal 2002 from 41 percent in the prior year – combined with our focus on customer service and operating efficiencies, enabled us to increase our gross profit margin for the year by 160 basis points to 41 percent compared with 39.4 percent in fiscal 2001.

Key Initiatives

In addition, during the year we made significant progress on some of our key initiatives such as:

- Product Offerings: expansion of gift baskets and gourmet gifts, plants, candy and plush stuffed animals – great gift categories in which we believe we can build market share,
- Fulfillment: further leveraging our unique fulfillment network to test same-day delivery for an expanding range of non-floral gifts, including candy, Lenox and Waterford giftware, plush and more – all in addition to our traditional floral offerings,
- Customer Service: completion of the re-engineering of our service platform, increasing staffing flexibility and productivity of our gift advisors while reducing overall labor costs,
- Corporate Gifting: the expansion of our Corporate Gifting effort where we're developing strategic product categories and gifting capabilities, such as personalization, that we anticipate will accelerate our growth in this area, and finally…
- Continuity Programs: we've expanded our Continuity Gift programs, which allow our customers to conveniently send gifts that keep on giving month after month.

Opportunistic Acquisition Strategy

On the business development front, while our growth plan is based on "organic" expansion and does not require acquisitions to attain our goals, we continue to be opportunistic in the area of acquisitions. Specifically, we look to identify acquisition candidates that offer products and/or services that are consistent with our mission statement and which can be cost-effectively acquired and integrated.

Using this disciplined approach, we have made several strategic acquisitions during the past few years, all of which have helped us expand our gift offering and deepen our relationship with our customers. Exemplifying this approach is the acquisition of The Popcorn Factory made in May 2002. The Popcorn Factory offers a line of premium popcorn and confection gifts that complements our fast growing candy and food gift businesses for both our retail customers and corporate accounts.

Importantly, during the past several years we've gained significant experience and developed the necessary skills to quickly and efficiently integrate acquisitions. As a result, the integration of The Popcorn Factory business – including upgrading and moving their website onto our network and bringing their customer service

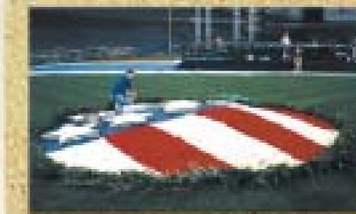
functions in house – was accomplished in record time. This positions us well for the important holiday shopping season.

We will continue to be both opportunistic as well as highly selective in our acquisition strategy.

Looking ahead

Going forward, we will further leverage our existing asset base to cost-efficiently attract new customers and to expand our suite of products and services which will enable us to deepen our customer relationships. One important note on future growth; we will maintain our strategy of low capital deployment, which minimizes our inventory and fixed asset requirements. The investments that we do make in fixed assets will continue to be primarily in the areas of technology that will enhance our services to our customers and drive operating efficiencies. With respect to inventory, we will continue to work closely with our vendor networks to minimize our inventory requirements.

We believe that this low-investment profile will allow us to generate a return on capital deployed in our business that is higher than most of the specialty retail sector. It will also enable us to produce increasing levels of free cash flow, which will add to our already strong balance sheet.



This year, on the anniversary of September 11, 2001, the 1-800-FLOWERS.COM team members once again reached out to help others. In locations across the nation, 1-800-FLOWERS.COM associates helped to ease the pain of our customers, colleagues and friends during this difficult time. They did so even as they dealt with their own sorrows.

Because of their efforts, we were able to do what we do best as a company, help people express themselves, even on this occasion of deep, national sorrow. As a company, we were present at memorials across the country to honor those lost. And, as America begins to heal and move forward, we are there for our customers, each and every day. I would like to extend a personal thank you to all of our associates as well as the vendors and suppliers who helped 1-800-FLOWERS.COM make a difference on this emotional anniversary.

Guidance

During fiscal 2003, we anticipate achieving revenue growth in a range of 14-to-19 percent, further demonstrating our ability to grow our business despite continued uncertainty in the overall economy. We expect gross profit margin to increase another 50-to-100 basis points, to a range of 41.5-to-42 percent, as non-floral gifts grow to more than 50 percent of total sales and we continue to drive operating efficiencies and provide excellent customer service.

We also anticipate achieving further leverage in our operating expenses. As a result, we expect to generate EBITDA in excess of \$30 million and EPS of more than \$0.20 per share. Also, with forecasted capital expenditures of approximately \$13 million, down from \$15 million last year and more than \$20 million in each of the two prior years, we expect to generate free cash flow in excess of \$15 million in fiscal 2003. Looking beyond 2003, we expect to grow EBITDA, EPS and Free Cash Flow at an accelerated pace relative to top line growth and thereby build long-term shareholder value.

Most important, we believe our customers increasingly view their relationship with 1-800-FLOWERS.COM as one of the most convenient and dependable means of helping them connect with all the important people in their lives. Through our expanded gift selection, attentive customer service, unique same-day and next-day delivery capability and extensive service offerings, we believe we can deepen and expand this relationship to help our customers with all of the celebrations in their lives. We thank our customers, associates, investors, vendors and business partners for their continued support.

Sincerely

Jim

Jim McCann
Chairman and CEO

THOUGHTFUL GIFTS FOR

Birthdays, Graduations, Thank You, Anniversaries, Get Well, Weddings, Job Promotion, Retirement, Engagement, Secretaries' Day, Bosses' Day, Nurses Day, Teachers Day, Family Reunions, Sweetest Day, Valentine's Day, Mother's Day, Father's Day, Hanukah, Passover, Rosh Hashanah, Yom Kippur, Earth Day, Halloween, Christmas, Kwanzaa, St. Patrick's Day, Easter, Fourth of July, New Baby, Grandparent's Day…

When you think about it, there are many celebratory occasions in our lives, many opportunities to connect with the people that are important to us. "My assistant did such a great job reorganizing my travel schedule, I should send her something." "My sister is a school nurse, I should let her know how proud I am of her." "I wish I could be with my niece and nephew on Halloween to see their cute costumes!" Everyone has thoughts like these every day – while out jogging, in the shower, on the way to work, during that long, boring staff meeting – but we don't always get to act on our thoughtfulness. At 1-800-FLOWERS.COM® we believe it is our mission to help people turn these thoughts into actions – actions that help people connect.

We do this through convenient, multi-channel customer access – on the Internet, over the phone, at one of our company-owned or franchised stores – 24 x 7, year round anywhere and any way that is convenient for our customers. And we do it with unique same-day and next-day delivery capability to help capture all of those "spur-of-the-moment" thoughts. And we do it through our expanded gift offering – flowers, gift baskets, plants, home and garden décor, children's gifts, collectibles, plush, balloons, gourmet items – wonderful gifts for any occasion.

FLOWERS – THE CORE GIFT

Floral gifts remain the cornerstone of the company's business. In fact, a majority of our first-time customers come to us for a floral gift occasion. While non-floral gifts are the fastest growing segment of the Company's business, the floral side continues to grow as well.

Signature pieces such as The Birthday Flower Cake™, Make Lemonade™ and Plum Crazy™ arrangements continue to draw new customers for everyday occasions such as birthdays and anniversaries. This past year customers also embraced our growing line of collectibles and exclusive vases from Lenox®, Waterford® and other partners. "Bundling" floral gifts with exclusive vases, candy from Godiva®, jewelry and even adorable stuffed animals also continues to be a great growth area. Many

of these bundled items are shipped overnight in specially designed packages and some are even being made available for same-day delivery.

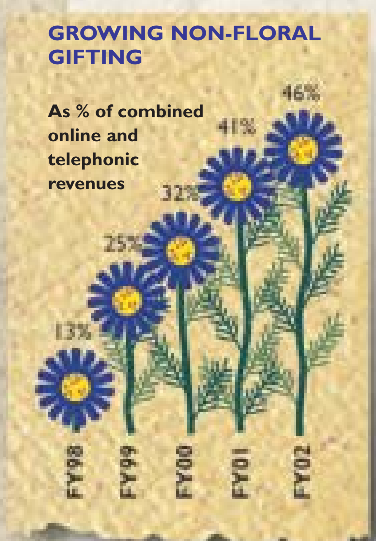
PLANTS SHOOT UP

Plants are a natural compliment to our floral business, and fiscal 2002 was a booming year for plants as gifts. Working with vendors throughout the country to ensure ready access and ease of delivery, we identified new varieties of plants – from poinsettias to azaleas to bonsai for a broad range of occasions.

DELICIOUS AND FUN FOOD GIFTS

From decadent candy to premium popcorn, gourmet fruit baskets, giant chocolate-dipped strawberries, towers of baked goods and even vegetable of the month! Everyone likes to eat, and our broad selection of gift food items ensures that our customers can find something to please the palate of any recipient whether they are family, friends or business associates.

Gift food items are one of the fastest growing categories for 1-800-FLOWERS.COM. We expect this trend to continue with the introduction of such great gift items as our new line of whimsically oversized Animal Crackers, Life Savers® and other great snack foods from one of our newest vendors, Nabisco®. In addition, we recently launched our own private label brand of delectable baked goods under the Mama Moore's™ Bake Shop brand, leveraging our great growth in this area with baked goods ranging from cookies to crumb cake to cheesecake samplers and even a very edible fruitcake!



PLUSH – BIGGER IS BEAR-ER?

Plush – cuddly teddy bears and other stuffed animals – is another fast growing gift category, great for children and adults alike. Our newly launched personalized Bobee Bear-It™ teddy bear offers customers the ability to have a personal message embroidered on Bobee's brightly colored sweater, making it a great way to connect to a niece or nephew or to express yourself during a holiday like National Teachers' Week or Nurses' Week.

UNIQUE GIFTS AND GIFT CLUBS

Collectibles from Waterford®, Lenox® and Hummel® were a hit with customers this past year and will grow in importance as they are offered as both stand-alone gifts and bundled with flowers, plush and candy. And for Holiday 2002, beautiful jewelry from Swarovski® will be one of the season's new offerings. Additionally, many of these great brands are also a part of the Company's Gift Club "continuity" programs. From roses of the month to orchids and bonsai plants to collectible Lenox snowmen, wreaths, coffee, cheese cakes and much more. These programs allow customers to send gifts that keep on giving month after month, season after season.

D E E P E N I N G   O U R

Responding to the familiar "ding" announcing the arrival of e-mail, you click open the new message to find a timely reminder of your mother-in-law's upcoming birthday. What's more, the e-mail includes several full-color product shots of great gift items specifically chosen to appeal to dear old mom. Using your customer profile information, including your credit card number and your mother-in-law's address – information already entered in your customer profile – you select a gift and send it on its way for delivery right to mom's door in sunny Florida. Once again, through the convenient service of 1-800-FLOWERS.COM, you've endeared yourself to mom and managed to avoid a major "dust up" at home.

E-mail reminder services are just one of the many ways that 1-800-FLOWERS.COM helps its customers connect with the important people in their lives. It's also one of the many ways that we are deepening our relationship with our customers as their gift provider for a broad range of celebratory occasions. By leveraging the strength of our brand and utilizing a broad range of marketing approaches, including broadcast and online advertising as well as a variety of direct marketing vehicles, we are able to both attract millions of new customers each year and increase the repeat business from the many millions of existing customers in our databases.

During fiscal 2002, we began to shift the focus of our marketing efforts to increase the emphasis on deepening the relationship with our more than 10 million existing customers. We did this while continuing to cost efficiently acquire a growing number of new customers – 3 million in fiscal 2002 – who were attracted to the 1-800-FLOWERS.COM brand by the convenience of our multi-channel access, our expanded gift offering and our unique same-day and next-day delivery capability.

CUSTOMER-*IZED* DIRECT MARKETING

Utilizing our large and growing customer database, we are able to optimize our catalog marketing efforts by pinpointing customers based on their specific gifting needs and buying habits. Based on data our customers have provided about themselves and their gift recipients, we can tailor mailings to them that will be both pertinent and timely. In addition, our expanded family of gift brands – 1-800-FLOWERS.COM, Plow & Hearth, HearthSong, Magic Cabin Dolls and The Popcorn Factory – offer us cross marketing opportunities that further expand our ability to fulfill our customers' gifting needs.

