1-800-FLOWERS.COM, Inc.

# 2006 Annual Report

Special Bonus

2007 Desk Diary & Gift Planner

## About 1-800-FLOWERS.COM, Inc.

For more than 30 years, 1-800-FLOWERS.COM Inc. – "Your Florist of Choice℠" – has been providing customers around the world with the freshest flowers and finest selection of plants, gift baskets, gourmet foods and confections, and plush stuffed animals perfect for every occasion. 1-800-FLOWERS.COM® offers the best of both worlds: exquisite, florist-designed arrangements individually created by some of the nation's top floral artists and hand-delivered the same day, and spectacular flowers shipped overnight "Fresh From Our Growers℠". Customers can "call, click or come in" to shop 1-800-FLOWERS.COM twenty four hours a day, 7 days a week at 1-800-356-9377 or www.1800flowers.com. Sales and Service Specialists are available 24/7, and fast and reliable delivery is offered same day, any day. As always, 100 percent satisfaction and freshness are guaranteed. The 1-800-FLOWERS.COM collection of brands also includes home decor and children's gifts from Plow & Hearth® (1-800-627-1712 or www.plowandhearth.com), Problem Solvers® (www.problemsolvers.com), Wind & Weather® (www.windandweather.com), Madison Place® (www.madisonplace.com), HearthSong® (www.hearthsong.com) and Magic Cabin®(www.magiccabin.com); gourmet gifts including popcorn and specialty treats from The Popcorn Factory® (1-800-541-2676 or www.thepopcornfactory.com); exceptional cookies and baked gifts from Cheryl&Co.® (1-800-443-8124 or wwwcherylandco.com); premium chocolates and confections from Fannie May Confections Brands® (www.fanniemay.com and www.harrylondon.com); gourmet foods from GreatFood.com® (www.greatfood.com); wine gifts from Ambrosia.com (www.ambrosia.com); gift baskets from 1-800-BASKETS.COM® (www.1800baskets.com) and the BloomNet® international floral wire service providing quality products and diverse services to a select network of florists. 1-800-FLOWERS.COM, Inc. stock is traded on the NASDAQ market under ticker symbol FLWS.


The 1-800-FLOWERS.COM business model encompasses two primary categories: Floral and Specialty Brands. In the Floral category, 1-800-FLOWERS.COM is the world's largest florist and is expanding its leadership position. The Company's BloomNet® wire service has grown rapidly since its launch in January 2005, tripling in size to approximately 9,000 florist members at fiscal 2006 year end. Within the Company's Specialty Brands category is a growing collection of leading brands in home and children's gifts as well as the fast growing gourmet food, wine and gift baskets business.

## 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 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 effectively manage inventories; its ability to improve its bottom line results; its ability to leverage its operating infrastructure; its ability to achieve its stated results guidance for fiscal 2007 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.

## Financial Highlights

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | July 2, 2006 | July 3, 2005 | June 27, 2004 | June 29, 2003 | June 30, 2002 |
| | (in thousands, except percentages and per share data) | | | | |
| Total Net Revenues | $781,741 | $670,679 | $603,978 | $565,618 | $497,205 |
| Online Revenues | 430,285 | 360,902 | 307,470 | 265,278 | 218,179 |
| Telephonic Revenues | 275,716 | 259,929 | 263,039 | 271,071 | 248,931 |
| Non-floral Revenues* | 49% | 47% | 48% | 49% | 46% |
| Gross Profit Margin Percentage | 41.7% | 41.1% | 41.9% | 42.6% | 41.0% |
| EPS | 0.10** | 0.12 | 0.60*** | 0.18 | (0.02) |

*As a percentage of combined online and telephonic net revenues.
**Excludes impact of stock-based compensation of $3.2 million or ($0.05) per share.
***For the year ended June 27, 2004, EPS included a net income tax benefit of $19.2 million, or $0.28 per share.

## Financial Report Insert

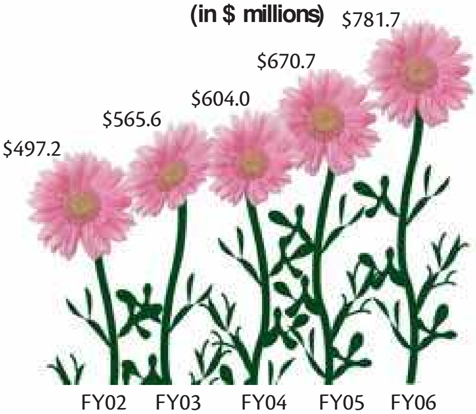
See inside rear-cover pocket.

## Fiscal 2006 Achievements

- Grew total revenues 16.6 percent, or $111.1 million, to $781.7 million driven by online revenue growth of 19.2 percent, or $69.4 million, to $430.3 million.
- Grew our BloomNet B2B Florist business significantly, increasing florist membership three-fold since inception to approximately 9,000 members.
- Completed the acquisition of Fannie May Confections Brands, Inc., a leading multi-channel retailer and manufacturer of chocolate and other confections under the well-known Fannie May®, Harry London® and Fanny Farmer® brands.
- Utilized strength and flexibility of our balance sheet to close on a new credit facility including an $85 million term loan used to finance the acquisition of Fannie May Confections Brands, Inc. and a $50 million revolving line of credit for working capital and other future needs.

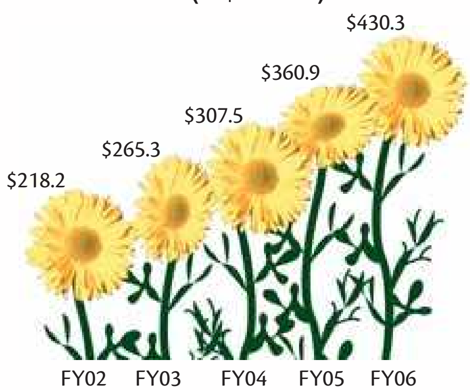
## Total Revenues

**(in $ millions)**




## Online Revenue Growth

**(in $ millions)**




During fiscal 2006 we achieved several important strategic objectives, most notably the acquisition of Fannie May Confections Brands, Inc., a leading, multi-channel chocolatier, and the continued strong development of our BloomNet wire service. These developments significantly strengthened our business in two key growth areas for the future. In addition, we achieved overall revenue growth of 16.6 percent, or $111.1 million, to $781.7 million, driven by online revenue growth of 19.2 percent, or $69.4 million, to $430.3 million. While we achieved strong top-line growth, our bottom-line performance for the year was below our expectations. We attribute this to several factors.

- While revenue growth was strong, it was below the level that we targeted with our increased marketing spending during the year. For fiscal 2007, we have made a number of important adjustments in this area, including reductions in catalog prospecting for certain of our brands as well as reallocation of spending within our interactive marketing programs to highlight the best performing properties within search, portals and other online efforts. As a result, we anticipate enhanced leverage from our marketing programs in terms of both new customer acquisition and deepening relationships with our existing customers across all of our brands and businesses.
- Also, during fiscal 2006 our gross margin improvement of 60 basis points was below our target and insufficient to offset the increase in marketing costs. This reflected a combination of competitive promotional pricing as well as rising fuel surcharges from third-party shippers. For fiscal 2007, we have put in place a number of initiatives designed specifically to enhance gross margins across all of our businesses. For example:
  - In terms of product margins, we are expanding our product sourcing efforts in Asia while concurrently consolidating our sourcing agents. This will enable us to concentrate larger order volumes and thereby improve pricing across all of our brands. We are also consolidating raw material vendors to similarly improve pricing as well as enhance quality.
  - We have underway a number of pricing initiatives, including development of new, higher-margin signature products, such as the Happy Hour Bouquets$_{sm}$ collection (those whimsical floral arrangements in oversized margarita glasses that you may have seen advertised on billboards and buses in major markets around the country); programs to increase order add-on rates, and an aggressive SKU rationalization effort to eliminate low-margin products throughout the company. We have also introduced a new customer loyalty program in our consumer floral category that has seen excellent early results.
  - In terms of third-party shipping costs, by leveraging the scale of our collection of gift brands with our third-party shippers, we expect to achieve substantial cost savings in this area during fiscal 2007 and beyond.

## Business Process Improvement = Enhanced Leverage

We have grown our business through a combination of organic efforts, new business development and M&A activities. By leveraging the scale that we have achieved, we believe we can significantly enhance our bottom line performance. In addition to focusing on gross margin improvement, we believe we can significantly enhance operating leverage across all of our businesses by reducing costs in a number of specific areas. Toward this end, we have added new management talent at the senior level whose sole job is to extract cost savings and achieve business process improvements. This new team has already launched several programs leveraging the growing scale of our business and expanded collection of gift brands, including:

- Consolidation of our catalog paper buying and printing across all brands, enabling us to negotiate more favorable long-term rates, and the consolidation of all non-catalog printing utilizing a specialized sourcing agent whose compensation is tied directly to the level of cost savings they can achieve for us.
- Consolidation of our email programs onto a uniform platform to both enhance effectiveness and reduce costs.
- And, continued optimization of our award-winning Service Center operations, most recently expanding our home agent program to provide maximum coverage flexibility while reducing recruiting and training expenses.

## New Business Contributions

During fiscal 2007, we also expect significant bottom-line contributions from our new business efforts. The Fannie May acquisition gives us excellent brand positioning in the important chocolate gift category and significantly expands our offering in the Food, Wine and Gift Basket business where we are rapidly becoming a market leader. Fannie May offers us excellent growth potential by building on its tremendous customer affinity. In addition to its solid organic growth, going forward we will focus on growing new sales channels, particularly through the leveraging of our assets and capabilities in the online and direct marketing space where the Fannie May® and Harry London® brands are currently underdeveloped. In addition, we can provide unique access to a new sales channel into our BloomNet florist membership for fulfillment of 1-800-FLOWERS.COM orders as well as sales of high-quality chocolate and confections through their retail stores. Combined with its strong operating margins, we expect Fannie May to contribute significantly to our operating results in fiscal 2007 and beyond.

Our BloomNet wire service is also expected to contribute strongly to fiscal 2007 results. With the roll-out investment phase for this business now completed, we expect to see a significant contribution to our enterprise profitability in fiscal 2007. Based on industry standards, we expect BloomNet's business of selling products and services to florists nationwide will provide strong operating profit margins of 20-to-25 percent as the business matures. Importantly, BloomNet's superior value proposition for florists compared with competitors has been very well received. This is illustrated by the fact that BloomNet membership increased three-fold since its launch at the start of January, 2005 reaching approximately 9,000 florist members at the end of fiscal 2006. As we've stated in the past, in growing

BloomNet we are committed to maintaining our industry-highest quality standards while providing our florists with the products and services that they need to grow their businesses and enhance their profitability.

## Providing Increased Transparency

As we continue to grow and evolve our business, we are also evolving the way we report our financial results and provide guidance for the future. Beginning with our fiscal 2007 first quarter, we will provide specific results and operating metrics for our four business categories: Consumer Floral, BloomNet, and our Specialty Gift Brands categories, including Home and Children's Gifts, and Food, Wine and Gift Baskets. For each of these categories, we will provide revenues, gross profit margin, and a contribution margin (excluding corporate allocation), along with comparisons to the prior year period results. This new reporting format will enable us to provide more visibility for the specific growth and profitability characteristics of each category and thereby provide a better understanding of how we will reach our overall company goals.

To provide you with a baseline for these business categories:

- In our Consumer Floral business we are the world's leading florist. Importantly, we are expanding our market-leading position by growing organically in a range of 7-to-10 percent annually on the largest base of business in the industry. Fiscal 2006 revenues in this category were approximately $450 million.
- As I mentioned earlier in this letter, our BloomNet business has emerged from its investment/rollout phase and we expect it now to begin generating increasing profitability. BloomNet revenues in fiscal 2006 were nearly $30 million and we expect compound revenue growth for this business during the next three years will be in excess of 50 percent.
- In Specialty Gift Brands, our Home and Children's Gifts category achieved revenues in excess of $190 million in fiscal 2006. Going forward, we are managing this category to achieve sustainable mid-single digit growth and enhanced profit contribution.
- Our Food, Wine and Gift Baskets category includes such great gifts as Cheryl&Co.®'s incredible cookies and bakery gifts, delicious and fun popcorn and specialty items from The Popcorn Factory®, unique gourmet gifts from GreatFood.com®, premium wine gifts from Ambrosia® and towers of goodies from 1-800-Baskets.com®. In fiscal 2006, these businesses provided more than $100 million in revenues. Combined with organic growth, we expect the addition of Fannie May will help us grow revenues in this category to $200 million for fiscal 2007. Going forward, we expect organic revenue growth in the teens for this category, excluding any additional acquisition opportunities.


*In keeping with our tradition of customer-centric innovation, our fiscal 2006 annual report once again incorporates a special, value-added feature: the 2007 Desk Diary & Gift Planner. Inside, you'll find insights into how our company is growing its business and working to build long-term shareholder value. You will also find a broad range of thoughtful gifting ideas perfect for celebratory occasions throughout the year for all the important people in your life.*

On a consolidated basis, these four categories all leverage the assets and infrastructure of our Enterprise Services Platform. Our goal is to improve this leverage throughout the company and enhance not only revenue growth but also profitability for the enterprise.

## Evolving Our Guidance

In terms of our overall guidance going forward, we have changed the format of the guidance we provide to place an emphasis on long-term growth objectives for both revenue and profitability. Because fiscal 2007 will include the first significant contributions from our BloomNet operations and the Fannie May acquisition, we provided additional detail for the year, including:

- Revenue growth, including incremental contributions from our recent acquisitions, in a range of 17-to-20 percent, and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and EPS growth of more than 100 percent.
- Longer term, for fiscal years 2008 and 2009, we anticipate achieving annual growth rates for revenues in a range of 7-10 percent, before acquisitions, and EBITDA and EPS in a range of 20-to-25 percent.

