

244 Fifth Ave., 2nd Fl., Ste. 2801 • New York, NY 10001 • Tel: (212) 726 1408 • Fax: (413) 215 0880**1800Flowers.com (NASDAQ: FLWS)**

Initiating Coverage: ACCUMULATE

May 31, 2000

KEY CONSIDERATIONS

- 1800Flowers.com continues to lead the Business-Consumer E-tailing industry in the floral and gift product sector by leveraging its brand equity and by providing a variety of products to individuals and corporate consumers.
- Proflowers and EFTD (NASDAQ: EFTD), are among the most rapidly growing floral Internet start-up companies and it may posts a formidable challenge to 1800Flowers.com to gain market share. These companies have implemented a similar Web-based e-commerce marketing strategy and the threat of new startup companies is immense. EFTD is largely backed by FTD, the world's largest floral services organization – it may prove to be a challenge for 1800Flowers.com in the long term.
- The realization of profits by 1800Flowers.com should in a large part be determined by the consumer's acceptance of the Internet. With the increasing number of strategic relationships, acquisitions, and aggressive marketing plan, it appears that 1800Flowers.com could continue to gain market share and should be profitable in the future. However, the Company expects to incur losses for the foreseeable future as a result of significant operating and capital expenditures required to achieve its objectives.

Recent Price	\$5.43
52WK Low	\$4.25
52WK High	\$23.88
P/E	N/A
P/Book	2.03
P/Sales	.86
Market Capitalization	349.0 M
Shares Outstanding	64.2 M
Float	11.9 M
Daily Volume	221 K
(3-month Average)	
EPS	
1998	.04
1999	(.08)
2000	(.87)E
2001	(.60)E
Current Ratio	2.51
Total Debt / Equity	0.06
LT Debt/ Equity	0.08
Total Cash	128.6M

ONE-YEAR PRICE AND VOLUME GRAPH**COMPANY PROFILE**

1800Flowers.com is the leading e-commerce provider of floral products and gifts, gourmet foods and home and garden merchandise in terms of number of customers and revenues. Its virtual electronic commerce platform has the capability of simplifying and expediting gift-purchasing decisions with the help of its diverse product mix. The company's business model incorporates the Internet as a means to combat and reduce overhead cost of products by centralizing the business unit and cutting inventory costs. For the nine months ended 3/26/00, the net revenues rose 29% to \$262 million. The increase in revenue is mainly attributed to higher marketing promotions and the company's continuing efforts in diversifying its product mix into non-floral products.

This report was prepared by Bhupinder Singh and David R. Rivas, Ph.D.

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THE COMPANY

1-800-FLOWERS.COM, Inc. is a leading e-commerce provider of floral products and gifts, gourmet foods and home and garden merchandise, in terms of number of customers and revenue. The company provides its customers the choice of purchasing their products online, by calling toll-free or by visiting one of the company owned or franchised retail stores. Approximately 95% of total net revenues consist of the selling price of merchandise and service and shipping charges, net of returns and credits. Of all the marketing channels, the Internet is the fastest growing sales channel. 1800flowers.com offers more than 1,500 varieties of fresh-cut and seasonal flowers, plants and floral arrangements and more than 6,000 stock keeping units, or SKUs, of gifts, gourmet foods and home and garden products, including garden accessories and casual lifestyle furnishings. The company is committed to providing its individual and corporate customers the best possible shopping experience through superior service and a 100% satisfaction guarantee. The online presence has enabled the company to expand the number and types of products it can effectively offer. Since 1995, we have expanded online product offerings of flowers, gourmet foods and gifts and added complementary home and garden merchandise through April 1998 acquisition of The Plow & Hearth, Inc. ("Plow & Hearth"). As a result, it has developed relationships with customers who purchase products not only for gifting occasions but also for everyday consumption. The company's goal is to increase the number of customers placing orders through our Web site.