GROWING ONLINE DEMAND

While catalogs can be tailored to specific audiences, perhaps no direct marketing vehicle is more personal than e-mail. 1-800-FLOWERS.COM utilizes various communication streams within the e-mail channel, each providing the personal touch of being sent directly to a customer's computer screen. Many also include interesting anecdotes about certain celebrations, often prompting immediate purchases. Another advantage is cost efficiency; on average, e-mail promotion costs less than a penny per message.

In fiscal 2002, we grew our e-mail channel by introducing several new campaigns. "Purchase Reminders" are directed at customers who have placed birthday, anniversary or maternity purchases within the previous year. These customers are reminded of the recipient and order date, and also provided with gift suggestions. "Everyday Gifting" e-mails are sent during non-holiday periods, offering customers gift ideas for almost any occasion. "Reactivation" e-mails target customers who have not made a purchase within the past12 months with special offers to try us again.

Looking forward to 2003, we plan to build on the success of our e-mail programs by introducing several new communication streams, including "new customer welcome," annual birthday and anniversary messages, and thank-you e-mails to customers after their orders are processed. These new initiatives will be driven by the personal purchasing history and information provided by the customer.

ENHANCING THE ONLINE SHOPPING EXPERIENCE

The 1-800-FLOWERS.COM website cross-merchandises products and gifting occasions throughout our online channels, so the customer can shop by type of product, by price point, or by occasion such as a birthday, wedding, new baby, graduation, or a myriad of other celebrations. Adding to these online ordering conveniences are customer relationship tools including personalized "Gift Reminders" that remind our customers about upcoming occasions based on information they have provided. In fiscal 2002, the number of customers utilizing our Gift Reminder program grew by more

than 100 percent, giving us hundreds of thousands of gifting occasions that our customers have specifically asked us to remind them of with great gift suggestions.

ON TV AND IN PRINT

Complementing our direct and online marketing strategies is a full spectrum of broadcast media promotion that includes national as well as regional television, radio and print advertising. Commercials and ads are created with a common theme: the customer can depend on 1-800-FLOWERS.COM for thoughtful gifts that convey the right sentiment for every celebration. To keep our message "front of mind," the success of our advertising is carefully tracked and consumer feedback is continually analyzed, helping us fine-tune our brand positioning as our customers' trusted gifting source.

It's Aunt Ida's birthday today in Idaho (and you were always her favorite). Mom is back in Montana and tomorrow is Mother's Day. Brother Dave just closed on his new house in Boston. Little sister Sandy is having a baby shower next week in Saratoga. You're stuck in Boston on business. And, oh yes, today is the three month anniversary of your first date with the girl of your dreams, Kim, back in Kansas.

No problem. With 1-800-FLOWERS.COM's unique fulfillment capabilities you can connect with all of the important people in your life same-day, next-day or any day. So, it's the signature The Birthday Flower Cake™ to Aunt Ida for delivery by five, a dozen multi-colored roses in a Lenox® vase for Mom arriving tomorrow, a brass fireplace set for brother Dave's new hearth. A basket filled with baby goodies for sister Sandy will arrive next week, and two dozen long-stemmed red roses in a beautiful Lenox® vase for Kim will be delivered today, just before you get home from your business trip. What a thoughtful guy…

Throughout the country and even internationally, customers have come to rely on 1-800-FLOWERS.COM to help them connect with the important people in their lives and to do it real-time. We are uniquely positioned to provide such service because of the "hybrid" fulfillment system that we've evolved during our more than 25 years as a specialty gift retailer.

This system weaves together three primary elements:

- Our BloomNet® network of more than 1,600 florists including independent florists, 26 company-owned and 85 franchised floral shops which, together, provide nearly 100 percent coverage of the U.S. Our independent BloomNet® members are selected because of their high-quality standards and their exceptional service, characteristics that are regularly monitored. In addition, many of these florists have been affiliated with us for more than 10 years and our volume of orders typically represent a substantial portion of their annual sales volume, ensuring good communications and attention to quality and service.
- Approximately 600,000 square feet of our own distribution and warehouse facilities located in Madison, VA, Chicago, IL, and Vandalia, OH. These facilities, together, shipped more than 2 million packages in fiscal 2002 including a broad range of gifts from home and garden décor to children's gifts to popcorn.
- Several hundred third-party drop ship vendors who receive their orders directly from us and ship directly out of their facilities to our customers according to our stringent packaging

and shipping requirements. These vendors enable us to offer our customers everything from towers of baked goods to gourmet fruit baskets and even Adirondack chairs.

Virtually all of these elements are tied together by BloomLink®, our proprietary "extra-net" communications system that provides our fulfilling vendors with everything from their daily gift orders to sales forecasts, product recipes and even performance "report cards." A key advantage of this system is the capability it provides for same-day and next-day delivery while minimizing investment requirements for inventory or bricks-and-mortar distribution facilities.

THE LFC ADVANTAGE

A recent further hybridization of our distribution system is the creation of local fulfillment centers, or LFCs. These are a cross between the production room of a large floral shop and a sophisticated but small distribution center. These facilities are typically 5-to-15,000 square feet of warehouse and production space located away from higher-cost retail locations designed to handle a high volume of local floral gift deliveries. Each LFC runs a small fleet of 1-800-FLOWERS.COM branded delivery vans that serve the dual purposes of quick deliveries in-market and "billboard effect" for increased brand awareness.

At fiscal 2002 year end, in addition to the seven original company-owned LFCs that we built to develop and test the concept, we had extended the concept to our independent BloomNet® members, who have opened an additional 33 facilities in key markets throughout the country. These BloomNet®-owned LFCs provide our independent florists with increased order volume and enhanced operating economics, further strengthening our business partnership.

In addition, the LFC concept offers the opportunity, in its next phase of development, to provide same-day delivery availability for a selection of non-

floral gifts. During fiscal 2003 we plan to test customer demand for same-day delivery of such great gifts as Lenox® and Waterford® vases, Godiva® chocolates, gourmet fruit baskets, popcorn, plush stuffed animals and potentially much more, representing a great competitive advantage and yet another way we can help our customers connect with the important people in their lives.

You're in a taxi on the way to the airport when you realize you should send a thank you to your marketing department for the great presentation they created that just helped you land that new

account. Your nephew is heading off to college and you have no idea what kind of gift is appropriate for a teenage boy these days. The niece you just sent flowers to in the hospital for her new baby has already been discharged and you need to re-route the flowers to her home. It's times like these that the voice of a 1-800-FLOWERS.COM gift advisor can make all the difference in the world.

The "human touch" is one of the keys to our efforts in deepening our relationship with our customers. Even as growing numbers of customers come to us online versus the telephone, many still need to hear a reassuring voice or utilize the expert gift giving advice of one of our customer service agents. Our focus on providing helpful, personable and well-informed gift advisors to service our customers whenever they are needed continues to set us apart and enhance our customers' shopping experience.

During fiscal 2002, we completed the re-engineering of our customer service platform, consolidating several of our smaller facilities that had been located in high-cost markets with shrinking labor pools into newer, larger centers in Ardmore, Oklahoma and Alamogordo, New Mexico. Combined with our existing facilities in Westbury, New York and Madison, Virginia, we now have four customer service centers, all tied together by state-of-the-art computer-telephony integration software that enables us to provide flexible and cost efficient 24-by-7, year-round service coverage. In addition, we have a fifth, "virtual" service center in the form of several hundred agents who work from their homes through high-speed Internet connections that tie them directly into our service grid.

As a result of this re-engineering, we have significantly enhanced the cost efficiency and flexibility of our customer service network enabling us to go from an "every-day" average of 1,100 gift advisors to as many as 3,000 or more during peak holiday periods.

Providing personal, knowledgeable gifting assistance

NEW INITIATIVES

- Order Status Checks: order information is available online at our websites, allowing customers to check on their orders whenever they wish, thereby significantly reducing telephone status checks.
- Delivery Confirmation e-mails: a unique capability lets customers know via e-mail when their gifts have been delivered, thereby eliminating frantic "did it get there yet?" phone calls.
- Capacity Sharing: working with partner companies, such as Choice Hotels, that have different seasonal peak business periods, we can cross-train agents to handle either company's customer inquiries. This increases overall productivity and enables us to retain a deeper year-round workforce of trained agents.
- Q-Force Training: during fiscal 2002, more than 1,000 associates underwent comprehensive training on customized quality tools. They also learned company history and philosophy to enable them to focus on relentless process improvement. The result is a significant reduction in customer service issues.

Selected Financial Data

1-800-FLOWERS.COM, Inc. and Subsidiaries

The following tables summarize the Company's consolidated statement of operations and balance sheet data. The Company acquired The Popcorn Factory in May 2002, The Children's Group in June 2001, disposed of Floral Works in January 2000, acquired GreatFood.com and TheGift.com in November 1999 and acquired Plow & Hearth in April 1998. The following financial data reflects the results of operations of these subsidiaries since their respective dates of acquisition and up through the date of disposition. This information should be read together with the discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and notes to those statements included elsewhere in this Annual Report.

	Years Ended				
	June 30, 2002	July 1, 2001	July 2, 2000	June 27, 1999	June 28, 1998
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Net revenues:					
Telephonic	**$248,931**	$230,723	$227,380	$201,467	$159,715
Online	**218,179**	182,924	116,810	52,668	26,684
Retail/fulfillment	**30,095**	28,592	35,338	38,717	31,813
Total net revenues	**497,205**	442,239	379,528	292,852	218,212
Gross profit	**203,936**	174,460	142,035	113,155	81,246
Operating (loss) income	**(3,665)**	(45,473)	(75,581)	(8,171)	6,415
Net (loss) income	**(1,511)**	(41,321)	(66,830)	(6,846)	5,074
Net (loss) income applicable to common stockholders	**$ (1,511)**	$(41,321)	$(66,830)	$(12,061)	$ 3,466
Net (loss) income per common share applicable to common stockholders:					
Basic	**$ (0.02)**	$ (0.64)	$ (1.10)	$ (0.27)	$ 0.08
Diluted	**$ (0.02)**	$ (0.64)	$ (1.10)	$ (0.27)	$ 0.07

	As of				
	June 30, 2002	July 1, 2001	July 2, 2000	June 27, 1999	June 28, 1998
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and equivalents and short term investments	**$ 63,399**	$ 63,896	$111,624	$ 99,183	$ 8,873
Working capital	**23,301**	27,409	82,129	85,619	1,950
Investments	**9,591**	16,284	1,918	984	1,383
Total assets	**207,157**	195,257	224,641	182,355	81,746
Long-term liabilities	**15,939**	16,029	12,947	37,766	35,359
Redeemable class C common stock	**—**	—	—	—	17,692
Total stockholders' equity	**123,908**	117,816	158,918	109,003	672

Overview

1-800-FLOWERS.COM, Inc. is a leading gift retailer, providing a broad range of thoughtful gift products including an extensive array of flowers, plants, gourmet food, gift baskets, candies, home décor, garden merchandise, unique children's toys and other specialty products. With one of the most recognized brands in retailing and a history of successfully integrating technologies and business innovations, the Company has become the *trusted guide to gifting* for our customers, providing convenient, multi-channel access for customers via the Internet, telephone, catalogs and retail stores.

The Company's product offering reflects a carefully selected assortment of high quality merchandise chosen for its unique "thoughtful gifting" qualities which accommodate customer needs in celebrating a special occasion or conveying a personal sentiment. Many products are available for same-day or overnight delivery and all come with the Company's 100% satisfaction guarantee. In addition to the Company's selection of thoughtful gifts, the Company's product line is extended by its other brands which include Plow & Hearth, home décor and garden merchandise, (*www.plowandhearth.com*), GreatFood.com, gourmet food products, (*www.greatfood.com*), The Popcorn Factory, premium popcorn and specialty food gifts (*www.thepopcornfactory.com*) and HearthSong (*www.hearthsong.com)* and Magic Cabin Dolls (*www.magiccabindoll.com*), unique and educational children's toys and games.