## Outlook: Solid Growth and Enhanced Profitability

Over the past several years, through a combination of organic efforts and strategic acquisitions, we have demonstrated a proven ability to grow revenues at very attractive rates. Having established a solid base of business, fast approaching $1 billion dollars, our management team is now laser-focused on improving our bottom-line performance in fiscal 2007 and beyond. As I have discussed throughout this letter, toward this end we have put in place a number of initiatives specifically designed to enhance profitability and reduce operating costs throughout the enterprise. Overall, we believe we are well positioned to achieve our goals for solid top line and significantly enhanced bottom line growth this year and going forward and thereby build long-term shareholder value. For their continued support we thank all those responsible for our past and future success including our customers, associates, investors, vendors and business partners throughout the world.

Sincerely,

Jim McCann
Chairman and CEO

Chris McCann
President

Notes & Reminders

# JANUARY 2007

| Sunday | Monday | Tuesday |
|---|---|---|
| | 1 *New Years Day* | 2 |
| 7 | 8 | 9 |
| 14 | 15 *Martin Luther King Jr.'s Birthday* | 16 |
| 21 | 22 | 23 |
| 28 | 29 | 30 |

In fiscal 2006, the 1-800-flowers.com® brand launched one of its most innovative advertising campaigns ever, introducing a new signature line of "Happy Hour" Bouquets$_{sm}$ floral arrangements in whimsical oversized margarita glasses. The campaign, conducted in partnership with CBS Outdoor, exclusively utilized signs on buses and other outdoor media. The result was the most successful new floral product introduction in the 30-year history of the Company.

| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| 3 | 4 | 5 | 6 |
| 10 | 11 | 12 | 13 |
| 17 | 18 | 19 | 20 |
| 24 | 25 | 26 | 27 |
| 31 | | | |

1-800-flowers.com SM

Notes & Reminders

# FEBRUARY 2007

| Sunday | Monday | Tuesday |
|---|---|---|
| | | |
| 4 | 5 | 6 |
| 11 | 12 | 13 |
| 18 | 19 *Presidents' Day* | 20 |
| 25 | 26 | 27 |

Growing profitable businesses is a key strategy at 1-800-FLOWERS.COM as illustrated by the Company's BloomNet wire service. BloomNet is an international floral service provider offering quality products and diverse services to a select network of professional retail florists who utilize BloomNet's resources to grow their businesses profitably. From its launch in January 2005 BloomNet tripled in size to approximately 9,000 florist members at fiscal 2006 year end.



| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| | 1 | 2 *Groundhog Day* | 3 |
| 7 | 8 | 9 | 10 |
| 14 *Valentine's Day* | 15 | 16 | 17 |
| 21 | 22 | 23 | 24 |
| 28 | | | |

1-800-flowers.com℠

Notes & Reminders

# MARCH 2007

1-800-FLOWERS.COM is rapidly growing into a leading player in the Food, Wine and Gift Basket category generating more than $100 million in revenues in this area during fiscal 2006. The Company's collection of well-known brands includes Cheryl&Co® bakery gifts, The Popcorn Factory® and the Company's latest acquisition, Fannie May Confections Brands, Inc., one of the world's foremost manufacturers and retailers of chocolate and other confections under the Fannie May® and Harry London® brands.


| Sunday | Monday | Tuesday |
|---|---|---|
| | | |
| 4 | 5 | 6 |
| 11 | 12 | 13 |
| 18 | 19 | 20 |
| 25 | 26 | 27 |

| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| | 1 | 2 | 3 |
| 7 | 8 | 9 | 10 |
| 14 | 15 | 16 | 17 *St. Patrick's Day* |
| 21 *First Day of Spring* | 22 | 23 | 24 |
| 28 | 29 | 30 | 31 |

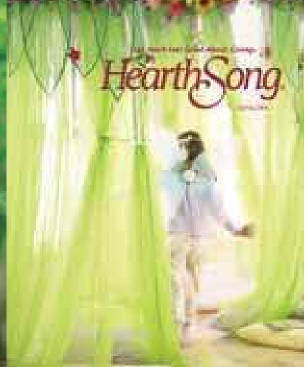
1-800-flowers.com SM

Notes & Reminders

# APRIL 2007

For Easter and other gift-giving occasions throughout the year, 1-800-FLOWERS.COM offers the 24/7 assistance of its knowledgeable customer service professionals. In 2006, the Company was awarded the prestigious Call Center of the Year award from the International Customer Management Institute (ICMI), underscoring the quality of 1-800-FLOWERS.COM's call center operations and the vital role that its customer service team plays in retaining customers long-term.

| Sunday | Monday | Tuesday |
|---|---|---|
| 1 *April Fool's Day* | 2 *Passover Begins at Sunset* | 3 |
| 8 *Easter* | 9 | 10 |
| 15 | 16 | 17 |
| 22 | 23 *Administrative Professionals' Week Begins* | 24 |
| 29 | 30 | |




| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| 4 | 5 | 6 | 7 |
| 11 | 12 | 13 | 14 |
| 18 | 19 | 20 | 21 |
| 25 *Administrative Professionals' Day* | 26 | 27 | 28 |
| | | | |

Notes & Reminders

# MAY 2007

| Sunday | Monday | Tuesday |
|---|---|---|
| | | 1 |
| 6 | 7 | 8 |
| 13 *Mother's Day* | 14 | 15 |
| 20 | 21 | 22 |
| 27 | 28 *Memorial Day (observed)* | 29 |

In fiscal 2006, 1-800-FLOWERS.COM furthered its position as the world's leading consumer floral gift company offering such services as same-day, any-day delivery and introducing new customer loyalty initiatives including the Company's Fresh Rewards® program. As Fresh Rewards® members, customers earn Reward points they can use toward discounts on future purchases, encouraging more order frequency and enhanced customer retention.


| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| 2 | 3 | 4 *National Bring Your Mom to Work Day* | 5 *Cinco de Mayo* |
| 9 | 10 | 11 | 12 |
| 16 | 17 | 18 | 19 |
| 23 | 24 | 25 | 26 |
| 30 | 31 | | |

Notes & Reminders

# JUNE 2007

| Sunday | Monday | Tuesday |
|---|---|---|
| | | |
| 3 | 4 | 5 |
| 10 | 11 | 12 |
| 17 *Father's Day* | 18 | 19 |
| 24 | 25 | 26 |

Father's Day has become a growing gifting occasion for 1-800-FLOWERS.COM. During fiscal 2006, the Company increased its gift offering geared toward men – widening its line of outdoor furnishings and unique gadgetry from the Plow & Hearth®, Wind & Weather® and Problem Solvers® brands while expanding the assortment of gourmet foods from GreatFood.com® and gift baskets from 1-800-BASKETS.COM®. Also expanded was the collection of delicious bakery gifts from Cheryl&Co.® as well as sports themed tins of treats from the Popcorn Factory®. Furthermore, a diverse assortment of chocolates and confections from Fannie May Confections Brands was added.

| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| | | 1 | 2 |
| 6 | 7 | 8 | 9 |
| 13 | 14 *Flag Day* | 15 | 16 |
| 20 | 21 *First Day of Summer* | 22 | 23 |
| 27 | 28 | 29 | 30 |

*Notes & Reminders*

# JULY 2007

| Sunday | Monday | Tuesday |
|---|---|---|
| 1 | 2 | 3 |
| 8 | 9 | 10 |
| 15 | 16 | 17 |
| 22 *Parents' Day* | 23 | 24 |
| 29 | 30 | 31 |

1-800-FLOWERS.COM attracts more than 3 million new customers annually and grew its customer database to more than 25 million in fiscal 2006. One of the reasons is the convenience of purchasing gifts from the Company. For example, by visiting www.1800flowers.com, customers can sign up for a personalized Gift Reminder Service.  This enables them to automatically receive emails throughout the year reminding them of important gifting occasions in their lives, including appropriate gift suggestions.

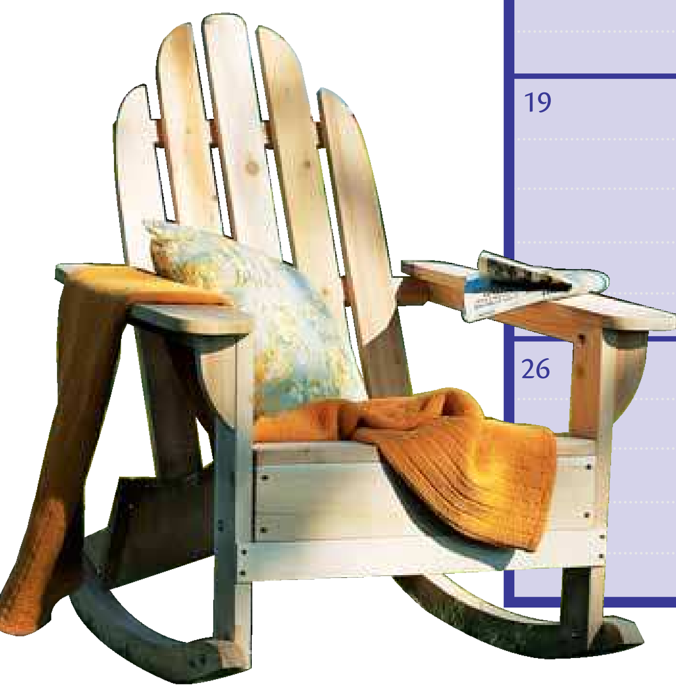
| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| 4 *Independence Day* | 5 | 6 | 7 |
| 11 | 12 | 13 | 14 *Bastille Day* |
| 18 | 19 | 20 | 21 |
| 25 | 26 | 27 | 28 |
| | | | |

1-800-flowers.com SM

Notes & Reminders

# AUGUST 2007

Building market share in Specialty Brands was a benchmark of success for 1-800-FLOWERS.COM during fiscal 2006. In 2007, the Company will continue its strategic vision for home and children's gifts and for food, wine and gift baskets by deepening the relationships it has with customers. Specifically, 1-800-FLOWERS.COM will focus on what it calls "increasing Enterprise Customer Value" by serving an expanding range of their customers' celebratory needs.



| Sunday | Monday | Tuesday |
|---|---|---|
| | | |
| 5 | 6 | 7 |
| 12 | 13 *National Friendship Week Begins* | 14 |
| 19 | 20 | 21 |
| 26 | 27 | 28 |


| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 8 | 9 | 10 | 11 |
| 15 | 16 | 17 | 18 |
| 22 | 23 | 24 | 25 |
| 29 | 30 | 31 | |

Notes & Reminders

# SEPTEMBER 2007

The BloomNet wire service represented one of the strongest growth areas for 1-800-FLOWERS.COM in fiscal 2006. BloomNet leverages 1-800-FLOWERS.COM's leadership position in the consumer floral category as the largest generator of direct-able floral gift orders. In turn, BloomNet is able to offer a superior value proposition to florists by providing access to greater order volume, a highly competitive pricing structure and lower operating costs as well as extensive marketing and merchandising support.

| Sunday | Monday | Tuesday |
|---|---|---|
| | | |
| 2 | 3 *Labor Day* | 4 |
| 9 *Grandparents' Day* | 10 | 11 *Patriot Day* |
| 16 | 17 | 18 |
| 23 *First Day of Fall* | 24 | 25 |
| 30 | | |



| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| | | | 1 |
| 5 | 6 | 7 | 8 |
| 12 *Rosh Hashanah Begins at Sunset* | 13 | 14 | 15 |
| 19 | 20 | 21 *Yom Kippur Begins at Sunset* | 22 |
| 26 | 27 | 28 | 29 |

1-800-flowers.com℠

Notes & Reminders

# OCTOBER 2007

During fiscal 2006, 1-800-FLOWERS.COM expanded not only its product line but also its multi-channel customer access. The Company annually mails more than 125 million catalogs across all of its brands. Each brand also benefits from the Company's industry-leading experience and expertise in interactive marketing – enabling brands such as Cheryl&Co®, Plow & Hearth® and The Popcorn Factory® to significantly widen their online presence as well as their revenue potential.

| Sunday | Monday | Tuesday |
|---|---|---|
| | 1 | 2 |
| 7 | 8 *Columbus Day (observed)* | 9 |
| 14 *National Children's Day* | 15 | 16 *National Bosses' Day* |
| 21 | 22 | 23 |
| 28 | 29 | 30 |


| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| 3 | 4 | 5 | 6 |
| 10 | 11 | 12 | 13 |
| 17 | 18 | 19 | 20 *Sweetest Day* |
| 24 | 25 | 26 | 27 |
| 31 *Halloween* | | | |

Notes & Reminders

# NOVEMBER 2007

| Sunday | Monday | Tuesday |
|---|---|---|
| | | |
| 4 | 5 | 6 *Election Day* |
| 11 *Veteran's Day* | 12 | 13 |
| 18 | 19 | 20 |
| 25 | 26 | 27 |

1-800-FLOWERS.COM strengthened its position as the leading consumer floral business in fiscal 2006 through its unique good/better/best merchandising strategy. Complementing its "Fresh From Our Growers$_{sm}$" collection and its florist fulfilled floral products, the Company offers customers a high- end, exclusive line of hand-crafted floral gifts created by renowned designers such as Jane Carroll, Jane Packer, Julie Mulligan, Preston Bailey and Nico De Swert as well as confections from Sam Godfrey and Joseph Schmidt.



| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| | 1 | 2 | 3 |
| 7 | 8 | 9 | 10 |
| 14 | 15 | 16 | 17 |
| 21 | 22 *Thanksgiving Day* | 23 | 24 |
| 28 | 29 | 30 | |

*Notes & Reminders*

# DECEMBER 2007

The concept of customer engagement continued to be a key focus at 1-800-FLOWERS.COM during fiscal 2006. The Company has extensively utilized input directly from its customers, gaining valuable feedback through online panels and discussion forums. These efforts are used in developing new products and even marketing campaigns that more succinctly meet customer demands – helping to enhance customer satisfaction and contributing to an annual repeat order rate greater than 50%.

| Sunday | Monday | Tuesday |
|---|---|---|
| | | |
| 2 | 3 | 4 *Hanukkah Begins at Sunset* |
| 9 | 10 | 11 |
| 16 | 17 | 18 |
| 23 | 24 | 25 *Christmas Day* |
| 30 | 31 | |


| Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|
| | | | 1 |
| 5 | 6 | 7 | 8 |
| 12 | 13 | 14 | 15 |
| 19 | 20 | 21 | 22 *First Day of Winter* |
| 26 *First Day of Kwanzaa* | 27 | 28 | 29 |

## Board of Directors

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

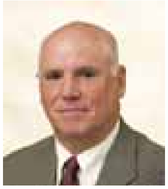
Christopher G. McCann
President
1-800-FLOWERS.COM

Kevin J. O'Connor
Principal
O'Connor Ventures

Jeffrey C. Walker
Chairman & CEO
CCMP Capital Advisors, LLC

Mary Lou Quinlan
CEO
JUST ASK A WOMAN

Leonard J. Elmore
Senior Counsel
LeBoeuf, Lamb,
Green and MacRae, LLP



John J. Conefry
Vice Chairman
Astoria Financial Corporation

Deven Sharma
Executive Vice President
The McGraw-Hill Companies

## Corporate Officers

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

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

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

Gerard M. Gallagher
Senior Vice President of Business Affairs,
General Counsel and Corporate Secretary
1-800-FLOWERS.COM

Thomas G. Hartnett
Chief Operating Officer
of Consumer Floral
1-800-FLOWERS.COM

Timothy J. Hopkins
President
Specialty Brands
1-800-FLOWERS.COM

Enzo J. Micali
Chief Information Officer
1-800-FLOWERS.COM

David Taiclet
Chief Executive Officer
Fannie May Confections Brands, Inc.