- As of December 26, 1999, the Company had sold its products to approximately 8.5 million customers, of which 1.5 million had transacted business on-line. In fiscal 1999, the Company determined that its online revenues were likely to become the key revenue and profitability drivers of its business going forward. In fiscal 1999, online revenues had reached \$52.9 million, or 17.9% of total net revenues. This represented an increase of 97.7% over online revenues of \$26.7 million in fiscal 1998.
- On March 23, 2000 --1-800-FLOWERS.COM was named the No. 1 online gift site by ClicksGuide.com, an online service that rates and reviews e-commerce sites in a variety of categories
- The Company's expanded gift offering helped attract more than 1.0 million total customers during the fiscal 2000 third quarter, including approximately 628,000 new customers. Nearly half of the new customers, approximately 281,000, came to the Company online
- A majority of floral and floral-related gift products are fulfilled by members of the BloomNet network of approximately 1,500 independent florists or one of the company owned or franchised stores. 1800flowers (FLWS) **transmits orders either through BloomLink, a proprietary Internet-based electronic communication system, or the communication system of a third-party.** The Company's retail fulfillment operations primarily consist of 36 owned stores and 87 franchised stores. The gift and gourmet food products are shipped directly to the customer by members of BloomNet or third-party product suppliers using next-day or other delivery method selected by the customer. The company's business **is not dependent on any one of these third-party suppliers.** In April 1998, (FLWS) acquired The Plow & Hearth, Inc., a catalog company specializing in home and garden merchandise. The company also acquired an advanced distribution facility, which was recently expanded to approximately 300,000 square feet.
- The headquarters and one of the customer service centers are located in approximately 71,000 square feet office space in Westbury, New York. In addition, 1800flowers.com has an approximately 300,000 square foot fulfillment center in Madison, Virginia. The company owns and operates 36 retail stores, located primarily in the New York and Los Angeles metropolitan areas. In addition, the company has 87 franchised stores, located primarily in California. 1800flowers owned stores serve as local points of fulfillment and enable them to test new products and marketing programs. The company does not expect to materially increase the number of owned or franchised retail stores in the foreseeable future.

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- 1800flowers.com was rated a top gift e-tailer in NextCard's February e-commerce index
 - During the Mother's Day shopping period the Company said more than 3.3 million unique shoppers visited its Web site, an increase of approximately 76 percent over the same period in the previous year. Total conversion rate (a combination of the Company Web site, portals and more than 20,000 affiliates) was 12.6%, with conversion at the Company's Web site alone exceeding 20 percent.

In the early 1990s, the company recognized the emergence of the Internet as a significant strategic opportunity and moved aggressively to embrace this new medium. By taking advantage of previous capital investments in technology infrastructure, the company was able to quickly leverage and develop and implement an online presence. The Internet's open architecture, universal accessibility and growing acceptance make it an increasingly important environment for business-to-consumer interaction. 1800flowers.com has been accredited for providing secure electronic retailing for its customers. The company's Internet-based suite of products has the potential to create significant improvements or completely change the way gifts are traditionally purchased by providing more variety and a higher quality product at a lower cost. Higher margins can be achieved via economies of scale and cutting down on traditional brick and mortar expenses.

INDUSTRY OUTLOOK AND COMPETITION

The Internet retailing industry has boomed since the late 1990's and 1800flowers.com shares a spot among the most well known brand names in the retailing industry such as: Amazon, Princline, and Ebay. There are thousands of e-commerce companies but many of those have been hit hard in the market due to a very low brand awareness and a highly competitive market. It may appear that **competition is on the rise** with the explosion of IPO activity and with already several large floral companies operating efficiently, however, 1800flowers.com is the best-known company for floral and thoughtful gift ideas. This company has incorporated a greater product mix and expanded its product line where the company may actually become a hub for gift giving. Since the e-commerce industry is relatively new and is currently in a high growth stage, many Internet startup companies may start to emerge and challenge 1800flowers.com. This could make it harder for the company to make a relatively high economic profit with the pressure from the growing competitors. However, it is important to remember 1800flowers.com is a clear-cut leader in the floral/gift internet sector and we believe with its brand name and strong management team it could continue to be the dominant player in the market.

Competition in the floral, gift, gourmet food and home and garden industries is intense and a failure to respond to competitive pressure could result in lost revenues. There are many companies that offer products in the floral, gift, gourmet food and home and garden categories. In the floral category, the competitors include:

- Retail floral shops, some of which maintain toll-free telephone numbers;
- Online floral retailers
- Catalog companies that offer floral products
- Floral telemarketers and wire services; and supermarkets and mass merchants with floral departments

The B-C Internet sector has been under much pressure as of late and many of the smaller companies are a very good target of being bought out by companies with heftier market cap. **1800flowers.com should face intensified competition for acquisitions and there is a possibility with an approximate market cap of only \$350 million it may be bought out at these levels**, especially from larger, better-funded organizations. If the company fails to execute the acquisition strategy successfully for any reason, the business could suffer considerably. 1800flowers.com faces competitive risks from Proflowers.com and eftd.com; and from any other companies who would like to open up operations can do so online in a very simplified manner.