A majority of the Company's floral orders are fulfilled through BloomNet® (comprised of independent florists operating retail flower shops and Local Fulfillment Centers ("LFC's"), Company-owned stores and fulfillment centers and franchise stores). The Company transmits its orders either through BloomLink, its proprietary Internet-based electronic communication system, or the communication system of a third-party. A portion of the Company's floral and gift merchandise as well as its home and garden merchandise, non-floral gift products and gourmet food merchandise are shipped by the Company, members of BloomNet® or third parties directly to the customer using common carriers. Most of the Company's home and garden products are fulfilled from its Madison, Virginia fulfillment center or its Vandalia, Ohio distribution facility, while the Company's children's merchandise is fulfilled from its Vandalia facility. The Company's gourmet popcorn and related merchandise is fulfilled primarily from its Lake Forest, Illinois manufacturing facility.

As of June 30, 2002 the Company owned retail fulfillment operations consisted of 28 retail stores and 7 fulfillment centers. Retail fulfillment revenues also include revenues attributable to the Company's Floral Works wholesale floral subsidiary through the date of its disposition in January 2000, fees paid to the Company by members of its BloomNet® network and royalties, fees and sublease rent paid to the Company by its 83 franchise stores. Company owned stores serve as local points of fulfillment and enable the Company to test new products and marketing programs. As such, a significant percentage of the revenues derived from Company owned stores and fulfillment centers represent fulfillment of its telephonic and online sales channel floral orders and are eliminated as inter-company revenues.

After a period of significant investment in the Company's systems and infrastructure, as well as brand name building and product line extensions, the Company expects to return to profitability during fiscal 2003. However, the Company has incurred losses in recent years, and no assurances can be made that positive net income can be achieved on this schedule or in the foreseeable future. In order to achieve and maintain profitability, the Company will need to generate revenues exceeding historical levels and/or reduce operating expenditures. The Company's 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, including those more fully described in the Company's SEC filings.

Results of Operations

The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to June 30. Fiscal years 2002 and 2001, which ended on June 30, 2002 and July 1, 2001, respectively, consisted of 52 weeks, while fiscal year 2000, which ended July 2, 2000, consisted of 53 weeks. As such, the Company's fiscal year 2000 revenues, and associated variable expenses, contained an additional week of activity in comparison to fiscal year 2001 or 2002.

Net Revenues

	Years Ended				
	June 30, 2002	% Change	July 1, 2001	% Change	July 2, 2000
		(in thousands)			
Net Revenues:					
Telephonic	**$248,931**	7.9%	$230,723	1.5%	$227,380
Online	**218,179**	19.3%	182,924	56.6%	116,810
Retail/fulfillment	**30,095**	5.3%	28,592	(19.1%)	35,338
	$497,205	12.4%	$442,239	16.5%	$379,528

Net revenues consist primarily of the selling price of the merchandise, service or outbound shipping charges, less discounts, returns and credits. The Company's combined telephonic and online revenue growth during the fiscal years ended June 30, 2002 and July 1, 2001 was due primarily to an increase in order volume and average order value, which resulted from efficient marketing efforts, strong brand name recognition and the Company's continued expansion of its non-floral product offerings, including a broad range of items such as plants, candies and gourmet foods, as well as items for the home and garden, children's toys and other specialty gifts. Non-floral gift products accounted for 45.8%, 40.7% and 32.4% of total combined telephonic and online net revenues during the fiscal years ended June 30, 2002, July 1, 2001 and July 2, 2000, respectively.

The Company fulfilled approximately 7,172,000, 6,520,000, and 5,616,000 orders through its combined telephonic and online sales channels during the fiscal years ended June 30, 2002, July 1, 2001, and July 2, 2000, respectively, representing increases of 10.0%, and 16.1% over the respective prior fiscal years. The growth was primarily the result of increases in online order volume driven by traffic both directly to the Company's

URL's ("Universal Resource Locators") and through third-party portals and Websites, and telephonic order volume resulting primarily from the addition of the Company's children's gifts product line in June 2001. Additionally, the Company's combined telephonic and online sales channel average order value increased 2.5% to $65.02 and 3.6% to $63.42 during the fiscal years ended June 30, 2002 and July 1, 2001. The Company intends to continue to drive revenue growth through its online business, and continue the migration of its customers from the telephone to the Web for several important reasons: (i) online orders are less expensive to process than telephonic orders, (ii) online customers can view the Company's full range of gift offerings – including non-floral gifts, which yield higher gross margin opportunities, (iii) online customers can utilize all of the Company's services, such as the various gift search functions, order status check and reminder service, thereby deepening its relationship with them and leading to increased order rates, and (iv) when customers visit the Company online, it provides an opportunity to engage them in an electronic dialog via cost efficient e-mail marketing programs.

Revenues derived from The Popcorn Factory, which is included in the Company's results of operations since it was acquired on May 3, 2002, was immaterial in relation to consolidated revenues for the fiscal year ended June 30, 2002.

Retail/fulfillment revenues for the fiscal year ended June 30, 2002 increased in comparison to the prior fiscal year primarily due to the November 2001 opening of a new home and garden outlet store in Williamsburg, VA, and an increase in same store sales, offset in part by the reduction in retail stores late in the fiscal year. The decrease in retail/fulfillment revenues for the fiscal year ended July 1, 2001 was primarily due to a reduction in floral wholesale net revenues of $7.2 million as a result of the Company's disposition of its Floral Works subsidiary in January 2000, partially offset by an increase in net revenues resulting from the addition of three company-owned retail locations.

Gross Profit

	Years Ended				
	June 30, 2002	% Change	July 1, 2001	% Change	July 2, 2000
	(in thousands)				
Gross profit	**$203,936**	16.9%	$174,460	22.8%	$142,035
Gross margin %	**41.0%**		39.4%		37.4%

Gross profit consists of net revenues less cost of revenues which is comprised primarily of florist fulfillment costs (fees paid directly to florists and fees paid to wire services that serve as clearinghouses for floral orders, net of wire service rebates), the cost of floral and non-floral merchandise sold from inventory or through third parties, and associated costs including inbound and outbound shipping charges. Additionally, cost of revenues include labor and facility costs related to direct-to-consumer merchandise production operations, as well as facility costs on properties that are sublet to the Company's franchisees. Gross profit increased during the fiscal years ended June 30, 2002 and July 1, 2001 as a result of increased order volume, and an improved gross margin percentage. Gross margin percentage increased by 160 basis points and 200 basis points during the fiscal years ended June 30, 2002 and July 1, 2001, respectively, primarily as a result of the continued growth in non-floral product sales, which in fiscal 2002, was further complemented by the addition of the Company's children's gifts product line, which generate a higher gross margin, and an increase in online service and shipping charges, aligning them with industry norms. In addition, the Company's continued focus on customer service and operational efficiencies further enhanced the gross margin percentage through the implementation of stricter quality control standards and enforcement methods which reduced the rate of credits/returns and replacements.

As the Company continues to expand its higher margin, non-floral business, the Company expects that gross margin percentage, while varying by quarter due to seasonal changes in product mix, will continue to increase.

Marketing and Sales Expense

	Years Ended				
	June 30, 2002	% Change	July 1, 2001	% Change	July 2, 2000
	(in thousands)				
Marketing and sales	**$150,638**	(2.4%)	$154,321	(0.7%)	$155,353
Percentage of sales	**30.3%**		34.9%		40.9%

Marketing and sales expense consists primarily of advertising and promotional expenditures, catalog costs, online portal agreements, retail store and fulfillment operations (other than costs included in cost of revenues) and customer service center expenses, as well as the operating expenses of the Company's departments engaged in marketing, selling and merchandising activities. Marketing and sales expenses decreased to 30.3% of net revenues during the fiscal year ended June 30, 2002, compared to 34.9% (33.3%, exclusive of the non-recurring charge discussed below) during the prior fiscal year, as a result of volume related cost, operating efficiencies and cost-effective advertising, coupled with the Company's strong brand name and savings realized from successful renegotiations of certain of its portal agreements. In fiscal 2001, the Company incurred a non-recurring charge of $7.3 million ($0.11 per share), as a result of the modification of an interactive marketing agreement with one of the Company's portal providers. As a result of the Company's cost efficient customer retention programs, of the 4,934,000 customers who placed orders during the fiscal year ended June 30, 2002, approximately 39.2% represented repeat customers compared to 33.5% in the prior fiscal year. In addition, despite the overall reduction in spending, as a result of the strength of the Company's brands, combined with its cost effective marketing programs, the Company added approximately 3.0 million new customers during each of the fiscal years ended June 30, 2002 and July 1, 2001.

Although the Company incurred a non-recurring charge of $7.3 million (as discussed above) during fiscal 2001, marketing and sales expense during the fiscal year ended July 1, 2001, decreased to 34.9% of net revenues, compared to 40.9% of net revenues during the fiscal year ended July 2, 2000 as a result of volume related efficiencies and cost effective advertising, coupled with the Company's strong brand name and savings realized from successful renegotiations of certain of its portal agreements.

In order to continue to execute its business plan, the Company expects to continue to invest in its marketing and sales efforts to acquire new customers, while also leveraging its already significant customer base through cost effective, customer retention initiatives. Such spending will be within the context of the Company's overall marketing plan, which is continually evaluated and revised to reflect the results of the Company's most recent market research, including changing economic conditions, and seeks to determine the most cost-efficient use of the Company's marketing dollars. Such evaluation includes the ongoing review of the Company's strategic relationships with its internet portal providers to ensure that such relationships continue to generate cost-effective incremental volume. As such, although the Company expects spending will increase due to the incremental marketing efforts associated with the acquisition of The Popcorn Factory in May 2002, and volume related expenses associated with the Company's customer service operations, spending as a percentage of net revenues is expected to continue to decrease in comparison to prior fiscal years.

Technology and Development Expense

	Years Ended				
	June 30, 2002	% Change	July 1, 2001	% Change	July 2, 2000
	(in thousands)				
Technology and development	**$13,723**	(18.6%)	$16,853	0.3%	$16,809
Percentage of sales	**2.8%**		3.8%		4.4%

Technology and development expense consists primarily of payroll and operating expenses of the Company's information technology group, costs associated with its Web sites, including hosting, design, content development and maintenance and support costs related to the Company's order entry, customer service, fulfillment and database systems. Technology and development expense decreased during the fiscal year ended June 30, 2002 in comparison to the prior year as a result of cost efficiencies realized by bringing Web-hosting and development capabilities in-house during the latter half of fiscal 2001. Internalizing the Company's hosting and development functions has enabled the Company to cost effectively enhance the content and functionality of its Web sites, including the September 2001 relaunch of its Plow & Hearth Web site *(www.plowandhearth.com)*, and improve the performance of the Company's fulfillment and database systems, while adding improved operational flexibility, capacity and system redundancy. During the fiscal years ended June 30, 2002, July 1, 2001, and July 2, 2000, the Company expended $24.5 million, $30.7 million, and $35.3 million on technology and development, of which $10.8 million, $13.8 million, and $18.5 million, respectively, has been capitalized.

Although the Company believes that continued investment in technology and development is critical to attaining its strategic objectives, the Company expects that its spending in comparison to prior fiscal years, particularly in the areas of Website hosting and development and database management, will continue to decrease as a percentage of net revenues, as the ongoing benefits from previous investments in the Company's current technology platform will reduce the effect of incremental costs expected to be incurred as a result of the acquisition of The Popcorn Factory in May 2002.

General and Administrative Expenses

	Years Ended				
	June 30, 2002	% Change	July 1, 2001	% Change	July 2, 2000
	(in thousands)				
General and administrative	**$28,179**	4.2%	$27,043	(6.7%)	$28,975
Percentage of sales	**5.7%**		6.1%		7.6%

General and administrative expense consists of payroll and other expenses in support of the Company's executive, finance and accounting, legal, human resources and other administrative functions, as well as professional fees and other general corporate expenses. General and administrative expenses increased during the fiscal year ended June 30, 2002, in comparison to the prior fiscal year as a result of the incremental costs associated with an increase in insurance resulting from overall market conditions and the acquisitions of The Children's Group and The Popcorn Factory, in June 2001 and May 2002, respectively. The decrease in general and administrative expenses during the fiscal year ended July 1, 2001, in comparison to the prior fiscal year, was primarily the result of a $1.5 million charge recorded in fiscal 2000 to account for the increase in the management put liability associated with the Company's acquisition of the minority shareholders' interest in Plow & Hearth. Exclusive of such charge, general and administrative expense decreased by $0.4 million over the prior fiscal year due to various cost reduction initiatives, offset in part by increased insurance costs.