Monica L. Woo
President of Consumer Floral
1-800-FLOWERS.COM

Mary McCormack
Vice President of Corporate
Development
1-800-FLOWERS.COM

*Fiscal Year 2006*

# *Financial Report*

**1-800-FLOWERS.COM, Inc.**

# *Selected Financial Data*

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

The following tables summarize the Company's consolidated statement of income and balance sheet data. The Company acquired Fannie May Confections Brands, Inc. in May 2006, Wind & Weather in October 2005, Cheryl & Co. in March 2005, The Winetasting Network in November 2004 and The Popcorn Factory, Inc. in May 2002. The following financial data reflects the results of operations of these subsidiaries since their respective dates of acquisition. 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 (1) | | | | |
|---|---|---|---|---|---|
| | **July 2, 2006 (2)** | July 3, 2005 | June 27, 2004 | June 29, 2003 | June 30, 2002 |
| | *(in thousands, except per share data)* | | | | |
| **Consolidated Statement of Income Data:** | | | | | |
| Net revenues: | | | | | |
| Online | **$430,285** | $360,902 | $307,470 | $265,278 | $218,179 |
| Telephonic | **275,716** | 259,929 | 263,039 | 271,071 | 248,931 |
| Retail/fulfillment | **75,740** | 49,848 | 33,469 | 29,269 | 30,095 |
| Total net revenues | **781,741** | 670,679 | 603,978 | 565,618 | 497,205 |
| Cost of revenues | **456,097** | 395,028 | 351,111 | 324,565 | 293,269 |
| Gross profit | **325,644** | 275,651 | 252,867 | 241,053 | 203,936 |
| Operating expenses: | | | | | |
| Marketing and sales | **239,573** | 198,935 | 172,251 | 170,013 | 150,638 |
| Technology and development | **19,819** | 14,757 | 13,799 | 13,937 | 13,723 |
| General and administrative | **43,978** | 35,572 | 30,415 | 29,593 | 28,179 |
| Depreciation and amortization | **15,765** | 14,489 | 14,992 | 15,389 | 15,061 |
| Total operating expenses | **319,135** | 263,753 | 231,457 | 228,932 | 207,601 |
| Operating income (loss) | **6,509** | 11,898 | 21,410 | 12,121 | (3,665) |
| Other income, net | **(141)** | 1,349 | 320 | 117 | 1,448 |
| Income (loss) before income taxes | **6,368** | 13,247 | 21,730 | 12,238 | (2,217) |
| Income taxes (benefit) | **3,181** | 5,398 | (19,174) | — | (706) |
| Net income (loss) | **$ 3,187** | $ 7,849 | $ 40,904 | $ 12,238 | $ (1,511) |
| Net income (loss) per common share: | | | | | |
| Basic | **$ 0.05** | $ 0.12 | $ 0.62 | $ 0.19 | $ (0.02) |
| Diluted | **$ 0.05** | $ 0.12 | $ 0.60 | $ 0.18 | $ (0.02) |
| Shares used in the calculation of net income (loss) per common share: | | | | | |
| Basic | **65,100** | 66,038 | 65,959 | 65,566 | 64,703 |
| Diluted | **66,429** | 67,402 | 68,165 | 67,670 | 64,703 |

Note (1): The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to June 30. Fiscal years ended July 2, 2006, June 27, 2004, June 29, 2003 and June 30, 2002, consisted of 52 weeks, while the fiscal year ended July 3, 2005 consisted of 53 weeks.

Note (2): Effective July 4, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method. The impact of the adoption, which reduced net income per common share for the fiscal year ended July 2, 2006 by $0.04 is described in further detail in Note 2 of the Company's Annual Financial Statements.

| | As of | | | | |
|---|---|---|---|---|---|
| | **July 2, 2006** | July 3, 2005 | June 27, 2004 | June 29, 2003 | June 30, 2002 |
| | *(in thousands)* | | | | |
| **Consolidated Balance Sheet Data:** | | | | | |
| Cash and equivalents and short-term investments | **$ 24,599** | $ 46,608 | $103,374 | $ 61,218 | $ 63,399 |
| Working capital | **41,182** | 41,692 | 83,704 | 26,875 | 23,301 |
| Investments-non current | **—** | — | 8,260 | 19,471 | 9,591 |
| Total assets | **346,634** | 251,952 | 261,552 | 214,796 | 207,157 |
| Long-term liabilities | **80,437** | 5,900 | 8,874 | 12,820 | 15,939 |
| Total stockholders' equity | **193,183** | 186,334 | 186,390 | 137,288 | 123,908 |

## Overview

For more than 30 years, 1-800-FLOWERS.COM Inc. – "Your Florist of Choice®" – has been providing customers around the world with the freshest flowers and finest selection of plants, gift baskets, gourmet foods and confections, and plush stuffed animals perfect for every occasion. 1-800-FLOWERS.COM® offers the best of both worlds: exquisite, florist-designed arrangements individually created by some of the nation's top floral artists and hand-delivered the same day, and spectacular flowers delivered through its "Fresh From Our Growers(SM)" program.

Customers can shop 1-800-FLOWERS.COM 24 hours a day, 7 days a week via the phone or Internet (1-800-356-9377 or www.1800flowers.com) or by visiting a Company-operated or franchised store. Sales and Service Specialists are available 24/7, and fast and reliable delivery is offered same day, any day. As always, 100 percent satisfaction and freshness is guaranteed. The 1-800-FLOWERS.COM collection of brands also includes home decor and garden merchandise from Plow & Hearth® (1-800-627-1712 or www.plowandhearth.com); weather-themed gifts from Wind & Weather® (1-800-922-9463 or www.windandweather.com)popcorn and specialty treats from The Popcorn Factory® (1-800-541-2676 or www.thepopcornfactory.com); exceptional cookies and baked gifts from Cheryl&Co. ® (1-800-443-8124 or wwwcherylandco.com); premium chocolates and confections from Fannie May Confections Brands, Inc. (www.fanniemay.com and www.harrylondon.com); gourmet foods from GreatFood.com® (www.greatfood.com); children's gifts from HearthSong® (www.hearthsong.com) and Magic Cabin® (www.magiccabin.com); wine gifts from the WineTasting Network® (www.ambrosiawine.com and www.winetasting.com); and gift baskets from 1-800-BASKETS.COM® (www.1800baskets.com).

1-800-FLOWERS.COM, Inc. stock is traded on the NASDAQ market under ticker symbol FLWS.

## 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 2006 and 2004, which ended on July 2, 2006 and June 27, 2004, respectively, consisted of 52 weeks, while fiscal year 2005, which ended on July 3, 2005, consisted of 53 weeks.

### *Net Revenues*

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | **July 2, 2006** | % Change | July 3, 2005 | % Change | June 27, 2004 |
| | *(in thousands)* | | | | |
| Net revenues: | | | | | |
| Online | **$430,285** | 19.2% | $360,902 | 17.4% | $307,470 |
| Telephonic | **275,716** | 6.1% | 259,929 | (1.2%) | 263,039 |
| Retail/fulfillment | **75,740** | 51.9% | 49,848 | 48.9% | 33,469 |
| | **$781,741** | 16.6% | $670,679 | 11.0% | $603,978 |

Net revenues consist primarily of the selling price of the merchandise, service or outbound shipping charges, less discounts, returns and credits. The Company's revenue growth of 16.6% during the fiscal year ended July 2, 2006 was due to a combination of organic growth, as well as the acquisitions of Cheryl & Co., a manufacturer and direct marketer of cookies and baked gifts, acquired on March 28, 2005, Wind & Weather, a direct marketer of weather-themed gifts, acquired on October 31, 2005, and Fannie May Confections Brands, Inc., a manufacturer and multi-channel retailer of premium chocolates and other confections, acquired on May 1, 2006. Excluding the impact of acquisitions, and adjusted for the additional week of sales during fiscal 2005 which consisted of 53 weeks, compared to fiscal 2006 which consisted of 52 weeks, total revenue growth during fiscal 2006 was 9.3%, reflecting: (i) the Company's strong brand name recognition, (ii) continued leveraging of its existing customer base, and (iii) increased spending on its marketing and selling programs, designed to improve customer acquisition and accelerate top-line growth. Total revenue growth during fiscal 2005 was 11.0%, reflecting: (i) organic growth of approximately 8%, (ii) the aforementioned acquisition of Cheryl & Co., and the acquisition of The Winetasting Network on November 15, 2004, as well as the inclusion of an additional week of sales, due to its 53 week year.

The Company fulfilled approximately 11,315,000, 10,213,000, and 9,322,000 orders through its combined online and telephonic sales channels during the fiscal years ended July 2, 2006, July 3, 2005, and June 27, 2004, respectively, representing increases of 10.8% and 9.6% over the respective prior fiscal years. Order volume through the Company's online sales channel, which contributed 60.9%, 58.1% and 53.9% of the total combined online and telephonic revenues during the fiscal years ended July 2, 2006, July 3, 2005 and June 27, 2004, increased 14.7% and 17.5%, during the fiscal years ended July 2, 2006 and July 3, 2005, respectively, as a result of increased marketing efforts through search engines and affiliates, and the incremental online revenue generated by Cheryl & Co., which was acquired in March 2005 and Wind & Weather acquired in October 2005. During fiscal 2006 the Company's telephonic channel order volume increased 4.6%, which was primarily attributable to the additional revenue from Cheryl & Co. and Wind & Weather, whereas fiscal 2005 telephonic order volume decreased 1.1%, due to continued migration of customers to the Company's online sales channel. During fiscal 2006 the Company's combined online and telephonic sales channel average order value increased 2.6% to $62.39, as a result of increased service and shipping charges implemented to align them with industry norms, and to partially offset the impact of increased fuel costs passed on from freight carriers. During fiscal 2005, the Company's average sale from its combined online and telephonic sales channel of $60.79 declined slightly as a result of product mix, compared with $61.20 in fiscal 2004.

During the fiscal year ended July 2, 2006, non-floral gift products accounted for 49.4% of total combined telephonic and online net revenues, compared to 47.3% and 47.8% during the years ended July 3, 2005 and June 27, 2004, respectively.

Retail/fulfillment revenues for the fiscal years ended July 2, 2006 and July 3, 2005 increased in comparison to the prior years, primarily as a result of its recent acquisitions of The Winetasting Network, Cheryl & Co, and Fannie May Confections Brands, Inc. as well as increased membership and sales of products to the Company's BloomNet members.

At the start of the second half of fiscal 2005, the Company initiated a strategy designed to extend the Company's leadership position in the floral and thoughtful gift marketplace, and implemented plans to increase its marketing spending to drive increased customer acquisition, particularly in the core floral gift category. While the Company was successful in achieving strong revenue growth during this period, the growth was below the level that the Company targeted to achieve with its increased marketing spend, resulting in lower than anticipated earnings. Having now achieved a solid base of business, through a combination of organic efforts and strategic acquisitions, management's current focus is on improving the Company's earnings performance. As such, the Company expects that its organic revenue growth may decrease slightly from its current rate of greater than 9%, but result in improved profitability.

### Gross Profit

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | **July 2, 2006** | % Change | July 3, 2005 | % Change | June 27, 2004 |
| | *(in thousands)* | | | | |
| Gross profit | **$325,644** | 18.1% | $275,651 | 9.0% | $252,867 |
| Gross margin % | **41.7%** | | 41.1% | | 41.9% |

Gross profit consists of net revenues less cost of revenues, which is comprised primarily of florist fulfillment costs (primarily fees paid directly to florists), 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 operations. Gross profit increased during the fiscal year ended July 2, 2006, as a result of the revenue growth described above, and improved gross margin percentage, which increased 60 basis points to 41.7% in comparison to prior year. The improved gross margin percentage during fiscal 2006 resulted from a combination of product mix, including the additions of the Cheryl & Co. and Wind & Weather product lines, which have higher gross margins and pricing initiatives related to both delivery surcharges during the Valentine's Day holiday and increases in base service/shipping charges. During fiscal 2005, gross margin percentage declined by 80 basis points in comparison to the prior fiscal year, due to a combination of product mix, increased promotional pricing, and increased carrier fuel surcharges and shipping costs associated with the Monday placement of the Valentine's Day Holiday.