- **Strategic relationships may prove to be complicated** because some of its current and future partners may decide to compete with the company and some strategic relationships may put

1800flowers.com in competition with existing strategic partner or customers. Conflict of interest may occur if the company's clients implement a similar Internet infrastructure or if it takes a significant share holding in its competitors company.

- Thus far, 1800flowers.com has been able to **aggressively penetrate the market with the help of its brand equity** and its early leadership role in the Internet industry since 1995. No other floral/gift company comes close to boasting about their customer base as 1800flowers.com.
- Unlike most Internet companies that rely solely on advertising, **1800flowers.com actually helps facilitate gift-giving decisions. The company has also made progress in diversifying its revenue streams**, which could help build a strong foundation for the company to have optimal growth and build up defense against its competitors.

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

- Undertake more extensive marketing campaigns for their brands and services;
- Adopt more aggressive pricing policies; and
- Make more attractive offers to potential employees, Distribution partners and retailers.

In addition, the company faces intense competition in each of these individual product categories. In the floral industry, there are many other providers of floral products, none of which is dominant. The competitors include:

- Retail floral shops, some of which maintain toll-free telephone numbers;
- Online floral retailers;
- Catalog companies that offer floral products;
- Floral telemarketers and wire services; and
- Supermarkets and mass merchants with floral departments.

Similarly, the gift, gourmet food and home and garden categories are highly competitive. Each of these categories encompasses a wide range of products, is highly fragmented and is served by a large number of companies in addition to 1800flowers.com, **none of which is dominant**. Products in these categories may be purchased from a number of outlets, including mass merchants, telemarketers, retail specialty shops, online retailers and mail-order catalogs.

- We believe the brand strength, product selection, customer relationships, technology infrastructure and fulfillment capabilities position the company to compete effectively against its current and potential competitors in most of the product categories. However, increased competition could result in: price reductions, decreased revenues and lower profit margins; loss of market share; and increased marketing expenditures.
- Peak shopping period (5/1-5/13/00) exceeds 750,000 orders, believed to be among the highest in gift retailing industry. More than 3.3 million unique customers visited web site - up 76 percent compared with same period last year.

EFTD.com (NASDAQ: eftd) and Proflowers.com (NASDAQ: CARI), are rapidly growing Internet start-ups, it may posts a formidable challenge to 1800flowers.com by gaining market share. These companies are developing a similar Web-based e-commerce system with similar product line and mix. Both of these competitors have built up a customer base and also have exclusive relationships with other internet portals.

It is also important to remember that efd.com is backed up by its parent company FTD. These companies may prove to be a challenge for 1800flowers.com in the long term.

Even though there are many floral/gift companies on the Internet, **1800flowers.com is still the leading multi-channel provider of thoughtful gifts.** 1800flowers.com has always had a proactive role in e-commerce industry and it has the largest market share among its competitors. However due to open barriers to entry for the internet, 1800flowers.com may have to compete with traditional floral companies, which may also implement a similar Internet commerce of gift products. Some of the cash-cow companies may choose to spend and expand into gift products and this should spur competition in this industry; consequently, market share for 1800flowers.com may decline.

STRATEGY FOR GROWTH

The company's largest asset and its future success depends on the management's continued aggressive role in promoting its brand name. We believe that 1-800-FLOWERS is one of the most recognized brands in the floral industry. The strength of its brand has enabled it to extend product offerings to complementary products, including gifts, gourmet foods and home and garden merchandise, and to attract a significant number of customers to our Web site. The company plans to grow its market capitalization and future earnings by investing heavily in strategic relationships, infrastructure development, applications development and sales and marketing. This proposition could negatively affect the company's profits in the short term, but it should make 1800flowers.com an early leader in its industry.