The Company believes that its current general and administrative infrastructure is sufficient to support existing requirements and, as such, while increasing in absolute dollars due primarily to the incremental costs associated with the acquisition of The Popcorn Factory in May 2002, general and administrative expenses is expected to continue to decline as a percentage of net revenues, on a seasonally adjusted basis.

Depreciation and Amortization

	Years Ended				
	June 30, 2002	% Change	July 1, 2001	% Change	July 2, 2000
	(in thousands)				
Depreciation and amortization	**$15,061**	(30.6%)	$21,716	31.8%	$16,479
Percentage of sales	**3.0%**		4.9%		4.3%

The decrease in depreciation and amortization expense during the fiscal year ended June 30, 2002 in comparison to the prior fiscal year, was primarily the result of the Company's early adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, which requires the discontinuance of amortization of goodwill and other intangible assets with indefinite useful lives. As a result, depreciation and amortization expense for the years ended July 1, 2001 and July 2, 2000 include $7.5 million ($0.12 per share) and $4.7 million ($0.08 per share), respectively, of goodwill amortization which is not included in fiscal 2002. Increases in depreciation and amortization, net of the aforementioned goodwill amortization over the past two years resulted from incremental capital expenses, primarily in information systems hardware and software.

Other Income (Expense)

	Years Ended				
	June 30, 2002	% Change	July 1, 2001	% Change	July 2, 2000
	(in thousands)				
Interest income	**$2,688**	(55.0%)	$5,971	(30.9%)	$ 8,645
Interest expense	**(1,245)**	1.5%	(1,264)	12.5%	(1,444)
Other, net	**5**	100.9%	(555)	(351.1%)	221
	$1,448	(65.1%)	$4,152	(44.1%)	$ 7,422

Other income (expense) consists primarily of interest income earned on the Company's investments and available cash balances, offset by interest expense, primarily attributable to the Company's capital leases and other long-term debt. The decrease in interest income during the fiscal years ended June 30, 2002 and July 1, 2001 was primarily due to the decline in invested cash balances which were used to fund the Company's capital expenditures (and operations during fiscal 2001), as well as a decline in the Company's average rate of return on its investments. Additionally, during fiscal 2001, the Company recorded a non-recurring charge of $1.0 million (included above in "Other, net") associated with the write-down of the Company's minority investment in a technology partner, purchased in fiscal 2000. Offsetting this write-down was a gain of $0.3 million, recognized by the Company in November 2000, on the sale of its investment in American Floral Services, Inc. ("AFS").

Income Taxes

As a result of recent tax law changes, which extended the period for which companies are allowed to carry-back losses, the Company was able to recover previously paid income taxes, thereby resulting in an income tax benefit of $0.7 million during the fiscal year ended June 30, 2002. The Company has provided a full valuation allowance on its deferred tax assets, consisting primarily of net operating loss carryforwards.

Liquidity and Capital Resources

At June 30, 2002, the Company had working capital of $23.3 million, including cash and equivalents and short-term investments of $63.4 million, compared to working capital of $27.4 million, including cash and equivalents and short-term investments of $63.9 million, at July 1, 2001. The decrease in working capital resulted primarily from the funding of capital expenditures and the acquisition of The Popcorn Factory in May 2002, offset in part by the cash provided by operations.

Net cash provided by operating activities of $11.6 million for the fiscal year ended June 30, 2002 was primarily attributable to income, before depreciation and amortization and other non-cash charges of $14.1 million, partially offset by changes in working capital, primarily associated with the addition of The Popcorn Factory in May 2002.

Net cash used in investing activities of $34.6 million for the fiscal year ended June 30, 2002 was principally comprised of purchases of short-term investment grade government and corporate securities, capital expenditures for computer hardware and software, including those associated with the construction of a new 300 seat service center in Alamogordo, New Mexico, and the acquisition of The Popcorn Factory in May 2002. The Popcorn Factory purchase price of $12.6 million was funded through the issuance of 353,003 shares of the Company's Class A common stock and $7.6 million in cash, $7.3 million of which was used to retire The Popcorn Factory's outstanding debt, while the remaining $0.3 million was used to pay for costs of the transaction. The Company expects that as it continues its return to positive cash flow, it will reallocate available cash balances into longer term securities in order to maximize the return on its investments.

Net cash used in financing activities was $0.3 million for the fiscal year ended June 30, 2002, resulting primarily from the repayment of amounts outstanding under the Company's credit facilities, offset in part by the net proceeds received upon the exercise of employee stock options.

The Company's material capital commitments consist of:

- obligations outstanding under capital and operating leases (including guarantees of $0.5 million) as well as commercial notes related to obligations arising from, and collateralized by, the underlying assets of the Company's warehousing/fulfillment facility in Madison, Virginia ($12.2 million – 2003, $10.2 million – 2004, $8.9 million – 2005, $5.2 million – 2006, $3.2 million – 2007, $11.0 million – thereafter);
- online marketing agreements ($8.9 million); and
- inventory commitments for the upcoming Thanksgiving through Christmas holiday season ($17.4 million).

At June 30, 2002, the Company's significant known commitments for the subsequent twelve months totaled approximately $38.5 million and were comprised of fees related to online marketing agreements, rent and other expenses under its operating leases, interest expense and the current portion of long term debt and capital lease obligations.

On September 16, 2001, the Company's Board of Directors approved the repurchase of up to $10.0 million of the Company's Class A common stock. Although no repurchases have been made as of September 23, 2002, any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash.

The Company intends to continue to invest in support of its growth strategy. These investments include continued advertising and marketing programs designed to enhance the Company's brand name recognition, retain and acquire new customers, expand its current product offerings and further develop its Web site and operating infrastructure. The Company expects to be cash flow positive in fiscal 2003 and believes that current cash and investments will be sufficient to meet these anticipated cash needs for at least the next twelve months. However, any projection of future cash needs and cash flows are subject to substantial uncertainty. If current cash and equivalents that may be generated from operations are insufficient to satisfy the Company's liquidity requirements, the Company may seek to sell additional equity or debt securities or to increase its lines of credit. The sale of additional equity or convertible debt securities could result in additional dilution to the Company's stockholders. In addition, the Company will, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services and technologies, which might impact the Company's liquidity requirements or cause the Company to issue additional equity or debt securities. There can be no assurance that financing will be available in amounts or on terms acceptable to the Company, if at all.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial statements and results of operations are based upon 1-800-FLOWERS.COM's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, inventory and long-lived assets, including goodwill and other intangible assets related to acquisitions. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in preparation of its consolidated financial statements.

Revenue Recognition

Net revenues are generated by online, telephonic and retail fulfillment operations and primarily consist of the selling price of merchandise, service or outbound shipping charges, less discounts, returns and credits. Net revenues are recognized upon product shipment.

Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory

The Company states inventory at the lower of cost or market. In assessing the realization of inventories, we are required to make judgments as to future demand requirements and compare that with inventory levels. It is possible that changes in consumer demand could cause a reduction in the net realizable value of inventory.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired and is evaluated annually for impairment. Prior to fiscal 2002, goodwill was amortized over periods not exceeding 20 years. The cost of intangible assets with determinable lives is amortized to reflect the pattern of economic benefits consumed, on a straight-line basis, over the estimated periods benefited, ranging from 3 to 16 years.

The Company periodically evaluates acquired businesses for potential impairment indicators. Judgment regarding the existence of impairment indicators is based on market conditions and operational performance of the Company. Future events could cause the Company to conclude that impairment indicators exist and that goodwill and other intangible assets associated with our acquired businesses is impaired.

Recently Issued Accounting Pronouncements

On July 2, 2001, the Company adopted Financial Accounting Standards Board Statements No. 141, *Business Combinations* ("SFAS 141"), and No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations completed on or after July 1, 2001 and further clarifies the criteria for recognition of intangible assets separately from goodwill. SFAS 142 eliminates the amortization of goodwill and indefinite-lived intangible assets and initiates an annual review for impairment. Identifiable intangible assets with determinable useful lives will continue to be amortized. Beginning July 2, 2001, the Company ceased amortizing goodwill. During 2002, the Company has completed its assessment of the assets impacted by the adoption of SFAS 142, and based upon such review no impairment to the carrying value of goodwill was identified.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations* ("SFAS 143"), which addresses the financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated retirement costs. In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"), which addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. The Company will adopt both SFAS 143 and SFAS 144 on July 1, 2002, and does not expect these statements to materially impact the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"). This pronouncement is effective for exit or disposal activities that are initiated after December 31, 2002, and requires these costs to be recognized when the liability is incurred and not at project initiation. The Company does not expect this statement to have a material impact on its financial statements.

Quantitative and Qualitative Disclosures About Market Risk

The Company's earnings and cash flows are subject to fluctuations due to changes in interest rates primarily from its investment of available cash balances in money market funds and investment grade corporate and U.S. government securities and, secondarily, certain of its financing arrangements. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

Cautionary Note Regarding Forward-Looking Statements

Certain of the matters and subject areas discussed in this Annual Report contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical information provided herein are forward-looking statements and may contain information about financial results, economic conditions, trends and known uncertainties based on the Company's current expectations, assumptions, estimates and projections about its business and the Company's industry. These forward-looking statements involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those more fully described in the Company's SEC filings. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The forward-looking statements made in this Annual Report relate only to events as of the date on which the statements are made. The Company undertakes 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.

Quarterly Results of Operations

The following table provides unaudited quarterly consolidated results of operations for each quarter of fiscal years 2002 and 2001. The Company believes this unaudited information has been prepared substantially on the same basis as the annual audited consolidated financial statements and all necessary adjustments, consisting of only normal recurring adjustments, have been included in the amounts stated below to present fairly the Company's results of operations. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	Three Months Ended							
	June 30, 2002	Mar. 31, 2002	Dec. 30, 2001	Sept. 30, 2001	July 1, 2001	Apr. 1, 2001	Dec. 31, 2000	Oct. 1, 2000
	(in thousands)							
Net revenues:								
Telephonic	$ 63,699	$ 50,715	$ 93,550	$ 40,967	$ 61,607	$ 48,642	$ 79,182	$ 41,292
Online	68,468	56,874	60,497	32,340	62,655	47,139	47,708	25,422
Retail fulfillment	8,120	7,835	8,278	5,862	7,997	7,440	7,353	5,802
Total net revenues	140,287	115,424	162,325	79,169	132,259	103,221	134,243	72,516
Cost of revenues	83,076	70,690	91,626	47,877	79,569	64,020	79,099	45,091
Gross Profit	57,211	44,734	70,699	31,292	52,690	39,201	55,144	27,425
Operating expenses:								
Marketing and sales	37,529	31,533	54,945	26,631	36,715	32,251	50,827	34,528
Technology and development	3,279	3,222	3,532	3,690	3,492	4,253	4,482	4,626
General and administrative	7,353	6,847	7,065	6,914	6,062	6,969	6,617	7,395
Depreciation and amortization	3,912	3,788	3,767	3,594	6,012	5,383	5,280	5,041
Total operating expenses	52,073	45,390	69,309	40,829	52,281	48,856	67,206	51,590
Operating income (loss)	5,138	(656)	1,390	(9,537)	409	(9,655)	(12,062)	(24,165)
Other income (expense), net	322	115	420	591	(183)	1,145	1,526	1,664
Income tax benefit	—	706	—	—	—	—	—	—
Net income (loss)	$ 5,460	$ 165	$ 1,810	$ (8,946)	$ 226	$ (8,510)	$(10,536)	$(22,501)
Net income (loss) per share	$ 0.08	$ 0.00	$ 0.03	$ (0.14)	$ 0.00	$ (0.13)	$ (0.16)	$ (0.35)

The Company's quarterly results may experience seasonal fluctuations. Due to the Company's expansion into gift, home, gourmet and other related products, the Thanksgiving through Christmas holiday season, which fall within the Company's second fiscal quarter, generate the highest proportion of the Company's annual revenues. Additionally, as the result of a number of major floral gifting occasions, including Mother's Day, Administrative Professionals Week and Easter, revenues also rise during the Company's fiscal fourth quarter, in relation to its fiscal first and third quarters.