During fiscal 2007, although varying by quarter due to seasonal changes in product mix, the Company expects that its gross margin percentage will continue to improve primarily through: (i) growth of its higher margin non-floral gift lines, including Cheryl & Co., Wind & Weather, and most recently, Fannie May Confections Brands, Inc. (ii) improved product sourcing, pricing initiatives and customer service and fulfillment enhancements which are expected to substantially mitigate continued pressure on shipping costs, and (iii) the contribution of the BloomNet florist business, which has completed its roll-out investment phase, including the absorption of incremental sales and technology personnel in order to develop a member directory, increase Bloomlink penetration and expand membership, which increased from approximately 3,000 members as of June 27, 2004 to over 9,000 members as of July 2, 2006.

### Marketing and Sales Expense

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | **July 2, 2006** | % Change | July 3, 2005 | % Change | June 27, 2004 |
| | *(in thousands)* | | | | |
| Marketing and sales | **$239,573** | 20.4% | $198,935 | 15.5% | $172,251 |
| Percentage of sales | **30.6%** | | 29.7% | | 28.5% |

Marketing and sales expense consists primarily of advertising and promotional expenditures, catalog costs, online portal and search 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 expense increased as a percentage of net revenues during the fiscal years ended July 2, 2006 and July 3, 2005, as a result of several factors including: (i) the Company's efforts to increase new customer acquisition and accelerate top-line growth through increased marketing efforts both online and via broadcast advertising, (ii) investments required to expand its BloomNet business-to-business floral operations, (iii) incremental expenses associated with the Company's recent acquisitions, which, while contributing to revenue growth and achieving higher gross product margins, also incur higher marketing expenses, and (iv) the impact of adopting SFAS No. 123(R), "Share-Based Payment" – refer to Footnote 2 of the Company's Annual Financial Statements for further details. During the fiscal year ended July 2, 2006, the Company added 3,556,000 new customers, compared with 3,311,000 and 3,141,000 in fiscal 2005 and fiscal 2004, respectively. Of the 6,631,000 customers who placed orders during the fiscal year ended July 2, 2006, approximately 46.4% represented repeat customers, consistent with the prior year. Repeat customers represented 45.0% of total customers during fiscal 2004.

As referenced above, while the Company's marketing programs achieved strong revenue growth in fiscal 2006 and 2005, this growth has been below the level that was targeted with the Company's increased level of marketing spend. During fiscal 2007, the Company is focused on improving its operating expense ratio through a number of cost saving initiatives, including catalog printing and e-mail pricing improvements, as well as a review of the type, quantity and effectiveness of its marketing programs. In addition to the improved operating results expected now that the Company has completed the investment phase of its BloomNet florist business, the Company expects that marketing and sales expense, as a percentage of revenue, will decrease in comparison to the prior year.

### Technology and Development Expense

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | **July 2, 2006** | % Change | July 3, 2005 | % Change | June 27, 2004 |
| | | | *(in thousands)* | | |
| Technology and development | **$19,819** | 34.3% | $14,757 | 6.9% | $13,799 |
| Percentage of sales | **2.5%** | | 2.2% | | 2.3% |

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 increased as a percentage of net revenues during the fiscal year ended July 2, 2006, primarily as a result of: (i) incremental expenses associated with system improvements required by The Winetasting Network, and integration projects for Wind & Weather, which was absorbed into the Company's Madison, Virginia operations, (ii) content development for the upgrade of the Company's 1-800-Flowers.com branded website which was launched in the fourth quarter of fiscal 2006, (iii) increases in the cost of maintenance and license agreements required to support the Company's technology platform, and (iv) the impact of adopting SFAS No. 123(R), "Share-Based Payment" – refer to Footnote 2 of the Company's Annual Financial Statements for further details. Technology and development expenses increased by 6.9% during fiscal 2005 in comparison to prior year, but decreased as a percentage of net revenues primarily as a result of the incremental expenses of The Winetasting Network and Cheryl & Co., both of which were acquired during fiscal 2005. During the fiscal years ended July 2, 2006, July 3, 2005, and June 27, 2004, the Company expended $33.6 million, $24.0 million, and $22.8 million, respectively, on technology and development, of which $13.8 million, $9.2 million, and $9.0 million, respectively, has been capitalized.

The Company believes that continued investment in technology and development is critical to attaining its strategic objectives. While many of its acquisition-related integration projects are complete, as a result of incremental expenses associated with it most recently acquired businesses, the Company expects that its spending in fiscal 2007 will remain consistent or decrease slightly as a percentage of net revenues.

### General and Administrative Expenses

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | **July 2, 2006** | % Change | July 3, 2005 | % Change | June 27, 2004 |
| | | | *(in thousands)* | | |
| General and administrative | **$43,978** | 23.6% | $35,572 | 17.0% | $30,415 |
| Percentage of sales | **5.6%** | | 5.3% | | 5.0% |

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 expense increased during the fiscal year ended July 2, 2006 in comparison to the prior year, primarily as a result of: (i) incremental expenses associated with the Company's acquired businesses, (ii) expenses associated with the Company's corporate headquarters relocation, and (iii) the impact of adopting SFAS No. 123(R), "Share-Based Payment" – refer to Footnote 2 of the Company's Annual Financial Statements for further details.

General and administrative expense increased during the fiscal year ended July 3, 2005 in comparison to the prior year, due to: (i) incremental expenses associated with the Company's wine gift product line and additional overhead added during a seasonally slow period for Cheryl & Co., which was acquired in March 2005, (ii) an increase in professional fees associated with Sarbanes-Oxley compliance, and (iii) increased travel and entertainment related to the Company's BloomNet business-to-business expansion.

Although the Company believes that its current general and administrative infrastructure is sufficient to support existing requirements and drive operating leverage, as a result of the incremental expenses associated with the recently acquired businesses, as well as the impact of the adoption of SFAS 123(R), the Company expects that its general and administrative expenses as a percentage of net revenue during fiscal 2007 will be consistent with the prior year period.

### Depreciation and Amortization

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | **July 2, 2006** | % Change | July 3, 2005 | % Change | June 27, 2004 |
| | *(in thousands)* | | | | |
| Depreciation and amortization | **$15,765** | 8.8% | $14,489 | (3.4)% | $14,992 |
| Percentage of sales | **2.0%** | | 2.2% | | 2.5% |

Depreciation and amortization expense increased during the fiscal year ended July 2, 2006 in comparison to the prior year period, due primarily to the incremental amortization expense related to the intangibles established as a result of the acquisitions of Cheryl & Co., Wind & Weather, and more recently, Fannie May Confections Brands, Inc. Depreciation and amortization expense decreased slightly during the fiscal year ended July 3, 2005 in comparison to the prior year period, as a result of the Company's then declining rate of capital additions. During both fiscal 2006 and 2005, depreciation and amortization expense, as a percentage of revenue, decreased over their respective prior year periods, reflecting the Company's leverage of its existing infrastructure.

The Company believes that continued investment in its infrastructure, primarily in the areas of technology and development, including the improvement of the technology platforms are critical to attaining its strategic objectives. As a result of these improvements, but primarily as a result of an increase in amortization expense associated with intangibles established as a result of recent acquisitions, the Company expects that depreciation and amortization for fiscal 2007 will increase slightly as a percentage of net revenues in comparison to the prior year.

### Other Income (Expense)

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | **July 2, 2006** | % Change | July 3, 2005 | % Change | June 27, 2004 |
| | *(in thousands)* | | | | |
| Interest income | **$1,260** | (25.4)% | $1,690 | 27.6% | $ 1,324 |
| Interest expense | **(1,407)** | (192.5)% | (481) | 27.5% | (663) |
| Other, net | **6** | (95.7)% | 140 | 141.1% | (341) |
| | **$ (141)** | (110.5)% | $1,349 | 321.6% | $ 320 |

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, long-term debt, and revolving line of credit. In order to finance the acquisition of Fannie May Confections Brands, Inc., on May 1, 2006, the Company entered into a $135.0 million secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility includes an $85.0 million term loan and a $50.0 million revolving facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed $85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands, Inc.

The decrease in other income (expense) during the fiscal year ended July 2, 2006, in comparison to fiscal 2005 was the result of higher interest expense on the Company's 2006 Credit Facility, as well as lower interest income, resulting from a decrease in average cash balances, due to the acquisitions of the The Winetasting Network in November 2004, Cheryl & Co. in March 2005, Wind & Weather in November 2005, and Fannie May Confections Brands, Inc. in May 2006, which was partially funded from the Company's existing cash balances, as well as the Company's stock buy-back program.

The increase in other income (expense) during the fiscal years ended July 3, 2005, in comparison to the fiscal 2004 was primarily attributable to higher interest income resulting from an increase in interest rate returns, as well as lower interest expense due to maturing debt and capital lease obligations.

### Income Taxes

During the fiscal years ended July 2, 2006 and July 3, 2005, the Company recorded income tax expense of $3.2 million and $5.4 million, respectively. The Company's effective tax rate for the fiscal years ended July 2, 2006 and July 3, 2005 was 50.0% and 40.7%, respectively. The effective tax rate during the fiscal year ended July 2, 2006 includes the impact of share-based compensation recognized in accordance with SFAS No. 123(R), and resulted in an increase in the annual effective income tax rate for fiscal 2006 of approximately 8.5%, resulting primarily from the associated book/tax differences in accounting for incentive stock options. Additionally, the Company's effective tax rate for the fiscal years ended July 2, 2006 and July 3, 2005 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by various tax credits.

During the fiscal year ended June 27, 2004, the Company recorded an income tax benefit of approximately $19.2 million (net) due to the removal of the Company's valuation allowance on its deferred tax assets which consisted primarily of net operating loss carryforwards (see below), offset in part by income tax expense for federal alternative minimum tax and various state taxes resulting from state tax law changes that deferred the use of available net operating losses for state purposes.

At June 27, 2004, management of the Company reassessed the valuation allowance previously established against its net deferred tax assets. Based on the Company's earnings history and projected future taxable income, management determined that it was more likely than not that the deferred tax assets would be realized. Accordingly, the Company removed the valuation allowance of approximately $30.0 million from its deferred tax assets resulting in the recognition of an income tax benefit of approximately $20.8 million, a reduction of goodwill of approximately $3.1 million, related to the acquired net operating losses of GreatFood.com, and an increase in additional paid-in-capital of approximately $6.1 million related to income tax benefits associated with employee stock option exercises. The favorable impact of the income tax benefit has distorted the trends in our net income and will impact the comparability of our net income with other periods.

At July 2, 2006, the Company's federal and state net operating loss carryforwards were approximately $63.4 million, which, if not utilized, will begin to expire in fiscal year 2020.

## Liquidity and Capital Resources

At July 2, 2006, the Company had working capital of $41.2 million, including cash and equivalents of $24.6 million, compared to working capital of $41.7 million, including cash and equivalents and short-term investments of $46.6 million, at July 3, 2005.

Net cash provided by operating activities of $14.7 million for the fiscal year ended July 2, 2006 was primarily attributable to earnings, adjusted for depreciation and amortization, share-based compensation expense, deferred income taxes and other non-cash charges, which in total amounted to $26.1 million, offset in part by increases in inventory due to lead times required to source lower cost foreign products, and decreases in accounts payable and accrued expenses.

Net cash used in investing activities of $110.7 million for the fiscal year ended July 2, 2006 was primarily attributable to funding acquisitions ($96.9 million), including Wind & Weather ($5.0 million) and Fannie May Confections Brands, Inc. ($91.9 million), as well as capital expenditures, primarily related to the Company's technology infrastructure, offset in part by net proceeds from the sale of the Company's short-term investments.

Net cash provided by financing activities of $80.6 million for the fiscal year ended July 2, 2006, was due primarily to bank borrowings against the Company's 2006 Credit Facility which was used to fund the acquisition of Fannie May Confections Brands, Inc. in May 2006, as well as net proceeds received upon the exercise of employee stock options, offset in part by cash used to repay outstanding debt and long-term capital lease obligations, as well as repurchase 182,000 shares of the Company's Class A common stock, which were placed in treasury, for approximately $1.3 million.

On May 1, 2006, the Company entered into a $135.0 million secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility includes an $85.0 million term loan and a $50.0 million revolving credit facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed $85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands, Inc. The Company is required to pay the outstanding term loan in quarterly installments, with the final installment payment due on May 1, 2012. The 2006 Credit Facility contains various conditions to borrowing, and affirmative and negative financial covenants. Concurrent with the 2006 Credit Facility, the Company's previous $25.0 million revolving credit facilities were terminated. The Company expects to draw down on its revolving credit facility towards the end of its fiscal first quarter in order to fund pre-holiday manufacturing and inventory purchases.

The Company has historically utilized cash generated from operations to meet its cash requirements, including all operating, investing and debt repayment activities. Due to the Company's continued expansion into non-floral products, including the aforementioned acquisitions of Fannie May Confections Brands, Inc., the Company expects to utilize its existing $50.0 million line of credit during its fiscal first and second quarter to fund working capital requirements, which have increased during this time period as a result of increased inventory and pre-holiday manufacturing requirements.

At July 2, 2006, the Company's contractual obligations consist of:

| | | Payments due by period | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years |
| | | | *(in thousands)* | | |
| Long-term debt (including interest) | $107,871 | $ 15,673 | $ 30,922 | $ 34,836 | $ 26,440 |
| Capital lease obligations | 489 | 409 | 36 | 26 | 18 |
| Operating lease obligations | 62,437 | 9,666 | 15,774 | 9,344 | 27,653 |
| Sublease obligations | 6,776 | 2,120 | 2,780 | 1,302 | 574 |
| Other cash obligations (*) | 2,000 | 2,000 | — | — | — |
| Purchase commitments (**) | 27,491 | 27,491 | — | — | — |
| Total | $207,064 | $ 57,359 | $ 49,512 | $ 45,508 | $ 54,685 |

(*) Other cash obligations consist primarily of online marketing contractual agreements.