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

- A sophisticated transaction processing system that facilitated rapid order entry and fulfillment
- An advanced telecommunications system
- Multiple customer service centers to handle increasing call volume

The competition for customers will become more intense and the importance of acquiring each customer will become greater, but 1800flowers.com should be able to avoid the negative externalities due to its brand name. In the E-commerce sector, 1800flowers.com has been acknowledged for its security and reliability; the company should continue to grow with the help of its brand name. It is with the increase in security, which should allow the consumers to trust the Internet and electronic information exchange to place in the first place.

PERSONALIZATION 1800flowers.com utilizes the Web site to enhance the direct relationship with its customers. The "My Assistant" area of our site enables customers to establish their floral and gift preferences, which personalizes and simplifies their visits. "My Assistant" members are also provided with an online address book of names and addresses of their gift recipients, access to their purchasing history and e-mail notification of specials and events at local retail stores. The customers can also register for the "Gift Reminder Program," in which we send them an e-mail reminder a few days prior to an occasion to remind them of the occasion and to recommend specific flowers and gifts.

The company's marketing and promotion strategy is designed to strengthen 1-800-FLOWERS.COM brand, build customer loyalty, increase the number of online and telephonic customers, encourage repeat purchases and develop additional product revenue opportunities. Brand awareness should help legally eliminate the competition in this industry. Even though this should result in greater losses for the foreseeable future, in the long run the company should be able to leverage higher sales by doing the following:

- Expand the 1-800-FLOWERS.COM brand through marketing and other promotional activities;
- Enter into strategic relationships with Internet companies
- Increase the number of products we offer
- Enhance the technological infrastructure and order fulfillment capabilities.

INCREASE THE NUMBER OF ONLINE CUSTOMERS. The company's goal is to increase the number of customers placing orders through its Web site because it is believed by many experts that floral/gift will predominately be done over the internet in the next few years. To achieve this goal the company intends to do the following:

- Actively promote the Web site through Web portals and online networks
- Aggressively expand our online affiliate program, in which independent Web sites link directly to its Web site
- Aggressively market the Web site in its advertising campaigns
- Promote the Web site to its existing telephonic customers
- Facilitate access to the Web site for its corporate customers by developing direct links from their internal corporate networks.

FRESH-CUT FLOWERS EXCLUSIVITY – the company has been aggressively pursuing contracts with the best-known internet portal in order to take the lead in the floral retailing. For example, 1-800-FLOWERS is the only exclusive provider of fresh-cut flowers and Plants on the AOL Properties. Even though AOL's exclusivity right fees are quite hefty, it is well worth it for the market reach 1800flowers can attain by reaching out to AOL members. As part of an agreement AOL cannot promote, market or advertise the sale by any third-party of (or permit any third party to promote market or advertise the sale of) fresh-cut flowers on or through the AOL-Controlled Areas during the Fresh-Cut Flowers Exclusivity Period, nor can it promote, market or advertise the sale by any third party of (or permit any third party to promote, market or advertise the sale of) any Plants on AOL.com and the AOL Service during the Fresh Cut Flowers Exclusivity Period.

- **McCann stated that he believes the ongoing "shake-out" of online retail companies amid concerns over delayed profitability and cash constraints, would eventually benefit 1-800-FLOWERS.COM** as investors increasingly look for the few companies in the category that are positioned to survive and prosper. "1-800-FLOWERS.COM is well positioned to continue to cost effectively grow our business," he said. "We are differentiated from other players in the retail/e-tail sector in a number of ways, including our legacy of 20 plus years of experience as a successful private enterprise, our current success as a multi-channel thoughtful gift provider, and the unique collection of leveragable assets that we have built over the years - specifically, a highly recognized brand name, a large and growing customers database, a hybrid fulfillment system which has proven itself under peak demand conditions, an integrated and scalable technology base, leading business partners and an exceptionally strong balance sheet."

Consumers want simplicity and 1800flowers.com offers just that. Their Web site allows customers to easily browse and purchase products, promotes brand loyalty and encourages repeat purchases by providing an inviting customer experience. The Web site offers customers detailed product information, complete with photographs, contests, home decorating and how-to tips, information on floral trends, gift-giving suggestions and information about special events and offers. The company has designed the Web site to be fast, secure and easy to use and to enable customers to order products with minimal effort. 1800flower's growth is mostly dependent upon its ability to target its product effectively in several marketing channels in a relatively short period of time; we believe the company has done a good job last year by penetrating the market with aggressive marketing plan to increase brand awareness. The company has redefined the business paradigm of floral/gift industry and how the consumers will transact and interact via the Internet as the medium of choice.