Consolidated Balance Sheets

1-800-FLOWERS.COM, Inc. and Subsidiaries

(in thousands, except share data)

	June 30, 2002	July 1, 2001
Assets		
Current Assets:		
Cash and equivalents	**$ 40,601**	$ 63,896
Short-term investments	**22,798**	—
Receivables, net	**9,345**	8,209
Inventories	**15,647**	14,885
Prepaid and other	**2,220**	1,831
Total current assets	**90,611**	88,821
Property, plant and equipment, net	**51,002**	49,861
Investments	**9,591**	16,284
Capitalized investment in leases	**465**	706
Goodwill	**37,772**	25,632
Other intangibles, net	**4,074**	4,152
Other assets	**13,642**	9,801
Total assets	**$207,157**	$195,257
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	**$ 64,156**	$ 58,481
Current maturities of long-term debt and obligations under capital leases	**3,154**	2,931
Total current liabilities	**67,310**	61,412
Long-term debt and obligations under capital leases	**12,244**	12,519
Other liabilities	**3,695**	3,510
Total liabilities	**83,249**	77,441
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued in 2002 and 2001	**—**	—
Class A common stock, $.01 par value, 200,000,000 shares authorized, 28,319,677 and 26,586,875 shares issued in 2002 and 2001, respectively	**283**	266
Class B common stock, $.01 par value, 200,000,000 shares authorized, 42,480,925 and 43,028,525 shares issued in 2002 and 2001, respectively	**425**	430
Additional paid-in capital	**246,497**	238,906
Retained deficit	**(120,189)**	(118,678)
Treasury stock, at cost – 52,800 Class A and 5,280,000 Class B shares	**(3,108)**	(3,108)
Total stockholders' equity	**123,908**	117,816
Total liabilities and stockholders' equity	**$207,157**	$195,257

See accompanying notes.

Consolidated Statements of Operations

1-800-FLOWERS.COM, Inc. and Subsidiaries

(in thousands, except per share data)

	Years Ended		
	June 30, 2002	July 1, 2001	July 2, 2000
Net revenues	**$497,205**	$442,239	$379,528
Cost of revenues	**293,269**	267,779	237,493
Gross profit	**203,936**	174,460	142,035
Operating expenses:			
Marketing and sales	**150,638**	154,321	155,353
Technology and development	**13,723**	16,853	16,809
General and administrative	**28,179**	27,043	28,975
Depreciation and amortization	**15,061**	21,716	16,479
Total operating expenses	**207,601**	219,933	217,616
Operating loss	**(3,665)**	(45,473)	(75,581)
Other income (expense):			
Interest income	**2,688**	5,971	8,645
Interest expense	**(1,245)**	(1,264)	(1,444)
Other, net	**5**	(555)	221
Total other income	**1,448**	4,152	7,422
Loss before income taxes and minority interests	**(2,217)**	(41,321)	(68,159)
Benefit from income taxes	**706**	—	1,286
Loss before minority interests	**(1,511)**	(41,321)	(66,873)
Minority interests in operations of consolidated subsidiaries	**––**	—	43
Net loss	**$ (1,511)**	$ (41,321)	$ (66,830)
Basic and diluted net loss per common share	**$ (0.02)**	$ (0.64)	$ (1.10)
Shares used in the calculation of basic and diluted net loss per common share	**64,703**	64,197	60,889

See accompanying notes.

Consolidated Statements of Stockholders' Equity

1-800-FLOWERS.COM, Inc. and Subsidiaries

Years ended June 30, 2002, July 1, 2001, and July 2, 2000

(in thousands, except share data)

	Preferred Stock		Common Stock Class A		Common Stock Class B		Additional Paid-In Capital	Retained Deficit	Deferred Compensation	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				Shares	Amount	
Balance at June 27, 1999	1,127,546	$117,573	4,100,012	$ 41	45,579,005	$ 455	$ 6,039	$ (10,527)	$ (1,470)	5,332,800	$ (3,108)	$109,003
Exercise of stock options and warrants	—	—	2,431,857	25	—	—	98	—	—	—	—	123
Forfeiture of employee stock options	—	—	—	—	—	—	(315)	—	315	—	—	—
Amortization of deferred compensation	—	—	—	—	—	—	—	—	367	—	—	367
Conversion of preferred stock into Class A common stock	(1,127,546)	(117,573)	11,275,460	113	—	—	117,460	—	—	—	—	—
Issuance of common stock in connection with Initial Public Offering, net of issuance costs of $11,236	—	—	6,000,000	60	—	—	114,704	—	—	—	—	114,764
Conversion of Class B common stock into Class A common stock	—	—	2,437,360	24	(2,437,360)	(24)	—	—	—	—	—	—
Issuance of shares of common stock in connection with the acquistion of TheGift.com	—	—	117,379	1	—	—	1,490	—	—	—	—	1,491
Total comprehensive loss	—	—	—	—	—	—	—	(66,830)	—	—	—	(66,830)
Balance at July 2, 2000	—	—	26,362,068	264	43,141,645	431	239,476	(77,357)	(788)	5,332,800	(3,108)	158,918
Exercise of stock options	—	—	97,175	1	—	—	299	—	—	—	—	300
Employee stock purchase plan	—	—	14,512	—	—	—	75	—	—	—	—	75
Amortization of deferred compensation	—	—	—	—	—	—	—	—	(156)	—	—	(156)
Forfeiture of employee stock options	—	—	—	—	—	—	(944)	—	944	—	—	—
Conversion of Class B common stock into Class A common stock	—	—	113,120	1	(113,120)	(1)	—	—	—	—	—	—
Total comprehensive loss	—	—	—	—	—	—	—	(41,321)	—	—	—	(41,321)
Balance at July 1, 2001	—	—	26,586,875	266	43,028,525	430	238,906	(118,678)	—	5,332,800	(3,108)	117,816
Exercise of stock options	**––**	**––**	**788,008**	**8**	**––**	**––**	**2,228**	**––**	**––**	**––**	**––**	**2,236**
Employee stock purchase plan	**––**	**––**	**44,191**	**––**	**––**	**––**	**382**	**––**	**––**	**––**	**––**	**382**
Conversion of Class B common stock into Class A common stock	**––**	**––**	**547,600**	**5**	**(547,600)**	**(5)**	**––**	**––**	**––**	**––**	**––**	**––**
Issuance of shares of common stock in connection with the acquisition of The Popcorn Factory	**––**	**––**	**353,003**	**4**	**––**	**––**	**4,981**	**––**	**––**	**––**	**––**	**4,985**
Total comprehensive loss	**––**	**––**	**––**	**––**	**––**	**––**	**––**	**(1,511)**	**––**	**––**	**––**	**(1,511)**
Balance at June 30, 2002	**––**	**$ ––**	**28,319,677**	**$ 283**	**42,480,925**	**$ 425**	**$246,497**	**$(120,189)**	**$ ––**	**5,332,800**	**$ (3,108)**	**$123,908**

See accompanying notes.

Consolidated Statements of Cash Flows

1-800-FLOWERS.COM, Inc. and Subsidiaries

(in thousands)

	Years Ended		
	June 30, 2002	July 1, 2001	July 2, 2000
Operating activities:			
Net loss	**$ (1,511)**	$(41,321)	$ (66,830)
Reconciliation of net loss to net cash provided by (used in) operations:			
Depreciation and amortization	**15,061**	21,716	16,479
Deferred income taxes	**—**	—	1,321
Management put liability	**—**	—	1,451
Bad debt expense	**107**	377	221
Minority interests	**—**	—	(43)
Credit to/amortization of deferred compensation	**—**	(156)	367
Loss on disposal of equipment and other	**425**	743	560
Changes in operating items, excluding the effects of acquisitions:			
Receivables	**(1,031)**	(204)	(838)
Inventories	**(7)**	(1,622)	(3,574)
Prepaid and other	**(215)**	2,499	166
Accounts payable and accrued expenses	**2,264**	7,226	20,663
Other assets	**(3,544)**	(1,875)	(4,699)
Other liabilities	**59**	(13)	344
Net cash provided by (used in) operating activities	**11,608**	(12,630)	(34,412)
Investing activities:			
Acquisitions, net of cash acquired	**(7,037)**	(4,892)	(25,515)
Capital expenditures, net of non-cash expenditures – $2,894, $4,176 and $1,445 in 2002, 2001 and 2000, respectively	**(11,994)**	(15,791)	(21,901)
Purchases of investments	**(22,798)**	(16,284)	(1,000)
Proceeds from sales of investments	**6,693**	1,194	15
Proceeds from sale of business	**—**	—	2,488
Other	**495**	76	222
Net cash used in investing activities	**(34,641)**	(35,697)	(45,691)
Financing activities:			
Proceeds from issuance of common stock, net	**2,618**	375	115,899
Proceeds from bank borrowings	**—**	16,510	21,717
Repayment of notes payable and bank borrowings	**(826)**	(14,827)	(43,568)
Payments of capital lease obligations	**(2,054)**	(1,459)	(1,504)
Net cash (used in) provided by financing activities	**(262)**	599	92,544
Net change in cash and equivalents	**(23,295)**	(47,728)	12,441
Cash and equivalents:			
Beginning of year	**63,896**	111,624	99,183
End of year	**$ 40,601**	$ 63,896	$111,624

Supplemental Cash Flow Information:

- Interest paid amounted to $1,245, $1,264 and $1,457 for the years ended June 30, 2002, July 1, 2001 and July 2, 2000, respectively.
- The Company received tax refunds, net of income taxes paid of approximately $706, $1,613 and $472 for the years ended June 30, 2002, July 1, 2001 and July 2, 2000, respectively.

See accompanying notes.

Note 1. Description of Business

1-800-FLOWERS.COM, Inc. ("1-800-FLOWERS.COM") is a leading gift retailer, providing a broad range of thoughtful gift products including flowers, plants, gourmet foods, candies, gift baskets, and other unique gifts to our customers around the world. The Company has extended its product offerings through several of its subsidiaries, including The Plow & Hearth, Inc. ("Plow & Hearth"), a direct marketer of home decor and garden merchandise, GreatFood.com, Inc. ("Greatfood.com"), a source for gourmet products, The Popcorn Factory, Inc., a manufacturer and direct marketer of premium popcorn and specialty food gifts, and the Children's Group, Inc., a direct marketer of unique children's toys and games operating under the HearthSong and Magic Cabin Dolls brand names. The Company operates in one business segment, providing its customers with convenient, multi-channel access via the Internet, telephone, catalogs and retail stores.

Note 2. Significant Accounting Policies

Fiscal Year

The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to June 30th. Fiscal years 2002 and 2001, which ended on June 30, 2002 and July 2, 2001, respectively, consisted of 52 weeks, while fiscal year 2000, which ended on July 2, 2000, consisted of 53 weeks.

Basis of Presentation

The consolidated financial statements include the accounts of 1-800-FLOWERS.COM and its wholly-owned and majority-owned subsidiaries (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying financial statements and footnotes thereto have been retroactively adjusted for a ten-for-one stock split effected in the form of a stock dividend on July 28, 1999.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States 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, United States government securities, overnight repurchase agreements and commercial paper with maturities of three months or less when purchased.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment is recorded at cost reduced by accumulated depreciation. Depreciation expense is recognized over the assets' estimated useful lives using the straight-line method. Estimated useful lives are based on Company averages ranging from 3 to 10 years for furniture, fixtures and equipment and 40 years for buildings. Amortization of leasehold improvements, which range from 5 to 20 years, 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. Estimated useful lives are periodically reviewed and, where appropriate, changes are made prospectively.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired and is evaluated annually for impairment. Prior to fiscal 2002, goodwill was amortized over periods not exceeding 20 years.

The cost of intangible assets with determinable lives is amortized to reflect the pattern of economic benefits consumed, on a straight-line basis, over the estimated periods benefited, ranging from 3 to 16 years.

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 26-weeks. Included within other assets was $2.7 million and $2.2 million at June 30, 2002 and July 1, 2001, respectively, relating to prepaid catalog costs.

Investments

The Company considers all of its debt and equity securities, for which there is a determinable fair market value and no restrictions on the Company's ability to sell within the next 12 months, as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity. For the years ended June 30, 2002, July 1, 2001 and July 2, 2000, there were no significant unrealized gains or losses. Realized gains and losses are included in other income. The cost basis for realized gains and losses on available-for-sale securities is determined on a specific identification basis.