(**) Purchase commitments consist primarily of inventory and equipment purchase orders made in the ordinary course of business.

On May 12, 2005, the Company's Board of Directors increased the Company's authorization to repurchase the Company's Class A common stock up to $20 million, from the previous authorized limit of $10 million. 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. As of July 2, 2006, the Company had repurchased 1,510,050 shares of common stock for $11.1 million, of which $1.3 million and $9.8 million was repurchased during the fiscal years ending July 2, 2006 and July 3, 2005, respectively.

## Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial position and results of operations are based upon the consolidated financial statements of 1-800-FLOWERS.COM, Inc., which have been prepared in accordance with U.S. generally accepted accounting principles. 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. Shipping terms are FOB shipping point.

### *Accounts Receivable*

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers or franchisees to make required payments. If the financial condition of the Company's customers or franchisees 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. 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 performs an annual impairment test as of the first day of its fiscal fourth quarter, or earlier if indicators of potential impairment exist, to evaluate goodwill. Goodwill is considered impaired if the carrying amount of the reporting unit exceeds its estimated fair value. In assessing the recoverability of goodwill, the Company reviews both quantitative as well as qualitative factors to support its assumptions with regard to fair value. 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.

### *Capitalized Software*

The carrying value of capitalized software, both purchased and internally developed, is periodically reviewed for potential impairment indicators. Future events could cause the Company to conclude that impairment indicators exist and that capitalized software is impaired.

### *Stock-based Compensation*

SFAS No. 123R requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. The Company determines the fair value of stock options issued by using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model considers a range of assumptions related to volatility, dividend yield, risk-free interest rate and employee exercise behavior. Expected volatilities are based on historical volatility of the Company's stock price. The dividend yield is based on historical experience and future expectations. The risk-free interest rate is derived from the US Treasury yield curve in effect at the time of grant. The Black-Scholes model also incorporates expected forfeiture rates, based on historical behavior. Determining these assumptions are subjective and complex, and therefore, a change in the assumptions utilized could impact the calculation of the fair value of the Company's stock options. Prior to July 3, 2005, the Company followed APB No. 25, and related interpretations. Under APB No. 25, no stock-based compensation expense was recognized related to the Company's stock option program, as all options granted had an exercise price equal to the market value of the underlying common stock price on the date of grant.

### *Income Taxes*

The Company has established deferred income tax assets and liabilities for temporary differences between the financial reporting bases and the income tax bases of its assets and liabilities at enacted tax rates expected to be in effect when such assets or liabilities are realized or settled. The Company has recognized as a deferred tax asset the tax benefits associated with losses related to operations, which are expected to result in a future tax benefit. Realization of this deferred tax asset assumes that we will be able to generate sufficient future taxable income so that these assets will be realized. The factors that we consider in assessing the likelihood of realization include the forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets.

## Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 applies to all tax positions accounted for under SFAS no. 109, "Accounting for Income Taxes" and defines the confidence level that a tax position must meet in order to be recognized in the financial statements. The interpretation requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained by the taxing authority as of the reporting date. If a tax position is not considered "more-likely-than-not" to be sustained then no benefits of the position are to be recognized. FIN 48 requires additional disclosures and is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition.

## 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. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

## Cautionary Statements Under the Private Securities Litigation Reform Act of 1995

Our disclosures and analysis in this Annual Report contain some forward-looking statements that set forth anticipated results based on management's plans and assumptions. From time to time, we also provide forward-looking statements in other statements we release to the public as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan, "believe" and similar expressions in connection with any discussion of future operating or financial performance. We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risk, uncertainties and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward looking statements. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our 10-K, 10-Q and 8-K reports to the SEC. Risk factors discussed in these and other documents filed by the Company with the SEC are noted for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the factors noted to be a complete discussion of all potential risks and uncertainties.

## Quarterly Results of Operations

The following table provides unaudited quarterly consolidated results of operations for each quarter of fiscal years 2006 and 2005. 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Jul. 2, 2006 | Apr. 2, 2006 | Jan. 1, 2006 | Oct. 2, 2005 | Jul. 3, 2005 | Mar. 27, 2005 | Dec. 26, 2004 | Sep. 26, 2004 |
| | *(in thousands, except per share data)* | | | | | | | |
| Net revenues: | | | | | | | | |
| Online | $124,372 | $110,278 | $133,362 | $ 62,273 | $108,492 | $91,638 | $107,686 | $53,086 |
| Telephonic | 60,670 | 51,542 | 125,122 | 38,382 | 60,349 | 52,424 | 109,570 | 37,586 |
| Retail/fulfillment | 26,088 | 18,197 | 19,345 | 12,110 | 17,277 | 12,971 | 12,758 | 6,842 |
| Total net revenues | 211,130 | 180,017 | 277,829 | 112,765 | 186,118 | 157,033 | 230,014 | 97,514 |
| Cost of revenues | 126,778 | 109,743 | 152,837 | 66,739 | 111,737 | 97,947 | 127,402 | 57,942 |
| Gross Profit | 84,352 | 70,274 | 124,992 | 46,062 | 74,381 | 59,086 | 102,612 | 39,572 |
| Operating expenses: | | | | | | | | |
| Marketing and sales | 60,287 | 53,188 | 87,874 | 38,224 | 50,389 | 45,813 | 72,841 | 29,892 |
| Technology and development | 5,083 | 5,170 | 4,797 | 4,769 | 4,201 | 4,160 | 3,292 | 3,104 |
| General and administrative | 11,804 | 11,181 | 10,357 | 10,636 | 10,152 | 9,864 | 7,954 | 7,602 |
| Depreciation and amortization | 4,555 | 3,877 | 3,809 | 3,524 | 3,473 | 3,350 | 3,770 | 3,896 |
| Total operating expenses | 81,729 | 73,416 | 106,837 | 57,153 | 68,215 | 63,187 | 87,857 | 44,494 |
| Operating income (loss) | 2,623 | (3,142) | 18,155 | (11,127) | 6,166 | (4,101) | 14,755 | (4,922) |
| Other income (expense), net | (678) | 515 | (115) | 137 | 423 | 509 | 172 | 245 |
| Income (loss) before income taxes | 1,945 | (2,627) | 18,040 | (10,990) | 6,589 | (3,592) | 14,927 | (4,677) |
| Income taxes (benefit) | 928 | (1,087) | 7,704 | (4,364) | 2,688 | (1,546) | 6,223 | (1,967) |
| Net income (loss) | $ 1,017 | $ (1,540) | $ 10,336 | $ (6,626) | $ 3,901 | $ (2,046) | $ 8,704 | $ (2,710) |
| Basic and diluted net income (loss) per share: | $ 0.02 | $ (0.02) | $ 0.16 | $ (0.10) | $ 0.06 | $ (0.03) | $ 0.13 | $ (0.04) |

The Company's quarterly results may experience seasonal fluctuations. Due to the Company's expansion into non-floral products, including the acquisitions of The Winetasting Network and Cheryl & Co. during fiscal 2005 as well as Wind & Weather and Fannie May Confections Brands, Inc. during fiscal 2006, the Thanksgiving through Christmas holiday season, which falls within the Company's second fiscal quarter, generates 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. Results during the Company's fiscal first quarter will be negatively impacted by the aforementioned acquisitions due to their seasonal nature and the incremental overhead incurred during this slow period. Also, it should be noted that the operating expenses for their respective quarterly periods in fiscal 2006 reflect the impact of adopting SFAS No. 123(R), "Share-Based Payment" – refer to audited financial statement Note (2) for further details.

# *Consolidated Balance Sheets*

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

*(in thousands, except share data)*

| | **July 2, 2006** | July 3, 2005 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and equivalents | **$ 24,599** | $ 39,961 |
| Short-term investments | — | 6,647 |
| Receivables, net | **13,153** | 10,619 |
| Inventories | **52,954** | 28,675 |
| Deferred income taxes | **17,427** | 10,219 |
| Prepaid and other | **6,063** | 5,289 |
| Total current assets | **114,196** | 101,410 |
| Property, plant and equipment, net | **59,732** | 50,474 |
| Goodwill | **131,141** | 63,219 |
| Other intangibles, net | **29,822** | 14,215 |
| Deferred income taxes | **6,224** | 17,161 |
| Other assets | **5,519** | 5,473 |
| Total assets | **$ 346,634** | $ 251,952 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | **$ 62,654** | $ 57,121 |
| Current maturities of long-term debt and obligations under capital leases | **10,360** | 2,597 |
| Total current liabilities | **73,014** | 59,718 |
| Long-term debt and obligations under capital leases | **78,063** | 3,347 |
| Other liabilities | **2,374** | 2,553 |
| Total liabilities | **153,451** | 65,618 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued | — | — |
| Class A common stock, $.01 par value, 200,000,000 shares authorized, 29,872,183 and 29,888,603 shares issued in 2006 and 2005, respectively | **299** | 300 |
| Class B common stock, $.01 par value, 200,000,000 shares authorized, 42,138,465 and 42,144,465 shares issued in 2006 and 2005 | **421** | 421 |
| Additional paid-in capital | **262,667** | 258,848 |
| Retained deficit | **(56,011)** | (59,198) |
| Deferred compensation | — | (1,116) |
| Treasury stock, at cost – 1,555,350 and 1,380,850 Class A shares in 2006 and 2005, respecitively, and 5,280,000 Class B shares | **(14,193)** | (12,921) |
| Total stockholders' equity | **193,183** | 186,334 |
| Total liabilities and stockholders' equity | **$ 346,634** | $ 251,952 |

*See accompanying notes.*

# *Consolidated Statements of Income*

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

*(in thousands, except per share data)*

| | Years Ended | | |
|---|---|---|---|
| | **July 2, 2006** | July 3, 2005 | June 27, 2004 |
| Net revenues | **$781,741** | $670,679 | $603,978 |
| Cost of revenues | **456,097** | 395,028 | 351,111 |
| Gross profit | **325,644** | 275,651 | 252,867 |
| Operating expenses: | | | |
| Marketing and sales | **239,573** | 198,935 | 172,251 |
| Technology and development | **19,819** | 14,757 | 13,799 |
| General and administrative | **43,978** | 35,572 | 30,415 |
| Depreciation and amortization | **15,765** | 14,489 | 14,992 |
| Total operating expenses | **319,135** | 263,753 | 231,457 |
| Operating income | **6,509** | 11,898 | 21,410 |
| Other income (expense): | | | |
| Interest income | **1,260** | 1,690 | 1,324 |
| Interest expense | **(1,407)** | (481) | (663) |
| Other, net | **6** | 140 | (341) |
| Total other income, net | **(141)** | 1,349 | 320 |
| Income before income taxes | **6,368** | 13,247 | 21,730 |
| Income taxes (benefit) | **3,181** | 5,398 | (19,174) |
| Net income | **$ 3,187** | $ 7,849 | $ 40,904 |
| Net income per common share: | | | |
| Basic | **$ 0.05** | $ 0.12 | $ 0.62 |
| Diluted | **$ 0.05** | $ 0.12 | $ 0.60 |
| Weighted average shares used in the calculation of net income per common share: | | | |
| Basic | **65,100** | 66,038 | 65,959 |
| Diluted | **66,429** | 67,402 | 68,165 |

*See accompanying notes.*

# Consolidated Statements of Stockholders' Equity

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

*Years ended July 2, 2006, July 3, 2005 and June 27, 2004*

*(in thousands, except share data)*

| | Common Stock | | | | Additional | | Unearned | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Class A | | Class B | | Paid-In | Retained | Stock-Based | Treasury Stock | | Stockholders' |
| | Shares | Amount | Shares | Amount | Capital | Deficit | Compensation | Shares | Amount | Equity |
| Balance at June 29, 2003 | 28,679,848 | $ 287 | 42,399,915 | $ 424 | $ 247,636 | $(107,951) | $ — | 5,332,800 | $ (3,108) | $137,288 |
| Exercise of employee stock options | 440,741 | 4 | — | — | 1,730 | — | — | — | — | 1,734 |
| Employee stock purchase plan | 52,104 | 1 | — | — | 391 | — | — | — | — | 392 |
| Reversal of valuation allowance related to income tax benefits from employee stock option exercises | — | — | — | — | 6,072 | — | — | — | — | 6,072 |
| Conversion of Class B common stock into Class A common stock | 255,450 | 3 | (255,450) | (3) | — | — | — | — | — | — |
| Net Income | — | — | — | — | — | 40,904 | — | — | — | 40,904 |
| Balance at June 27, 2004 | 29,428,143 | 295 | 42,144,465 | 421 | 255,829 | (67,047) | — | 5,332,800 | (3,108) | 186,390 |
| Exercise of employee stock options | 228,695 | 2 | — | — | 1,247 | — | — | — | — | 1,249 |
| Employee stock purchase plan | 75,846 | 1 | — | — | 466 | — | — | — | — | 467 |
| Issuance of restricted stock | 161,795 | 2 | — | — | 1,355 | — | (1,357) | — | — | — |
| Amortization of unearned restricted stock, net | — | — | — | — | — | — | 192 | — | — | 192 |
| Forfeiture of unvested restricted stock | (5,876) | — | — | — | (49) | — | 49 | — | — | — |
| Stock repurchase program | — | — | — | — | — | — | — | 1,328,050 | (9,813) | (9,813) |
| Net income | — | — | — | — | — | 7,849 | — | — | — | 7,849 |
| Balance at July 3, 2005 | 29,888,603 | 300 | 42,144,465 | 421 | 258,848 | (59,198) | (1,116) | 6,660,850 | (12,921) | 186,334 |
| **Exercise of employee stock options and vesting of restricted stock** | **133,499** | **1** | **—** | **—** | **649** | **—** | **—** | **—** | **—** | **650** |
| **Share-based compensation** | **—** | **—** | **—** | **—** | **4,284** | **—** | **—** | **(7,500)** | **52** | **4,336** |
| **Reclassification of unvested restriced stock upon adoption of SFAS No. 123R-Share Based Payment** | **(155,919)** | **(2)** | **—** | **—** | **(1,114)** | **—** | **1,116** | **—** | **—** | **—** |
| **Stock repurchase program** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **182,000** | **(1,324)** | **(1,324)** |
| **Conversion of Class B common stock into Class A common stock** | **6,000** | **—** | **(6,000)** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| **Net income** | **—** | **—** | **—** | **—** | **—** | **3,187** | **—** | **—** | **—** | **3,187** |
| **Balance at July 2, 2006** | **29,872,183** | **$ 299** | **42,138,465** | **$ 421** | **$ 262,667** | **$ (56,011)** | **$ —** | **6,835,350** | **$ (14,193)** | **$193,183** |