STRATEGIC ALLANCES AND PARTERNSHIPS

1800flowers.com aggressively expanded its customer base and service offerings by developing strategic alliances with internet portals and aggressive marketing strategy. In last quarter, the company renewed its strategic partnership with AOL and it has engaged in many new contractual agreements with many Internet giants. Alliances such as these should provide the company with important specialized industry expertise, increase market penetration, generate revenue and should give itself a head start from its competitors. 1800flowers.com

promotes products through strategic relationships with leading Web portals and online networks. The key relationships include:

- **SALE OF FLORAL WORKS, Incorporated** – DIVESTITURE. On January 12, 2000, the Company completed the sale of its Floral Works, Inc. ("Floral Works") subsidiary to a private investment firm, Eaglestone Partners, and the management of Floral Works. Floral Works is a provider of wholesale floral bouquets to supermarkets and grocery store chains. The sales price of \$3.1 million approximated the Company's carrying value of the subsidiary's net assets at the time of divestiture. Such divestiture is not expected to have a material impact on the Company's consolidated revenues for the fiscal year ending July 2, 2000. Floral Works contributed revenues of approximately \$6.7 million and \$4.8 million during the three and six months ended December 26, 1999.
- **GREATFOOD.COM, INC.** -- Pursuant to an agreement and plan of reorganization, on November 24, 1999, the Company completed its acquisition of GreatFood.com, Inc., ("GreatFood.com"), an online retailer of specialty and gourmet food products. The purchase price of approximately \$18.7 million was funded with a portion of the net proceeds available from the Company's IPO. The acquisition has been accounted for as a purchase and, accordingly, the operating results of GreatFood.com have been included in the company's consolidated financial statements since the date of acquisition. The excess of the purchase price over the fair market value of the net assets acquired, approximately \$18.3 million, is being amortized over three years.
- **THE PLOW & HEARTH, INC.** -- On April 1998, 1-800-FLOWERS.COM acquired 88% of the issued and outstanding shares of common stock of Plow & Hearth (70% of the fully diluted equity due to the existence of 28,334 outstanding management stock options). Plow & Hearth is a catalog company located in Virginia. The acquisition price was \$16,100,000, exclusive of the management put liability described below, of which \$14,700,000 was financed through 1-800-FLOWERS.COM's credit agreement. The purchase price has been allocated to the assets acquired and the liabilities assumed based on fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired of \$19,600,000 has been recorded as goodwill and is being amortized over 20 years.
- **America Online.** The company has worked with AOL since 1994 and maintains a separate online 1-800-FLOWERS.COM store for the convenience of AOL's subscribers. It has recently entered into an agreement which expanded the term of the relationship until August 31, 2003 and its scope by adding the CompuServe Service, Netscape Netcenter (starting February 2000), the ICQ Service and Digital City to the AOL Service and AOL.com. On the AOL Service and AOL.com we are the exclusive marketer of fresh-cut flowers and plants during the term, and of fresh-cut flowers on CompuServe, Netscape Netcenter, ICQ Service and Digital City for a period of three years. For a one-year period during the term, we are the exclusive marketer of gardening products on all six properties. Under the agreement, the term "exclusive marketer" means that AOL will not promote, market or advertise these products on the aforementioned properties on behalf of any entity other than 1-800-FLOWERS.COM during the respective exclusivity periods. In addition, we are to be prominently promoted through banner and other advertisements across these AOL properties.
- **Netscape Netcenter** – 1800flowers.com announced that it has become the exclusive marketer of fresh-cut flowers and gardening products on Netscape Netcenter. In addition, 1-800-FLOWERS.COM will also have anchor tenancy in the gift and gourmet areas. The new positioning, part of the four-year agreement signed by AOL and 1-800-FLOWERS.COM in September 1999, gives the online gift company exposure to Netcenter registrants just prior to Valentine's Day, a key floral and gift holiday. Netscape Netcenter, with more than 20 million registrants worldwide, is a leading portal site that provides users access to a broad range of consumer and business content and services. Netcenter also offers a wide variety of products through Shop@Netscape. "Our relationship with AOL gives us access to the premier e-commerce destination in cyberspace, while our Netcenter relationship brings us to perhaps the leading portal for business/office users," said Jim McCann, CEO of 1-800-FLOWERS.COM. "Additionally, the timing could not be better, coming just before one of the key gift-giving occasions in the year."