Fair Values of Financial Instruments

The recorded amounts of the Company's cash and equivalents, short-term investments, receivables, accounts payable, and accrued liabilities approximate their fair values principally because of the short-term nature of these items. The fair value of investments, including available-for-sale securities, is based on quoted market prices where available. 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 carrying values at June 30, 2002 and July 1, 2001.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and equivalents, investments and accounts receivable. The Company maintains cash and equivalents and investments with high credit, quality financial institutions. Concentration of credit risk with respect to accounts receivable are limited due to the Company's large number of customers and their dispersion throughout the United States, and the fact that a substantial portion of receivables are related to balances owed by major credit card companies. Allowances relating to accounts receivable ($1.0 million and $1.1 million at June 30, 2002 and July 1, 2001, respectively) have been recorded based upon previous experience and management's evaluation.

Revenue Recognition

Net revenues are generated by online, telephonic and retail fulfillment operations and primarily consist of the selling price of merchandise, service or outbound shipping charges, less discounts, returns and credits. Net revenues are recognized upon product shipment.

Cost of Revenues

Cost of revenues consists primarily of florist fulfillment costs (fees paid directly to florists and fees paid to wire services that serve as clearinghouses for floral orders, net of wire service rebates), the cost of floral and non-floral merchandise sold from inventory or through third parties, and associated costs including inbound and outbound shipping charges. Additionally, cost of revenues includes labor and facility costs related to direct-to-consumer merchandise production operations, as well as facility costs on properties that are sublet to the Company's franchisees.

Marketing and Sales

Marketing and sales expenses consist primarily of advertising and promotional expenditures, catalog costs, online portal agreements, retail store and fulfillment operations (other than costs included in cost of revenues), and customer service center expenses, as well as the operating expenses of the Company's departments engaged in marketing, selling and merchandising activities.

The Company expenses all advertising costs at the time the advertisement is first shown. Advertising expense (including the amortization of catalog costs of $37.8 million, $26.9 million and $21.8 million for the years ended June 30, 2002, July 1, 2001 and July 2, 2000, respectively) was $69.6 million, $71.0 million and $79.5 million for the years ended June 30, 2002, July 1, 2001 and July 2, 2000, respectively.

Technology and Development

Technology and development expense consists primarily of payroll and operating expenses of the Company's information technology group, costs associated with its Web sites, including hosting, design, content development and maintenance and support costs related to the Company's order entry, customer service, fulfillment and database systems. Costs associated with the acquisition or development of software for internal use are capitalized if the software is expected to have a useful life beyond one year and amortized over the software's useful life, typically three years. Costs associated with repair, maintenance or the development of Web site content are expensed as incurred as the useful life of such software modifications are less than one year.

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*.

Comprehensive Income (Loss)

For the years ended June 30, 2002, July 1, 2001 and July 2, 2000, the Company's comprehensive losses were equal to the respective net losses for each of the periods presented.

Loss Per Share

Net loss per common share is computed using the weighted-average number of common shares outstanding. Shares associated with stock options and warrants prior to exercise, are not included in the computation as their inclusion would be antidilutive. The shares of the Company's preferred stock were converted into common stock upon completion of its initial public offering, and were excluded from the diluted loss per share computation until such date, as this effect would have been antidilutive.

Recent Accounting Pronouncements

On July 2, 2001, the Company adopted Financial Accounting Standards Board Statements No. 141, *Business Combinations* ("SFAS 141"), and No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations completed on or after July 1, 2001 and further clarifies the criteria for recognition of intangible assets separately from goodwill. SFAS 142 eliminates the amortization of goodwill and indefinite-lived intangible assets and initiates an annual review for impairment. Identifiable intangible assets with determinable useful lives will continue to be amortized. During fiscal 2002, the Company completed its assessment of the assets impacted by the adoption of SFAS 142. Based upon such review, no impairment to the carrying value of goodwill was identified, and the Company ceased amortizing goodwill effective July 2, 2001. (See Note 4)

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations* ("SFAS 143"), which addresses the financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated retirement costs. In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"), which addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. The Company will adopt both SFAS 143 and SFAS 144 on July 1, 2002, and does not expect these statements to materially impact the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"). This pronouncement is effective for exit or disposal activities that are initiated after December 31, 2002, and requires these costs to be recognized when the liability is incurred and not at project initiation. The Company does not expect this statement to have a material impact on its financial statements.

Reclassifications

Certain balances in the prior fiscal years have been reclassified to conform to the presentation in the current fiscal year.

Note 3. Acquisitions and Disposition

Acquisition of Selected Assets of The Popcorn Factory

On May 3, 2002, the Company extended its gourmet food product assortment when it completed the acquisition of selected operating assets and liabilities of The Popcorn Factory, a manufacturer and direct marketer of premium popcorn and specialty food gifts. The purchase price of approximately $12.6 million, including $0.3 million of transaction costs, was comprised of $7.3 million used to retire The Popcorn Factory's outstanding debt and the issuance of 353,003 shares of the Company's Class A common stock, valued at approximately $5.0 million, based upon the average closing price of the Company's common stock on the date of and the two days preceding and following the closing of the transaction. The acquisition was accounted for as a purchase and, accordingly, acquired assets and liabilities are recorded at their fair values, and the operating results of The Popcorn Factory have been included in the Company's consolidated results of operations since the date of acquisition.

The initial purchase price allocation of The Popcorn Factory business resulted in the following condensed balance sheet of assets acquired and liabilities assumed.

	The Popcorn Factory Initial Purchase Price Allocation
	(in thousands)
Current assets	$ 1,704
Property, plant and equipment	1,061
Intangible assets	1,120
Goodwill(*)	12,081
Total assets acquired	15,966
Current liabilities	3,200
Non-current liabilities	142
Total liabilities assumed	3,342
Net assets acquired	$12,624

(*) Approximately $12.1 million is expected to be deductible for tax purposes.

The Popcorn Factory acquisition resulted in $1.1 million in total intangible assets acquired, other than goodwill, with $0.2 million allocated to trademarks with indefinite lives. The remaining $0.9 million of acquired intangibles were allocated to customer list, and is being amortized over the asset's determinable useful life of 3 years.

Acquisition of Selected Assets of The Children's Group

On June 8, 2001, the Company completed its acquisition of selected assets from subsidiaries of Foster & Gallagher, Inc., adding unique and educational children's toys and games to the Company's product offering, sold under the HearthSong and Magic Cabin Dolls brand names. The purchase price of approximately $4.9 million, paid in cash, included the acquisition of a fulfillment center located in Vandalia, Ohio, inventory, and certain other assets, as well as, the assumption of certain related liabilities. The acquisition was accounted for as a purchase and, accordingly, acquired assets and liabilities are recorded at their fair values, which approximated the purchase price, and the operating results of The Children's Group have been included in the Company's consolidated results of operations since the date of acquisition.

Acquisition of GreatFood.com, Inc.

On November 24, 1999, the Company completed its acquisition of GreatFood.com, an online retailer of specialty and gourmet food products. The purchase price of approximately $18.9 million was funded with a portion of the net proceeds available from the Company's initial public offering. The acquisition has been accounted for as a purchase and, accordingly, the operating results of GreatFood.com have been included in the Company's consolidated results of operations since the date of acquisition. The excess of the purchase price over the fair market value of the net assets acquired, $18.9 million, was allocated to goodwill and was being amortized over three years. In accordance with the provisions of SFAS 142, effective July 2, 2001, the Company ceased amortizing the goodwill associated with this acquisition, which at such time had a remaining balance of $8.9 million.

Acquisition of TheGift.com, Inc.

On November 12, 1999, the Company completed its acquisition of TheGift.com, an online retailer of specialty gift products. The purchase price of approximately $1.5 million was funded through the issuance of 117,379 shares of the Company's common stock, as determined based upon the average closing price of the Company's common stock for the five days prior to the date of acquisition. The acquisition has been accounted for as a purchase and, accordingly, the operating results of TheGift.com have been included in the Company's consolidated results of operations since the date of acquisition. The excess of the purchase price over the fair market value of the net assets acquired, approximating $1.7 million, was allocated to intangible assets and is being amortized over the asset's determinable useful life of 3 years.

Disposition of Floral Works, Inc.

On January 12, 2000, the Company completed the sale of its Floral Works, Inc. (Floral Works) subsidiary to a private investment firm. Floral Works is a provider of wholesale floral bouquets to supermarkets and grocery store chains. The sales price of $3.1 million approximated the Company's carrying value of the subsidiary's net assets at the time of divestiture.

Pro forma Results of Operation

The following unaudited pro forma consolidated financial information has been prepared as if the acquisitions of The Popcorn Factory, The Children's Group, GreatFood.com, TheGift.com and the sale of Floral Works had taken place at the beginning of fiscal year 2000. The following unaudited pro forma information is not necessarily indicative of the results of operations in future periods or results that would have been achieved had the acquisitions of The Popcorn Factory, The Children's Group, GreatFood.com and TheGift.com and the disposition of Floral Works taken place at the beginning of the periods presented.

	Years Ended		
	June 30, 2002	July 1, 2001	July 2, 2000
	(in thousands, except per share data)		
Net revenues(*)	**$528,103**	$509,214	$443,090
Loss from operations	**$ (6,407)**	$ (50,392)	$ (85,823)
Net loss	**$ (4,688)**	$ (46,671)	$ (78,676)
Net loss per common share	**$ (0.07)**	$ (0.73)	$ (1.29)

(*) Pre-acquisition operations related to the Children's Group include revenues derived from six retail stores which were discontinued by the previous owners at various times during fiscal 2001. Operating results associated with these retail stores were not material to the consolidated operations of the Company during such time. Pre-acquisition net revenues for GreatFood.com and TheGift.com were not material to the Company's results of operations.

Disposition of Minority Interest in American Floral Services, Inc.

On November 21, 2000, the Company sold its minority investment in American Floral Services, Inc., a floral wire service, to Teleflora, Inc. The Company received cash proceeds of $1.2 million and recorded a gain on sale of $0.3 million as a result of this transaction.

Acquisition of The Plow & Hearth, Inc.

In April 1998, 1-800-FLOWERS.COM acquired 88% of the issued and outstanding shares of common stock (70% of the fully diluted equity due to the existence of outstanding management stock options) of Plow & Hearth for approximately $16.1 million. Upon completion of the Company's initial public offering in August 1999, the Company satisfied its obligation under the Plow & Hearth management put liability when it acquired the remaining outstanding shares of common stock and stock options from the minority shareholders of Plow & Hearth for cash of approximately $7.9 million, net of Plow & Hearth stock option exercise proceeds of approximately $0.5 million. Accordingly, the incremental amount of funding required to satisfy the management put liability, which was $6.3 million at June 27, 1999, was recorded in fiscal 2000 as general and administrative expense and goodwill in the amounts of $1.5 million and $0.1 million, respectively.

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 estimated fair values of the net assets acquired, $18.9 million, was allocated to goodwill and was being amortized over 20 years. In accordance with the provisions of SFAS 142, effective July 2, 2001, the Company ceased amortizing the goodwill associated with this acquisition, which at such time had a remaining balance of $15.9 million.

Note 4. Goodwill and Intangible Assets

The change in the net carrying amount of goodwill for the year ended June 30, 2002 is as follows:

	June 30, 2002
	(in thousands)
Goodwill, net, beginning of year	**$25,632**
Acquisition of The Popcorn Factory	**12,081**
Other	**59**
Goodwill, net, end of year	**$37,772**

Identifiable intangible assets as of June 30, 2002 and July 1, 2001 are comprised as follows:

	June 30, 2002		July 1, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
Intangible Assets with Determinable Lives:				
Investments in licenses(*)	**$4,927**	**$2,468**	$4,927	$2,145
Customer lists	**910**	**51**	—	—
Technology	**1,659**	**1,428**	1,659	875
Other	**171**	**122**	641	306
	7,667	**4,069**	7,227	3,326
Trademarks with indefinite lives:	**480**	**4**	255	4
Total identifiable intangible assets	**$8,147**	**$4,073**	$7,482	$3,330

(*) Investment in licenses represent the fair value of franchise agreements acquired in 1-800-FLOWERS.COM's acquisition of Amalgamated Consolidated Enterprises, Inc. and are amortized on a straight-line basis over the franchise estimated lives ranging from 14 to 16 years.