*See accompanying notes.*

# *Consolidated Statements of Cash Flows*

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

*(in thousands)*

| | Years Ended | | |
|---|---|---|---|
| | **July 2, 2006** | July 3, 2005 | June 27, 2004 |
| **Operating activities:** | | | |
| Net income | **$ 3,187** | $ 7,849 | $ 40,904 |
| Reconciliation of net income to net cash provided by operations: | | | |
| Depreciation and amortization | **15,765** | 14,489 | 14,992 |
| Deferred income taxes | **2,175** | 4,702 | (20,776) |
| Bad debt expense | **476** | 270 | 437 |
| Share-based compensation | **4,336** | 192 | — |
| Other non-cash items | **125** | — | 250 |
| Changes in operating items, excluding the effects of acquisitions: | | | |
| Receivables | **1,316** | (655) | (1,683) |
| Inventories | **(9,106)** | (6,345) | 745 |
| Prepaid and other | **685** | (3,445) | 691 |
| Accounts payable and accrued expenses | **(2,262)** | (10,953) | 1,624 |
| Other assets | **(1,380)** | 4,584 | 5,829 |
| Other liabilities | **(579)** | (259) | (884) |
| **Net cash provided by operating activities** | **14,738** | 10,429 | 42,129 |
| **Investing activities:** | | | |
| Purchases of investments | **—** | (93,946) | (62,584) |
| Proceeds from sales of investments | **6,647** | 118,109 | 63,384 |
| Acquisitions, net of cash acquired | **(96,874)** | (50,965) | — |
| Capital expenditures | **(20,491)** | (13,334) | (10,576) |
| Other | **2** | 192 | 217 |
| **Net cash used in investing activities** | **(110,716)** | (39,944) | (9,559) |
| **Financing activities:** | | | |
| Acquisition of treasury stock | **(1,324)** | (9,813) | — |
| Proceeds from employee stock options/stock purchase plan | **558** | 1,533 | 2,126 |
| Proceeds from bank borrowings and revolving line of credit | **105,000** | — | — |
| Repayment of notes payable and bank borrowings | **(22,482)** | (1,391) | (1,176) |
| Repayments of capital lease obligations | **(1,228)** | (1,677) | (1,775) |
| Other | **92** | — | — |
| **Net cash provided by (used in) financing activities** | **80,616** | (11,348) | (825) |
| Net change in cash and equivalents | **(15,362)** | (40,863) | 31,745 |
| Cash and equivalents: | | | |
| Beginning of year | **39,961** | 80,824 | 49,079 |
| End of year | **$ 24,599** | $ 39,961 | $ 80,824 |

**Supplemental Cash Flow Information:**

- Interest paid amounted to $1,407, $481, and $663 for the years ended July 2, 2006, July 3, 2005 and June 27, 2004, respectively.
- The Company paid income taxes of approximately $23 and $762, net of tax refunds received for the years ended July 2, 2006 and July 3, 2005. The Company received tax refunds, net of income taxes paid of approximately $1,476 for the year ended June 27, 2004.

*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, cookies, cakes, candies, wine, gift baskets, and other unique gifts to our customers around the world. The 1-800-FLOWERS.COM family of brands also includes Plow & Hearth, a direct marketer of home décor and garden merchandise, GreatFood.com, a source for gourmet products, The Popcorn Factory, a manufacturer and direct marketer of premium popcorn and specialty food gifts, HearthSong and Magic Cabin, direct marketers of unique children's toys and games, The Winetasting Network, a distributor and direct-to-consumer wine marketer, Cheryl&Co., a manufacturer and direct marketer of premium cookies and baked gift items and Fannie May Confections Brands, Inc., a manufacturer, direct marketer and retailer of premium chocolates and confections. The Company operates in one business segment, providing its customers with convenient, multi-channel access via the Internet, telephone, catalogs and retail stores. During fiscal 2006, approximately 61% of total revenues were derived from floral and floral-related products.

## 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 30. Fiscal years 2006 and 2004, which ended on July 2, 2006 and June 27, 2004, respectively, consisted of 52 weeks, while fiscal 2005, which ended on July 3, 2005, consisted of 53 weeks.

***Basis of Presentation***

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

***Use of Estimates***

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

***Cash and Equivalents***

Cash and equivalents consist of demand deposits with banks, highly liquid money market funds, 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. Amortization of leasehold improvements and capital leases are 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. The Company's property plant and equipment is depreciated using the following estimated lives:

| | |
|---|---|
| Buildings | 40 years |
| Leasehold improvements | 3 - 10 years |
| Furniture, Fixtures and Equipment | 3 - 10 years |
| Software | 3 - 5 years |

***Goodwill and Other Intangible Assets***

Goodwill and indefinite-lived intangibles are not amortized, but are evaluated annually in the Company's fiscal fourth quarter for impairment. To date, there has been no impairment of these assets.

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 $4.3 million and $3.7 million at July 2, 2006 and July 3, 2005, 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 July 2, 2006, July 3, 2005 and June 27, 2004, 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 July 2, 2006 and July 3, 2005.

***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 consumer, corporate and franchise accounts receivable ($2.3 million and $1.5 million at July 2, 2006 and July 3, 2005, 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. Shipping terms are FOB shipping point.

***Cost of Revenues***

Cost of revenues consists primarily of florist fulfillment costs (fees paid directly to florists), 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.

***Marketing and Sales***

Marketing and sales expense consists primarily of advertising and promotional expenditures, catalog costs, online portal and search expenses, 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, with the exception of catalog costs (see *Deferred Catalog Costs* above) at the time the advertisement is first shown. Advertising expense was $127.4 million, $107.8 million and $91.1 million for the years ended July 2, 2006, July 3, 2005 and June 27, 2004, 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, 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 lives of such software modifications are less than one year.

***Stock-Based Compensation***

The Company's employee stock based compensation plans are described more fully in Note 9. Prior to July 4, 2005, as permitted under SFAS No. 123, the Company accounted for its stock option plans following the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no stock-based compensation had been reflected in net income for stock options, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant and the related number of shares granted was fixed at that point in time.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), "Share-Based Payment." This Statement revised SFAS No. 123 by eliminating the option to account for employee stock options under APB No. 25 and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (the "fair-value-based" method).

Effective July 4, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method. Under this transition method, compensation cost recognized on a straight-line basis during the year ended July 2, 2006 includes amounts of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, July 4, 2005 (based on grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and previously presented in the pro-forma footnote disclosures), and (b) compensation cost for all stock-based payments granted subsequent to July 3, 2005 (based on the grant-date fair value estimated in accordance with the new provision of SFAS No. 123(R)). In accordance with the modified prospective method, results for prior periods have not been restated. Prior to the Company's adoption of SFAS No. 123(R), benefits of tax deduction in excess of recognized compensation costs were reported as operating cash flows. SFAS No. 123(R) requires excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. There were no significant excess tax benefits for the year ended July 2, 2006.

The following table summarizes the effect of adopting SFAS No. 123(R) as of July 4, 2005:

| | **Year Ended July 2, 2006** |
|---|---|
| | *(in thousands, except per share data)* |
| Stock-option compensation expense recognized (*): | |
| Marketing and sales | **$1,301** |
| Technology and development | **556** |
| General and administrative | **1,853** |
| Total | **3,710** |
| Related deferred income tax expense | **869** |
| Increase in net loss/decrease in net income | **$2,841** |
| Impact on basic and diluted net (loss) income per common share | **$ (0.04)** |

(*) Excludes the amortization of restricted stock awards in the amount of $0.6 million during the year ended July 2, 2006 ($0.4 million, net of tax).

Compensation expense related to the amortization of restricted stock awards was recognized prior to the implementation of SFAS No. 123(R). Total stock based compensation expense, which includes both expense from stock options and restricted stock awards, totaled $4.3 million ($3.2 million, net of tax, or $0.05 per diluted share) during the year ended July 2, 2006.

Under the modified prospective application method, results for prior periods have not been restated to reflect the effects of implementing SFAS No. 123(R). The following pro-forma information, as required by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123," is presented for comparative purposes and illustrates the effect on net income and net income per common share for the periods presented as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation prior to July 4, 2005:

| | Years Ended | |
|---|---|---|
| | July 3, 2005 (1) | June 27, 2004 (2) |
| | *(in thousands, except per share data)* | |
| Net income (loss) – As reported | $ 7,849 | $40,904 |
| Less: Stock Option compensation expense | 10,499 | 1,339 |
| Net income (loss) – Pro forma | $ (2,650) | $39,565 |
| Net income (loss) per share: | | |
| Basic – As reported | $ 0.12 | $ 0.62 |
| Basic – Pro forma | $ (0.04) | $ 0.60 |
| Diluted – As reported | $ 0.12 | $ 0.60 |
| Diluted – Pro forma | $ (0.04) | $ 0.58 |

(1) During fiscal 2005, the Company accelerated the vesting of all unvested stock options awarded to employees and officers which had an exercise price greater than $10.00 per share. Options to purchase approximately 0.8 million shares became exercisable immediately as a result of the vesting acceleration. The Company sought to balance the benefit of eliminating the requirement to recognize compensation expense in future periods with the need to continue to motivate employee performance through previously issued, but currently unvested, stock option grants. With those factors being considered, management determined it to be appropriate to accelerate only those unvested stock options where the strike price was reasonably in excess of the Company's then current stock price.

The effect of the acceleration was an increase in pro-forma stock based employee compensation expense for the year ended July 3, 2005 of $3.0 million ($0.05 per basic and diluted share). The decision to accelerate the vesting of the identified stock options will reduce the Company's share-based compensation expense of approximately $2.1 million in fiscal 2006 and $0.9 million in fiscal 2007.

(2) During fiscal 2004, FAS 123 stock based compensation is net of the income tax benefit of $6.1 million, associated with the removal of the valuation allowance on deferred tax assets arising from employee stock option exercises.

***Comprehensive Income***

For the years ended July 2, 2006, July 3, 2005 and June 27, 2004, the Company's comprehensive income was equal to the respective net income for each of the periods presented.

***Net Income Per Share***

Basic net income per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive common equivalent shares (consisting primarily of employee stock options and restricted stock awards) outstanding during the period.

***Recent Accounting Pronouncements***

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 applies to all tax positions accounted for under SFAS No. 109, "Accounting for Income Taxes" and defines the confidence level that a tax position must meet in order to be recognized in the financial statements. The interpretation requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained by the taxing authority as of the reporting date. If a tax position is not considered "more-likely-than-not" to be sustained then no benefits of the position are to be recognized. FIN 48 requires additional disclosures and is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition.

***Reclassifications***

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

## Note 3. Net Income Per Common Share

The following table sets forth the computation of basic and diluted net income per common share:

| | Years Ended | | |
|---|---|---|---|
| | **July 2, 2006 (1)** | July 3, 2005 | June 27, 2004 (2) |
| | *(in thousands, except per share data)* | | |
| Numerator: | | | |
| Net income | **$ 3,187** | $ 7,849 | $40,904 |
| Denominator: | | | |
| Weighed average shares outstanding | **65,100** | 66,038 | 65,959 |
| Effect of dilutive securities: | | | |
| Employee stock options (3) | **1,282** | 1,364 | 2,206 |
| Employee restricted stock awards | **47** | — | — |
| | **1,329** | 1,364 | 2,206 |
| Adjusted weighted-average shares and assumed conversions | **66,429** | 67,402 | 68,165 |
| Net income per common share: | | | |
| Basic | **$ 0.05** | $ 0.12 | $ 0.62 |
| Diluted | **$ 0.05** | $ 0.12 | $ 0.60 |

Note (1): Effective July 4, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method. The impact of the adoption, which reduced net income per common share for the fiscal year ended July 2, 2006 by $0.04 is described in further detail in Note 2.

Note (2): During the fiscal year ended June 27, 2004, the Company recorded an income tax benefit of $19.2 million ($0.28 per share) due to the removal of the Company's valuation allowance on its deferred tax assets which consisted primarily of net operating loss carryforwards.

Note (3): The effect of options to purchase 5.9 million, 3.8 million and 3.5 million shares for the years ended July 2, 2006, July 3, 2005 and June 27, 2004, respectively, were excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.

## Note 4. Acquisitions

The Company accounts for its business combinations in accordance with SFAS No. 141, "Business Combinations," which addresses financial accounting and reporting for business combinations and requires that all such transactions be accounted for using the purchase method. Under the purchase method of accounting for business combinations, the aggregate purchase price for the acquired business is allocated to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date.