The amortization of intangible assets for the years ended June 30, 2002, July 1, 2001 and July 2, 2000 was $0.7 million, $0.9 million and $0.8 million, respectively. Estimated amortization expense over the next five years is as follow: 2003-$0.9 million, 2004 - $0.6 million, 2005 - $0.6 million, 2006 - $0.3 million and 2007 - $0.3 million.

The following table provides pro forma disclosure of net loss and net loss per share for the years ended July 1, 2001 and July 2, 2000, as if goodwill and indefinite-lived intangibles had not been amortized:

	July 1, 2001	July 2, 2000
	(in thousands, except per share data)	
Reported net loss	**$(41,321)**	$(66,830)
Amortization	**7,458**	4,732
Adjusted net loss	**$(33,863)**	$(62,098)
Reported net loss per common share	**$ (0.64)**	$ (1.10)
Amortization per common share	**0.11**	0.08
Adjusted net loss per common share	**$ (0.53)**	$ (1.02)

Note 5. Redeployment Charge

In June 2000, in connection with management's plan to reduce costs and improve operating efficiencies, the Company recorded a redeployment charge of approximately $2.1 million. The principal actions of the charge relate to the Company's plan to close certain retail stores in connection with its strategic redeployment of its retail network as direct fulfillment centers and the relocation of certain customer service centers, enabling the Company to meet increasing call volume requirements, while reducing costs per call. The major components of the redeployment charge include the estimated unrecoverable book value of abandoned fixtures, equipment and leasehold improvements in the amount of approximately $1.1 million, and the estimated provision for the future lease obligations and related facility shut down costs in the amount of approximately $1.0 million.

As part of the redeployment plan, in November 2000, the Company opened a new service center in Ardmore, Oklahoma to replace its Marietta, Georgia facility, which was closed in October 2000. An additional service center, located in Alamagordo, New Mexico became operational in November 2001, replacing its Phoenix, Arizona and San Antonio, Texas service centers, which were closed in June 2001. In addition, in fiscal 2001 the Company completed the planned conversion of certain retail stores into direct fulfillment centers, while closing certain other non-performing retail stores. During fiscal 2002 and fiscal 2001, $0.2 million and $1.6 million respectively was charged against the accrual, leaving a balance of $0.3 million, consisting primarily of accruals for future lease commitments related to the closed service center facilities.

Note 6. Property, Plant and Equipment

	June 30, 2002	July 1, 2001
	(in thousands)	
Computer equipment	**$33,989**	$27,853
Software development costs	**27,451**	23,659
Telecommunication equipment	**6,059**	5,559
Leasehold improvements	**11,588**	11,333
Building and building improvements	**11,489**	8,439
Equipment	**6,253**	5,732
Furniture and fixtures	**3,576**	3,207
Land	**666**	637
	101,071	86,419
Accumulated depreciation and amortization	**50,069**	36,558
	$51,002	$49,861

Note 7. Long-Term Debt

	June 30, 2002	July 1, 2001
	(in thousands)	
Commercial notes and revolving credit line (1-5)	**$ 7,380**	$ 8,153
Seller financed acquisition obligations (6-7)	**202**	256
Obligations under capital leases (see Note 13)	**7,816**	7,041
	15,398	15,450
Less current maturities of long-term debt and obligations under capital leases	**3,154**	2,931
	$12,244	$12,519

The following notes and credit lines relate to obligations arising from, and collateralized by, the underlying assets of the Company's Plow & Hearth facility in Madison, Virginia:

(1) $5,000,000 revolving credit line dated May 31, 2002, renewable on September 30, 2002 (none outstanding at June 30, 2002 and July 1, 2001) bearing interest equal to the monthly LIBOR Index plus 1.75% per annum (3.59% at June 30, 2002).

(2) $2,400,000 note dated June 13, 1997 ($2,001,000 outstanding at June 30, 2002), bearing interest at 8.19% per annum. The note is payable in 203 equal monthly installments of principal and interest commencing July 13, 1997.

(3) $1,460,000 note dated July 1, 1998 ($1,222,000 outstanding at June 30, 2002), bearing interest equal to the monthly Treasury Bill rate plus 2.1% per annum (3.78% at June 30, 2002). The note is payable in 180 equal monthly installments of principal and interest commencing November 1, 1998.

(4) $2,980,000 note dated May 12, 1999 ($2,653,000 outstanding at June 30, 2002), bearing interest at 7.61% per annum. The note is payable in 180 equal monthly installments of principal and interest commencing October 15, 1999.

(5) $2,300,000 note dated August 8, 2000 ($1,504,000 outstanding June 30, 2002) bearing interest at a fixed rate of 8.83% per annum. The note is payable in 60 equal monthly installments of principal and interest commencing September 10, 2000.

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) $275,000 promissory note dated November 1, 1994 ($88,000 outstanding at June 30, 2002), bearing interest at 8% per annum. The note is payable in 120 equal monthly installments of principal and interest commencing December 1, 1994.

(7) $160,000 non-interest bearing promissory note dated September 30, 1999 ($114,000 outstanding at June 30, 2002). The note is payable in 84 monthly installments commencing January 1, 2001.

As of June 30, 2002, long-term debt maturities, excluding amounts relating to capital leases, are as follows:

Year	Debt Maturities
	(in thousands)
2003	$ 820
2004	890
2005	942
2006	441
2007	448
Thereafter	4,041
	$7,582

Note 8. Income Taxes

Significant components of the benefit for income taxes are as follows:

	Years Ended		
	June 30, 2002	July 1, 2001	July 2, 2000
		(in thousands)	
Current:			
Federal (*)	**$ 706**	$ —	$2,607
State and local	**—**	—	—
	706	—	2,607
Deferred	**—**	—	(1,321)
	$ 706	$ —	$1,286

(*) As a result of tax law changes enacted in fiscal 2002, which extended the period for which companies are allowed to carry-back losses, the Company was able to recover previously paid income taxes, thereby resulting in an income tax benefit of $0.7 million.

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

	Years Ended		
	June 30, 2002	July 1, 2001	July 2, 2000
Tax at U.S. statutory rates	**34.0%**	34.0%	34.0%
State income taxes, net of federal tax benefit	**3.6**	4.9	3.9
Goodwill amortization	**(13.8)**	(6.8)	(2.6)
Change in deferred tax asset valuation	**8.6**	(33.0)	(32.0)
Other	**(0.6)**	0.9	(1.4)
	31.8%	0.0%	1.9%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets (liabilities) are as follows:

	June 30, 2002	July 1, 2001	July 2, 2000
		(in thousands)	
Deferred tax assets:			
Net operating loss carryforwards	**$37,946**	$37,097	$ 20,909
Accrued expenses and reserves	**3,031**	2,946	3,086
Valuation allowance	**(38,242)**	(37,447)	(22,098)
Deferred tax liabilities:			
Installment sales	**(54)**	(61)	(70)
Tax in excess of book depreciation	**(2,681)**	(2,535)	(1,827)
Net deferred tax assets	**$ —**	$ —	$ —

At June 30, 2002, the Company's U.S. federal and state net operating loss carryforwards for income tax purposes were approximately $94.9 million. If not utilized, these net operating loss carryforwards will begin to expire in fiscal year 2020. To the extent that net operating losses, when realized, relate to stock option deductions of approximately $6.8 million, the resulting benefits will be credited to additional paid-in capital.

Note 9. Capital Stock Transactions

Initial Public Offering

On August 6, 1999, the Company closed its initial public offering of its Class A common stock, issuing 6,000,000 shares at a price of $21.00 per share. The Company raised proceeds of approximately $114.8 million, net of underwriting discounts, commissions and other offering costs of approximately $11.2 million.

In anticipation of its IPO, the Company amended and restated its certificate of incorporation on July 7, 1999 to provide that all previously outstanding shares of Class A common stock, of which the holders were entitled to one vote per share, and Class B common stock, which contained no voting rights, convert into a new series of Class B common stock entitled to 10 votes per share. Additionally, a new series of Class A common stock was established that entitles the holders to one vote per share. Each share of new Class B common stock shall automatically convert into one share of new Class A common stock upon transfer, with limited exceptions, and at the option of the holder.

Preferred Stock and Class C Common Stock Conversion

On May 20, 1999, the Company completed a private placement of 984,493 shares of preferred stock, yielding net proceeds of $101.6 million. In connection with this private placement, and pursuant to the terms of its 1995 investment agreement with the Company's venture capital partner, the Company redeemed the Class C common stock held by the venture capital partner for approximately $14.9 million and issued to it 263,452 shares of Class A common stock. The venture capital partner used the redemption proceeds to purchase 143,053 shares of the Company's preferred stock.

In accordance with the preferred stock purchase agreement, and effective with the Company's IPO, each issued and outstanding share of preferred stock was converted into ten shares of Class A common stock, resulting in the issuance of 11,275,460 shares of Class A common stock.

Exercise of Class A Common Stock Warrant

On February 22, 2000, the Company issued 2,370,607 shares of Class A common stock, upon the exercise, for a nominal price per share, of a warrant issued to the aforementioned venture capital partner pursuant to the terms of its 1995 investment agreement.

Stock Repurchase Plan

On September 16, 2001, the Company's Board of Directors approved the repurchase of up to $10.0 million of the Company's Class A common stock. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. No repurchases have been made as of June 30, 2002.

Note 10. Stock Option Plan

In January 1997, the Company's board of directors approved 1-800-FLOWERS.COM's 1997 Stock Option Plan which authorized the granting to key employees, officers, directors and consultants of the Company options to purchase an aggregate of 5,985,440 shares of 1-800-FLOWERS.COM's Class B common stock. On July 7, 1999, the 1-800-FLOWERS.COM, Inc. 1999 Stock Incentive Plan was adopted by the Company's board of directors. Pursuant to the terms of the plan, 9,900,000 shares of Class A common stock have been authorized for issuance, inclusive of any unissued shares from the 1997 Stock Option Plan. Additionally, the shares authorized automatically increase on the first trading day in January of each calendar year, by an amount equal to 3% (1,933,702 shares, 1,925,615 shares and 1,852,172 shares during fiscal 2002, 2001 and 2000, respectively) of the total number of shares of common stock outstanding on the last trading day in December in the preceding calendar year, but in no event will this annual increase exceed 2,000,000 shares. The components of the plan include a discretionary option grant program, an automatic option grant program, a stock issuance program, and a salary investment option grant program.

Options granted under the plans 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 the stock option plans 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.

In January 1999, the Company issued stock options to employees to purchase 200,000 shares of common stock at $2.00 per share, which was considered to be the fair value of the common stock at that time. Such options vested at the rate of 25% per year on the anniversary of the grant date. Soon thereafter, the Company entered into discussions with an investor to purchase shares of common stock at $10.43 per share. Accordingly, for accounting purposes, the Company used such per share value to record a deferred compensation charge of $1.7 million associated with the January 1999 option grants, of which $0.4 million was amortized during the year ended July 2, 2000. During the year ended July 1, 2001, the Company reversed $0.2 million of amortization, representing previously amortized deferred compensation expense associated with unvested stock options which were forfeited upon the employee's separation from the Company.

The following table summarizes activity in stock options:

	Years Ended					
	June 30, 2002		July 1, 2001		July 2, 2000	
	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	**6,455,262**	**$ 6.64**	5,788,171	$ 8.53	1,237,500	$ 1.73
Grants	**2,897,950**	**$12.43**	2,143,925	$ 3.91	5,099,550	$10.57
Exercises	**(788,008)**	**$ 2.72**	(97,175)	$ 3.83	(61,250)	$ 2.00
Forfeitures	**(452,060)**	**$ 9.94**	(1,379,659)	$10.52	(487,629)	$13.38
Balance, end of year	**8,113,144**	**$ 8.95**	6,455,262	$ 6.64	5,788,171	$ 8.53
Weighted-average fair value of options issued during the year		**$ 7.32**		$ 2.21		$ 6.33

The following table summarizes information about stock options outstanding at June 30, 2002:

	Options Outstanding			Options Exercisable	
Exercise Price	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$ 1.61 - 3.65	2,175,142	7.9 years	$ 3.30	869,367	$ 2.82
4.02 - 5.50	1,747,575	7.7 years	$ 4.56	570,245	$ 4.55
5.63 - 12.44	1,632,544	8.6 years	$11.40	213,837	$11.81
12.63 - 15.77	1,863,309	9.4 years	$12.98	108,428	$13.40
17.38 - 23.10	694,574	7.0 years	$21.08	408,014	$21.04
	8,113,144	8.3 years	$ 8.95	2,169,891	$ 8.11

At June 30, 2002, the Company has reserved approximately 15,903,000 shares of common stock for issuance under common stock option plans.