### *Acquisition of Fannie May Confections Brands, Inc.*

On May 1, 2006, the Company acquired all of the outstanding common stock of Fannie May Confections Brands, Inc. (hereafter referred to as "Fannie May Confections Brands"), a manufacturer and multi-channel retailer and wholesaler of premium chocolate and other confections under the well-known Fannie May, Harry London and Fanny Farmer brands. The acquisition, for a purchase price of approximately $91.9 million in cash, including estimated working capital adjustments and transaction costs, includes a modern 200,000-square foot manufacturing facility in North Canton, Ohio and 52 Fannie May retail stores in the Chicago area, where the chocolate brand has been a tradition since 1920. The purchase price is subject to "earn-out" incentives which amount to a maximum of $4.5 million during the year ending July 1, 2007 and $1.5 million during the year ending June 29, 2008, upon achievement of specified earnings targets. Fannie May Confections Brands generated revenues of approximately $75.0 million in its most recent fiscal year ended April 30, 2006.

As described further under "Long-Term Debt," in order to finance the acquisition, on May 1, 2006, the Company entered into a $135.0 million secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility includes an $85.0 million term loan and a $50.0 million revolving facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed $85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands.

### *Acquisition of Wind & Weather*

On October 31, 2005, the Company acquired all of the outstanding common stock of Wind & Weather, a Fort Bragg, California based direct marketer of weather-themed gifts, with annual revenues of approximately $14.4 million during its then most recently completed fiscal year ended March 31, 2005. The purchase price of approximately $5.2 million, including acquisition costs, was funded utilizing the Company's line of credit which was repaid during the Company's second quarter utilizing cash generated from operations, and excludes the assumption of Wind & Weather's $1.2 million balance on its seasonal working capital line. The Company has since relocated the operations of Wind & Weather to its Madison, Virginia facility, and terminated operations in California.

The Company is in the process of obtaining independent appraisals for the purpose of allocating the purchase price to individual assets acquired and liabilities assumed as a result of the acquisition of Fannie May Confections Brands. This will result in potential adjustments to the carrying value of Fannie May Confections Brands' recorded assets and liabilities, the establishment of certain additional intangible assets, revisions of useful lives of intangible assets, some of which will have indefinite lives not subject to amortization, and the determination of any residual amount that will be allocated to goodwill. The preliminary allocation of the purchase price included in the current period balance sheet is based on the best estimates of management and is subject to revision based on final determination of asset fair values and useful lives. The following table summarizes the allocation of purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of acquisitions of Fannie May Confections Brands and Wind & Weather:

| | Fannie May Confections Brands Purchase Price Allocation | Wind & Weather Purchase Price Allocation |
|---|---|---|
| | *(in thousands)* | |
| Current assets | $ 21,979 | $4,014 |
| Property, plant and equipment | 3,640 | 67 |
| Intangible assets | 13,200 | 2,560 |
| Goodwill | 62,752 | 2,703 |
| Other | 156 | 20 |
| Total assets acquired | 101,727 | 9,364 |
| Current liabilities | 4,929 | 3,810 |
| Deferred tax liability | 4,485 | 265 |
| Other | 399 | 39 |
| Total liabilities assumed | $ 9,813 | 4,114 |
| Net assets acquired | $ 91,914 | $5,250 |

Of the $15.8 million of acquired intangible assets related to the Fannie May Confections Brands and Wind & Weather acquisitions, $1.9 million was assigned to trademarks that are not subject to amortization, while the remaining acquired intangibles of $13.9 million were allocated primarily to customer related intangibles which are being amortized over the assets' determinable useful life of 5 years.

***Acquisition of Cheryl & Co.***

On March 28, 2005, the Company acquired all of the outstanding common stock of Cheryl & Co., a Westerville, Ohio-based manufacturer and direct marketer of premium cookies and related baked gift items, with annual revenues of approximately $33 million during its then most recent year ended January 29, 2005. The purchase price of approximately $41.1 million, including acquisition costs, was funded utilizing the Company's available cash and investment balance, and included $6.3 million used to retire Cheryl & Co.'s outstanding debt.

**Acquisition of The Winetasting Network**

On November 15, 2004, the Company acquired all of the outstanding common stock of The Winetasting Network, a Napa, California based distributor and direct-to-consumer wine marketer. The purchase price of approximately $9.7 million, including acquisition costs was funded utilizing the Company's available cash and investment balance and included $2.4 million used to retire The Winetasting Network's long-term debt.

***Pro forma Results of Operation***

The following unaudited pro forma consolidated financial information has been prepared as if the acquisitions of Fannie May Confections Brands, Wind & Weather, Cheryl & Co. and The Winetasting Network had taken place at the beginning of fiscal year 2005. 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 taken place at the beginning of the periods presented.

| | Years Ended **July 2, 2006** | July 3, 2005 |
|---|---|---|
| | *(in thousands, except per share data)* | |
| Net revenues | **$854,333** | $780,199 |
| Operating income | **$ 14,844** | $ 22,124 |
| Net income | **$ 4,518** | $ 11,443 |
| Basic and diluted net income per common share | **$ 0.07** | $ 0.17 |

## Note 5. Inventory

The Company's inventory, stated at cost, which is not in excess of market, includes purchased and manufactured finish goods for resale, packaging supplies, raw material ingredients for manufactured products and associated manufacturing labor, and is classified as follows:

| | Years Ended **July 2, 2006** | July 3, 2005 |
|---|---|---|
| | *(in thousands)* | |
| Finished goods | **$36,689** | $21,094 |
| Work-in-process | **3,370** | — |
| Raw materials | **12,895** | 7,581 |
| | **$52,954** | $28,675 |

## Note 6. Goodwill and Intangible Assets

The change in the net carrying amount of goodwill is as follows:

| | Years Ended **July 2, 2006** | July 3, 2005 |
|---|---|---|
| | *(in thousands)* | |
| Goodwill – beginning of year | **$ 63,219** | $34,529 |
| Acquistion of Wind & Weather | **2,703** | — |
| Acquisition of Fannie May Confections Brands | **62,752** | — |
| Acquisition of Cheryl & Co. | **2,461** | 20,245 |
| Acquisition of The Winetasting Network | **—** | 8,202 |
| Other | **6** | 243 |
| Goodwill – end of year | **$131,141** | $63,219 |

The Company's intangible assets consist of the following:

| | | July 2, 2006 | | | July 3, 2005 | | |
|---|---|---|---|---|---|---|---|
| | Amortization Period | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| | | | | (in thousands) | | | |
| Intangible assets with determinable lives: | | | | | | | |
| Investment in licenses | **14-16 years** | **$ 4,927** | **$3,762** | **$ 1,165** | $ 4,927 | $3,438 | $ 1,489 |
| Customer lists | **3-6 years** | **18,500** | **2,231** | **16,269** | 4,640 | 1,145 | 3,495 |
| Other | **5-8 years** | **1,754** | **252** | **1,502** | 555 | 170 | 385 |
| | | **25,181** | **6,245** | **18,936** | 10,122 | 4,753 | 5,369 |
| Trademarks with indefinite lives | **—** | **10,886** | **—** | **10,886** | 8,846 | — | 8,846 |
| Total intangible assets | | **$36,067** | **$6,245** | **$29,822** | $18,968 | $4,753 | $14,215 |

The amortization of intangible assets for the years ended July 2, 2006, July 3, 2005 and June 27, 2004 was $1.6 million, $0.8 million, and $0.6 million, respectively. Future estimated amortization expense is as follows: 2007 - $4.0 million, 2008 - $4.0 million, 2009 - $3.9 million, 2010 - $3.8 million, and 2011 - $2.9 million, and thereafter - $0.3 million.

## Note 7. Property, Plant and Equipment

| | July 2, 2006 | July 3, 2005 |
|---|---|---|
| | (in thousands) | |
| Land | **$ 2,516** | $ 2,516 |
| Building and building improvements | **16,409** | 16,255 |
| Leasehold improvements | **20,474** | 16,891 |
| Furniture and fixtures | **5,182** | 3,971 |
| Equipment | **18,346** | 14,979 |
| Computer equipment | **51,449** | 44,796 |
| Telecommunication equipment | **8,344** | 7,008 |
| Software | **51,086** | 43,872 |
| | **173,806** | 150,288 |
| Accumulated depreciation and amortization | **114,074** | 99,814 |
| | **$ 59,732** | $ 50,474 |

## Note 8. Long-Term Debt

| | July 2, 2006 | July 3, 2005 |
|---|---|---|
| | (in thousands) | |
| Term loan and revolving credit line (1) | **$85,000** | $ — |
| Commercial note (2) | **2,942** | 4,152 |
| Other | **23** | 46 |
| Obligations under capital leases (see Note 14) | **458** | 1,746 |
| | **88,423** | 5,944 |
| Less current maturities of long-term debt and obligations under capital leases | **10,360** | 2,597 |
| | **$78,063** | $3,347 |

(1) Term loan and revolving credit line - In order to finance the acquisition of Fannie May Confections Brands, on May 1, 2006, the Company entered into a $135.0 million secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility includes an $85.0 million term loan and a $50.0 million revolving facility, which bear interest at LIBOR (5.33%) plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio (5.96% at July 2, 2006). At closing, the Company borrowed $85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands. The Company is required to pay the outstanding term loan in escalating quarterly installments, with the final installment payment due on May 1, 2012. The 2006 Credit Facility contains various conditions to borrowing, and affirmative and

negative financial covenants. Concurrent with the establishment of the 2006 Credit Facility, the Company's previous $25.0 million revolving credit facilities were terminated. The obligations of the Company and its subsidiaries under the 2006 Credit Facility are secured by liens on all personal property of the Company and its subsidiaries. No amounts were outstanding under the revolving credit facility at July 2, 2006.

(2) Commercial note - Bank note relating to obligations arising from, and collateralized by, the underlying assets of the Company's Plow & Hearth facility in Madison, Virginia. The note, dated June 27, 2003, in the amount of $6.6 million, bears interest at 5.44% per annum, and resulted from the consolidation and refinancing of a series of fixed and variable rate mortgage and equipment notes. The note is payable in 60 equal monthly installments of principal and interest commencing August 1, 2003, of which $2.9 million is outstanding at July 2, 2006.

As of July 2, 2006, long-term debt maturities, excluding amounts relating to capital leases, are as follows:

| Year | Debt Maturities |
|---|---|
| | *(in thousands)* |
| 2007 | $ 9,913 |
| 2008 | 9,967 |
| 2009 | 12,835 |
| 2010 | 12,750 |
| 2011 | 17,000 |
| Thereafter | 25,500 |
| | $87,965 |

## Note 9. Income Taxes

Significant components of the income tax provision (benefit) are as follows:

| | Years Ended | | |
|---|---|---|---|
| | **July 2, 2006** | July 3, 2005 | June 27, 2004 |
| | | *(in thousands)* | |
| Current provision: | | | |
| Federal | **$ 351** | $ 308 | $ 677 |
| State | **655** | 388 | 923 |
| | **1,006** | 696 | 1,600 |
| Deferred provision (benefit): | | | |
| Federal | **2,120** | 3,313 | (15,796) |
| State | **55** | 1,389 | (4,980) |
| | **2,175** | 4,702 | (20,776) |
| Income tax provision (benefit) | **$ 3,181** | $ 5,398 | $ (19,174) |

A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate is as follows:

| | Years Ended | | |
|---|---|---|---|
| | **July 2, 2006** | July 3, 2005 | June 27, 2004 |
| Tax at U.S. statutory rates | **35.0%** | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | **7.3** | 8.7 | 2.8 |
| Non-deductible share-based compensation | **8.5** | — | — |
| Non-deductible goodwill amortization | **2.2** | 1.5 | .5 |
| Tax credits | **(5.0)** | — | — |
| Tax settlements | **—** | — | 2.7 |
| Change in tax rates | **—** | — | 4.2 |
| Change in valuation allowance | **—** | — | (140.1) |
| Other, net | **2.0** | (4.5) | 6.7 |
| | **50.0%** | 40.7% | (88.2)% |

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 income tax assets (liabilities) are as follows:

| | Years Ended | | |
|---|---|---|---|
| | **July 2, 2006** | July 3, 2005 | June 27, 2004 |
| | | *(in thousands)* | |
| Deferred income tax assets: | | | |
| Net operating loss carryforwards | **$25,963** | $23,742 | $27,878 |
| Accrued expenses and reserves | **7,423** | 3,965 | 3,463 |
| Deferred income tax liabilities: | | | |
| Other intangibles | **(9,285)** | — | — |
| Installment sales | **(25)** | (34) | (39) |
| Tax in excess of book depreciation | **(425)** | (293) | (1,291) |
| Net deferred income tax assets | **$23,651** | $27,380 | $30,011 |

At June 27, 2004, management of the Company reassessed the valuation allowance previously established against its net deferred income tax assets. Based on the Company's earnings history and projected future taxable income, management determined that it is more likely than not that the deferred income tax assets would be realized. Accordingly, the Company removed the valuation allowance of approximately $30.0 million from its deferred income tax assets resulting in the recognition of an income tax benefit of approximately $20.8 million, a reduction of goodwill of approximately $3.1 million, related to the acquired net operating losses of GreatFood.com, and an increase in additional paid-in-capital of approximately $6.1 million related to income tax benefits associated with employee stock option exercises.

At July 2, 2006, the Company's federal and state net operating loss carryforwards were approximately $63.4 million, which, if not utilized, will begin to expire in fiscal year 2020.

## Note 10. Capital 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.

On May 12, 2005, the Company's Board of Directors increased the Company's authorization to repurchase the Company's Class A common stock up to $20 million, from the previous authorized limit of $10 million. 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. As of July 2, 2006, the Company had repurchased 1,510,050 shares of common stock for $11.1 million, $1.3 million (182,000 shares) of which was repurchased during the fiscal year ending July 2, 2006, and $9.8 million (1,328,050 shares) was repurchased during the fiscal year ending July 3, 2005.

## Note 11. Stock Based Compensation

In December 2003, the Company's Board of Directors and shareholders approved the 1-800-FLOWERS.COM 2003 Long Term Incentive and Share Award Plan (the "Plan"). The Plan is a broad-based, long-term incentive program that is intended to attract, retain and motivate employees, consultants and directors to achieve the Company's long-term growth and profitability objectives, and therefore align stockholder and employee interests. The Plan provides for the grant to eligible employees, consultants and directors of stock options, share appreciation rights ("SARs"), restricted shares, restricted share units, performance shares, performance units, dividend equivalents, and other share-based awards (collectively "Awards"). The Plan reserves 7,500,000 shares of Common Stock, which is approximately the amount of shares which had been previously available for issuance under the Company's 1999 Stock Incentive Plan. No further awards will be issued under the 1999 Stock Incentive Plan. During a calendar year i) the maximum number of shares with respect to which options and SARs may be granted to an eligible participant under the Plan will be 1,000,000 shares, and ii) the maximum number of shares with respect to which Awards intended to qualify as performance-based compensation other than options and SARs may be granted to an eligible participant under the Plan will be 500,000 shares.

The Plan is administered by the Compensation Committee or such other Board committee (or the entire Board) as may be designated by the Board (the "Committee"). Unless otherwise determined by the Board, the Committee will consist of two or more members of the Board who are non-employee directors within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934 and "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. The Committee will determine which eligible employees, consultants and directors receive awards, the types of awards to be received and the terms and conditions thereof. The Chief Executive Officer shall have the power and authority to make Awards under the Plan to employees and consultants not subject to Section 16 of the Exchange Act, subject to limitations imposed by the Committee.

At July 2, 2006, the Company has reserved approximately 15.1 million shares of common stock for issuance, including options previously authorized for issuance under the 1999 Stock Incentive Plan.

### *Stock Options Plans*

The weighted average fair value of stock options on the date of grant, and the assumptions used to estimate the fair value of the stock options using the Black-Scholes option valuation model, were as follows:

| | Years Ended | | |
|---|---|---|---|
| | **July 2, 2006** | July 3, 2005 | June 27, 2004 |
| Weighted average fair value of options granted | **$3.16** | $4.44 | $5.99 |
| Expected volatility | **46%** | 61% | 68% |
| Expected life (in years) | **5.3** | 5.0 | 5.0 |
| Risk-free interest rate | **4.6%** | 3.8% | 3.6% |
| Expected dividend yield | **0.0%** | 0.0% | 0.0% |

The expected volatility of the option is determined using historical volatilities based on historical stock prices. The expected life of options granted in fiscal 2005 was based on the Company's historical share option exercise experience. Due to minimal exercising of stock options, in fiscal 2006, the Company estimated the expected life of options granted to be the average of the Company's historical expected term from vest date and the midpoint between the average vesting term and the contractual term. The risk-free interest rate is determined using the yield available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the option. The Company has never paid a dividend, and as such the dividend yield is 0.0%.

The following table summarizes stock option activity during the year ended July 2, 2006:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (000s) |
|---|---|---|---|---|
| Outstanding at July 3, 2005 | 9,477,461 | $8.35 | | |
| Granted | 1,312,500 | $6.65 | | |
| Exercised | (124,162) | $4.50 | | |
| Forfeited/Expired | (562,308) | $9.90 | | |
| Outstanding at July 2, 2006 | 10,103,491 | $8.09 | 5.8 years | $5,255 |
| Options vested or expected to vest at July 2, 2006 | 9,850,505 | $8.12 | 0.5 years | $5,254 |
| Exercisable at July 2, 2006 | 6,480,678 | $8.74 | 4.7 years | $5,253 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the company's closing stock price on the last trading day of fiscal 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on July 2, 2006. This amount changes based on the fair market value of the company's stock. The total intrinsic value of options exercised for the year ended July 2, 2006 and July 3, 2005 was $0.3 million and $0.7 million, respectively.

The following table summarizes information about stock options outstanding at July 2, 2006:

| | 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 - 4.50 | 2,708,547 | 3.9 years | $ 3.83 | 2,708,547 | $ 3.83 |
| $ 5.50 - 6.52 | 2,463,695 | 7.3 years | $ 6.42 | 355,303 | $ 6.40 |
| $ 6.53 - 8.45 | 2,020,650 | 8.1 years | $ 7.42 | 517,369 | $ 6.84 |
| $ 8.47 - 12.87 | 2,256,003 | 5.2 years | $12.17 | 2,244,863 | $12.18 |
| $ 12.95 - 21.00 | 654,596 | 3.3 years | $19.97 | 654,596 | $19.97 |
| | 10,103,491 | 5.8 years | $ 8.09 | 6,480,678 | $ 8.73 |

As of July 2, 2006, the total future compensation cost related to nonvested options not yet recognized in the statement of income was $7.2 million and the weighted average period over which these awards are expected to be recognized was 1.5 years.

The Company grants shares of Common Stock to its employees that are subject to restrictions on transfer and risk of forfeiture until fulfillment of applicable service conditions and, in certain cases, holding periods (Restricted Stock). In fiscal 2005, the Company recorded the grant date fair value of unvested shares of Restricted Stock as unearned stock-based compensation ("Deferred Compensation"). In accordance with SFAS No. 123(R), in fiscal 2006, the Company reclassified the balance of Deferred Compensation against additional paid-in capital, and reduced its shares of Class A Common Stock issued accordingly.

The following table summarizes the activity of non-vested restricted stock during the year ended July 2, 2006:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested at July 3, 2005 | 155,919 | $8.39 |
| Granted | 168,399 | $6.59 |
| Vested | (9,500) | $7.09 |
| Forfeited | (21,137) | $9.23 |
| Non-vested at April 2, 2006 | 293,681 | $7.44 |

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of July 2, 2006, there was $1.2 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over a weighted-average period of 2.5 years.

## Note 12. 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 ESPP was terminated effective as of June 30, 2005.

## Note 13. 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 $0.4 million, $0.3 million, and $0.3 million, for the years ended July 2, 2006, July 3, 2005 and June 27, 2004, respectively.

## Note 14. 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. All leases and subleases with an initial term of greater than one year are accounted for under SFAS No. 13, *Accounting for Leases*. These leases are classified as either capital leases, operating leases or subleases, as appropriate.

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 $18.0 million and $17.9 million at July 2, 2006 and July 3, 2005, respectively, and accumulated amortization of $17.9 million and $17.1 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).

During fiscal 2001, the Company entered into a $5.0 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 July 2, 2006, approximately $0.3 million is outstanding, and no further borrowings are permitted under this lease line unless it is renewed by the Company and the lending bank. 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 July 2, 2006, future minimum payments under non-cancelable capital lease obligations and operating leases with initial terms of one year or more consist of the following:

| | Obligations Under Capital Leases | Operating Leases |
|---|---|---|
| | *(in thousands)* | |
| 2007 | $ 409 | $ 9,666 |
| 2008 | 23 | 8,734 |
| 2009 | 13 | 7,040 |
| 2010 | 13 | 4,908 |
| 2011 | 13 | 4,436 |
| Thereafter | 18 | 27,653 |
| Total minimum lease payments | $ 489 | $62,437 |
| Less amounts representing interest | (31) | |
| Present value of net minimum lease payments | $ 458 | |

At July 2, 2006, 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)* | |
| 2007 | $2,120 | $2,120 |
| 2008 | 1,546 | 1,546 |
| 2009 | 1,234 | 1,234 |
| 2010 | 808 | 808 |
| 2011 | 494 | 494 |
| Thereafter | 574 | 574 |
| | $6,776 | $6,776 |

Rent expense was approximately $13.7 million, $9.7 million, and $8.9 million for the years ended July 2, 2006, July 3, 2005 and June 27, 2004, respectively.

***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 Registered Public Accounting Firm*

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 July 2, 2006 and July 3, 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended July 2, 2006. 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 the standards of the Public Company Accounting Oversight Board (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 July 2, 2006 and July 3, 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 2, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," as revised, effective July 4, 2005.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of 1-800-FLOWERS.COM, Inc.'s internal control over financial reporting as of July 2, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 13, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Melville, New York
September 13, 2006

## *Management's Report on Internal Control Over Financial Reporting*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13-a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

• pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

• provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and

• provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of July 2, 2006. In making this assessment, management used the criteria established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this assessment, management believes that, as of July 2, 2006 the Company's internal control over financial reporting is effective.

The Company acquired Fannie May Confections Brands, Inc. on May 1, 2006, and has excluded the acquired company from its assessment of and conclusion on the effectiveness of internal control over financial reporting. For the year ended July 2, 2006, the acquired business accounted for 0.7% of the Company's total net revenue. As of July 2, 2006, the acquired business accounted for 8.4% of the Company's total assets, excluding $75.5 million of goodwill and other intangible asset amounts that were recorded in connection with the acquisition.

Ernst & Young LLP, the Company's independent registered public accounting firm, has issued a report on management's assessment and the effectiveness of the Company's internal control over financial reporting, as of July 2, 2006; their report is included in Item 9A.

James F. McCann
Chief Executive Officer
Chairman of the Board of Directors
(Principal Executive Officer)

William E. Shea
Senior Vice President Finance and Administration
(Principal Financial and Accounting Officer)

## *Report of Independent Registered Public Accounting Firm*

To the Board of Directors and Stockholders of 1-800-FLOWERS.COM, Inc. and Subsidiaries

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that 1-800-FLOWERS.COM, Inc. and Subsidiaries (the "Company") maintained effective internal control over financial reporting as of July 2, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). 1-800-FLOWERS.COM, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Fannie May Confections Brands, Inc., which are included in the Fiscal 2006 consolidated financial statements of 1-800-FLOWERS.COM, Inc. and Subsidiaries and constituted 8.4% of total assets as of July 2, 2006, excluding $75.5 million of goodwill and other intangible asset amounts recorded in connection with these acquisitions, and 0.7% of revenues for the fiscal year then ended. Our audit of internal control over financial reporting of 1-800-FLOWERS.COM, Inc. and Subsidiaries also did not include an evaluation of the internal control over financial reporting of Fannie May Confections Brands, Inc.

In our opinion, management's assessment that 1-800-FLOWERS.COM, Inc. and Subsidiaries maintained effective internal control over financial reporting as of July 2, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, 1-800-FLOWERS.COM, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of July 2, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of 1-800-FLOWERS.COM, Inc. and Subsidiaries as of July 2, 2006 and July 3, 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended July 2, 2006 and our report dated September 13, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Melville, New York
September 13, 2006

# *Market for Common Equity and Related Stockholder Matters*

***Market Information***

1-800-FLOWERS.COM's Class A common stock trades on The Nasdaq 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 July 2, 2006 and July 3, 2005.

| | High | Low |
|---|---|---|
| Year ended July 2, 2006 | | |
| July 4, 2005 – October 2, 2005 | $ 7.86 | $ 6.45 |
| October 3, 2005 – January 1, 2006 | $ 7.65 | $ 5.83 |
| January 2, 2006 – April 2, 2006 | $ 7.10 | $ 6.16 |
| April 3, 2006 – July 2, 2006 | $ 7.90 | $ 5.39 |
| Year ended July 3, 2005 | | |
| June 28, 2004 – September 26, 2004 | $ 9.64 | $ 7.01 |
| September 27, 2004 – December 26, 2004 | $ 8.95 | $ 7.44 |
| December 27, 2004 – March 27, 2005 | $ 8.75 | $ 7.20 |
| March 28, 2005 – July 3, 2005 | $ 7.83 | $ 6.52 |

***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 8, 2006, there were approximately 266 stockholders 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 8, 2006, there were approximately 18 stockholders of record of the Company's Class B common stock.

***Dividend Policy***

Although the Company has never declared or paid any cash dividends on its Class A or Class B common stock, the Company anticipates that it will generate increasing free cash flow in excess of its capital investment requirements. As such, although the Company has no current intent to do so, the Company may choose, at some future date, to use some portion of its cash for the purpose of cash dividends.

***Resales of Securities***

39,931,543 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 8, 2006, 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.

***Purchases of Equity Securities by the Issuer***

On May 12, 2005, the Company's Board of Directors increased the Company's authorization to repurchase the Company's Class A common stock up to $20 million, from the previous authorized limit of $10 million. 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. As of July 2, 2006, the Company had repurchased 1,510,050 shares of common stock for $11.1 million, of which $1.3 million and $9.8 million was repurchased during the fiscal years ending July 2, 2006 and July 3, 2005, respectively.

The following table sets forth, for the months indicated, the Company's purchase of Class A common stock during the fiscal year ending July 2, 2006, which includes the period July 4, 2005 through July 2, 2006.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| | *(in thousands, except average price paid per share)* | | | |
| 7/4/05 - 7/31/05 | 120.5 | $7.19 | 120.5 | $9,315 |
| 8/1/05 - 8/28/05 | 61.5 | $7.31 | 61.5 | $8,863 |
| 8/29/05 - 10/2/05 | – | $ – | – | $8,863 |
| 10/3/05 - 10/30/05 | – | $ – | – | $8,863 |
| 10/31/05 - 11/27/05 | – | $ – | – | $8,863 |
| 11/28/05 - 1/1/06 | – | $ – | – | $8,863 |
| 1/2/06 - 1/29/06 | – | $ – | – | $8,863 |
| 1/30/06 - 2/26/06 | – | $ – | – | $8,863 |
| 2/27/06 - 4/2/06 | – | $ – | – | $8,863 |
| 4/3/06 - 4/30/06 | – | $ – | – | $8,863 |
| 5/1/06 - 5/28/06 | – | $ – | – | $8,863 |
| 5/29/06 - 7/2/06 | – | $ – | – | $8,863 |
| Total | 182.0 | $7.23 | 182.0 | |

**1-800-FLOWERS.COM, Inc.**
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### STOCK EXCHANGE LISTING

NASDAQ Global Select Market
Ticker Symbol: FLWS

### TRANSFER AGENT AND REGISTRAR

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### 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 516-237-6113.

Information is also available via the Internet in the Investor Relations section at www.1800flowers.com, or by writing to:

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