Fair Value Disclosures

Pro forma information regarding net income (loss) is required by SFAS No. 123, *Accounting For Stock-Based Compensation,* 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 prior to the Company's initial public offering, and the Black-Scholes option pricing model thereafter, with the following assumptions: risk free interest rate of 4.50%, 5.35% and 6.15% in 2002, 2001 and 2000, respectively; no dividend yield; 66%, 60% and 70% volatility in 2002, 2001 and 2000 respectively, and a weighted-average expected life of the options of 5 years at date of grant.

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		
	June 30, 2002	July 1, 2001	July 2, 2000
	(in thousands, except per share data)		
Net loss:			
As reported	**$(1,511)**	$(41,321)	$(66,830)
Pro forma	**(6,958)**	(46,272)	(71,766)
Basic and diluted net loss per share:			
As reported	**$ (0.02)**	$ (0.64)	$ (1.10)
Pro forma	**(0.11)**	(0.72)	(1.18)

Note 11. Employee Stock Purchase Plan

In December 2000, the Company's board of director's approved the 1-800-FLOWERS.COM, Inc. 2001 Employee Stock Purchase Plan (ESPP), a non-compensatory employee stock purchase plan under Section 423 of the Internal Revenue Code, to provide substantially all employees who have completed six months of service, an opportunity to purchase shares of the Company's Class A common stock. Employees may contribute a maximum of 15% of eligible compensation, but in no event can an employee purchase more than 500 shares on any purchase date. Offering periods have a duration of six months, and the purchase price per share will be the lower of: (i) 85% of the fair market value of a share of Class A common stock on the last trading day of the applicable offering period, or (ii) 85% of the fair market value of a share of Class A common stock on the last trading day before the commencement of the offering period. The maximum number of shares of Class A common stock that may be issued under the ESPP is 1,300,000 shares. The share pool shall be increased on the first trading day of each calendar year, beginning in 2002, by a number equal to the lesser of (i) 1% of the total number of shares of common stock then outstanding, or (ii) 750,000 shares of Class A common stock. At June 30, 2002, the Company has reserved approximately 1,886,000 shares of common stock for issuance under its ESPP.

Note 12. Profit Sharing Plan

The Company has a 401(k) Profit Sharing Plan covering substantially all of its eligible employees. All full-time employees 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) plan 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 contributions based upon years of service. The Company made contributions of $0.3 million, $0.2 million and $0.1 million, for the years ended June 30 2002, July 1, 2001 and July 2, 2000, respectively.

Note 13. Commitments and Contingencies

Leases

The Company currently leases office, store facilities, and equipment under various operating leases through fiscal 2019. As these 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 leases certain computer, telecommunication and related equipment under capital leases, which are included in property and equipment with a capitalized cost of approximately $18.4 million and $15.5 million at June 30, 2002 and July 1, 2001, respectively, and accumulated amortization of $12.4 million and $9.8 million, respectively. In addition, the Company subleases land and buildings (which are leased from third parties) to certain of its 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 Company has a $10.0 million equipment lease line of credit with a bank. Interest under this line, which is renewable annually, is determined on the date of each commitment to borrow and is based on the bank's base rate on such date. At June 30, 2002, the Company had financed $7.1 million of equipment purchases through such lease line. The borrowings, which bear interest at rates ranging from 5.39% to 6.36% annually, are payable in 60 monthly installments of principal and interest commencing in February 2001. Borrowings under the line are collateralized by the underlying equipment purchased and an equal amount of pledged investments.

As of June 30, 2002, future minimum payments under non-cancelable capital lease obligations, lease receipts due from franchisees (shown as Capitalized Investment in Leases) and operating leases with initial terms of one year or more consist of the following:

	Obligations Under Capital Leases	Capitalized Investment In Leases	Operating Leases
	(in thousands)		
2003	$2,887	$244	$ 4,606
2004	2,144	134	4,275
2005	1,857	53	3,739
2006	1,438	29	1,402
2007	353	20	942
Thereafter	20	20	3,176
Total minimum lease payments	8,699	500	$18,140
Less amounts representing interest	(883)	(35)	
Present value of net minimum lease payments	$7,816	$465	

At June 30, 2002, the aggregate future sublease rental income under long-term operating sub-leases for land and buildings and corresponding rental expense under long-term operating leases were as follows:

	Sublease Income	Sublease Expense
	(in thousands)	
2003	$ 2,829	$ 2,816
2004	2,413	2,398
2005	1,879	1,870
2006	1,528	1,521
2007	1,106	1,100
Thereafter	2,690	2,667
	$12,445	$12,372

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 June 30, 2002, the aggregate minimum rent payable by franchisees guaranteed by the Company was approximately $0.5 million.

Rent expense was approximately $8.7 million, $8.4 million, and $10.2 million for the years ended June 30, 2002, July 1, 2001, and July 2, 2000 respectively.

Online Marketing Agreements

The Company has commitments under online marketing agreements with various portal providers. Such online marketing costs are capitalized and amortized on a straight-line basis over the term of the agreements. On September 1, 2000, the Company entered into a five-year $22.1 million online marketing agreement with an Internet company commencing October 1, 2001 and ending August 31, 2005. As a result of the modification of the previous agreement, the Company recorded a one-time charge of approximately $7.3 million during fiscal 2001.

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.

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 June 30, 2002 and July 1, 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of 1-800-FLOWERS.COM, Inc. and Subsidiaries at June 30, 2002 and July 1, 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other indefinite-lived intangible assets effective July 2, 2001 to conform with the provisions of Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets."

Ernst & Young LLP

Melville, New York
August 2, 2002

Market for Common Equity and Related Stockholder Matters

Market Information

1-800-FLOWERS.COM's Class A common stock trades on The Nasdaq National Stock Market under the ticker symbol "FLWS." There is no established public trading market for the Company's Class B common stock. The following table sets forth the reported high and low sales prices for the Company's Class A common stock for each of the fiscal quarters during the fiscal years ended June 30, 2002 and July 1, 2001.

	High	Low
Year ended June 30, 2002		
July 2, 2001 – September 30, 2001	$ 14.78	$ 9.90
October 1, 2001 – December 30, 2001	$ 16.50	$ 8.20
December 31, 2001 – March 31, 2002	$ 17.86	$10.72
April 1, 2002 – June 30, 2002	$ 14.68	$ 9.85
Year ended July 1, 2001		
July 3, 2000 – October 1, 2000	$ 6.13	$ 4.50
October 2, 2000 – December 31, 2000	$ 5.13	$ 2.55
January 1, 2001 – April 1, 2001	$ 8.13	$ 4.13
April 2, 2001 – July 1, 2001	$ 15.50	$ 5.96

Rights of Common Stock

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 share basis. Each share of Class B common stock will automatically convert into one share of Class A common stock upon its transfer, with limited exceptions.

Holders

As of September 24, 2002, there were approximately 100 shareholders of record of the Company's Class A common stock, although the Company believes that there is a significantly larger number of beneficial owners. As of September 24, 2002, there were approximately 17 shareholders of record of the Company's Class B common stock.

Dividend Policy

The Company has never declared or paid any cash dividends on its Class A or Class B common stock, and intends to retain future earnings, if any, to provide funds to finance the expansion of its business. As a result, the Company does not anticipate paying any cash dividends in the foreseeable future.

Resales of Securities

45,730,302 shares of Class A and Class B common stock are "restricted securities" as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market from time to time only if registered or if they qualify for an exemption from registration under Rule 144 or 701 under the Securities Act. As of September 24, 2002, all of such shares of the Company's common stock could be sold in the public market pursuant to and subject to the limits set forth in Rule 144. Sales of a large number of these shares could have an adverse effect on the market price of the Company's Class A common stock by increasing the number of shares available on the public market.

Stock Repurchase Plan

On September 16, 2001, the Company's Board of Directors approved the repurchase of up to $10.0 million of the Company's Class A common stock. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. No repurchases have been made as of June 30, 2002.

Equity Compensation Plan Information

The following table gives information about the Company's common stock that may be issued upon the exercise of options under all of the Company's equity compensation plans as of June 30, 2002. The table includes the 1-800-FLOWERS.COM 1997 Stock Option Plan and the 1-800-FLOWERS.COM, Inc. 1999 Stock Incentive Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	8,113,144	$8.95	7,789,412
Equity compensation plans not approved by security holders	—	—	—
Total	8,113,144	$8.95	7,789,412

Company Information

BOARD OF DIRECTORS

James F. McCann
Chairman and Chief Executive Officer
1-800-FLOWERS.COM

T. Guy Minetti
Vice Chairman
1-800-FLOWERS.COM

Christopher G. McCann
President
1-800-FLOWERS.COM

Kevin J. O'Connor
Chairman
DoubleClick, Inc.

Jeffrey C. Walker
Managing Director
JPMorgan Partners

Lawrence V. Calcano
Managing Director
Goldman Sachs & Company

Mary Lou Quinlan
CEO
JUST ASK A WOMAN

John J. Conefry
Vice Chairman
Astoria Financial Corporation

CORPORATE OFFICERS

James F. McCann
Chairman and Chief Executive Officer
1-800-FLOWERS.COM

T. Guy Minetti
Vice Chairman
Corporate Development
1-800-FLOWERS.COM

Christopher G. McCann
President
1-800-FLOWERS.COM

William E. Shea
Senior Vice President of Finance and Administration, Treasurer and Chief Financial Officer
1-800-FLOWERS.COM

Gerard M. Gallagher
Senior Vice President/General Counsel/Secretary
1-800-FLOWERS.COM

Thomas G. Hartnett
Senior Vice President of Retail and Fulfillment
1-800-FLOWERS.COM

Vincent J. McVeigh
Senior Vice President
1-800-FLOWERS.COM

Pamela Knox
Senior Vice President of Marketing
1-800-FLOWERS.COM

Peter G. Rice
President
Plow & Hearth

Enzo J. Micali
Senior Vice President of Information Technology
1-800-FLOWERS.COM

STOCK EXCHANGE LISTING

NASDAQ National Market
Ticker Symbol: FLWS

TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, New York 11219
(718) 921-8200

INDEPENDENT AUDITORS

Ernst & Young LLP
395 North Service Road
Melville, New York 11747
(631) 752-6100

SEC COUNSEL

Cahill Gordon and Reindel
80 Pine Street
New York, NY 10005
(212) 701-3000

SHAREHOLDER INQUIRIES

Copies of the Company's reports on Forms 10-K and 10-Q as filed with the Securities and Exchange Commission and additional information about 1-800-FLOWERS.COM may be obtained without charge by calling 516-237-4714.

Information is also available via the Internet in the Investor Relations section at www.1800flowers.com, or by writing to:
Investor Relations
1-800-FLOWERS.COM
1600 Stewart Avenue
Westbury, New York 11590

Receiving a gift opens the door to many things. First there's the guessing game of who sent it, followed by the poetic sincerity of the card message. Then there's the unmistakable sounds of wrapping paper eagerly being unwrapped and boxes being opened. Finally, the warm glow of giving that radiates from the gift itself lights up the room. It's this checklist of cherished moments that makes the giving and receiving of gifts such a special connection, and for over 25 years 1-800-FLOWERS.COM has been helping people give someone special, something special[sm].

Our breathtaking floral bouquets, stunning plants for the home or office, candy and gourmet treats, savory gift baskets, adorable plush stuffed animals, and collectible gifts...combined with our unique same-day and next-day delivery capability... are designed to help our customers connect with the important people in their lives and enhance all the celebrations in their lives.

1-800-flowers.com[SM]

1-800-FLOWERS.COM, Inc.
1600 Stewart Avenue
Westbury, NY 11590