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- **Microsoft Network.** 1800flowers.com's products, advertisements and links to its Web site are prominently featured on Microsoft Network's online shopping channel.
 - **Excite.** The products and links to the Web site are also prominently featured on Excite's shopping channel. The agreement with Excite extends through June 2000.
 - **StarMedia Network.** Through the company's relationship with StarMedia Network, the company has developed a Spanish and Portuguese language versions of the Web site.
 - **Amazon.com --** On April 26, 2000, announced today that it has become the exclusive Amazon.com Gift Ideas floral provider, effective immediately and running through the largest floral holiday season. 1-800-FLOWERS.COM will receive the top placement under Amazon.com's "Gift Ideas" center which will link prospective shoppers to the 1-800-FLOWERS.COM web site (www.1800flowers.com). Amazon.com (NASDAQ:AMZN), the leading online retailer, will also use e-mail to announce to its customers the availability of flowers from 1-800-FLOWERS.COM on the Gift Ideas center.
 - **ONLINE AFFILIATE PROGRAM.** In addition to securing alliances with frequently visited Web sites, in February 1999 we established an affiliate network that has grown to more than 6,000 Web sites operated by third parties. Affiliates may join this program through (FLWS) Web site and their participation may be terminated by them or by 1800flowers at any time. To date, this program has not generated a significant amount of revenue. These Web sites earn commissions by referring customers from their sites to our Web site. Affiliates include AT&T WorldNet, Earthlink/Sprint, Gateway 2000, HomeArts, About.com and PCWorld Online.

1800flowers.com will continue to establish strategic partnerships and create mechanisms to combine the unique strengths of each partner, building upon the strategic relationships. Over the past year, 1800flowers.com has made significant efforts in solidifying and strengthening its growth strategy through acquisitions and strategic alliances. We believe this trend will continue through out rest of this year because Internet companies in general will need to form synergies to consolidate efforts and cut cost. The synergies the company has engaged thus far will prove to be virtuous in the long term and it should have a positive effect on future cash flows and earnings.

KEY RISK FACTORS

- The growth and development of the market for online services may prompt more stringent consumer protection laws that may impose additional burdens on those companies conducting business online. The adoption of any additional laws or regulations may impair the growth of the Internet or commercial online services. This could decrease the demand for its services and **increase the cost of doing business.** Any new legislation or regulation that has an adverse impact on the Internet or the application of existing laws and regulations to the Internet could have a material adverse effect on the business, financial condition and results of operations.
- States or foreign countries might attempt to regulate the business or levy sales or other taxes relating to our activities. Because the products and services are available over the Internet anywhere in the world, multiple jurisdictions may claim that we are required to do business as a foreign corporation in one or more of those jurisdictions. A failure to qualify as a foreign corporation in a jurisdiction where the company is required to do so could subject to taxes and penalties. States or foreign governments may charge the company with violations of local laws.
- It may be possible for competitors to obtain and/or use of proprietary information without authorization or to develop technologies similar to ours and independently create a similarly functioning infrastructure. Furthermore, the protection of proprietary rights in Internet-related industries is uncertain and still evolving. The laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. The means of protecting proprietary rights in the **United States or abroad may not be adequate.**

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- Operating results should suffer if sales during the peak season do not meet expectations.
 - A failure to establish and maintain strategic online relationships that generate a significant amount of traffic could limit the growth of the company's business.
 - If local florists and other third-party vendors do not fulfill orders to a customer's satisfaction, the customers should bring business elsewhere.
 - Increased shipping costs and labor stoppages may adversely affect sales of non-floral products.
 - If the supply of flowers for sale becomes limited, the price of flowers should rise or flowers may be unavailable, therefore, revenues and gross margins could decline.
 - If third parties acquire rights to use similar domain names or phone numbers or if the company lose the right to use the phone numbers, 1800flowers.com brand may be damaged and it may result in lose sales. The Internet domain names are an important aspect of our brand recognition and if this is lost, the growth and revenue will decline significantly.
 - The revenues will not grow if the internet is not accepted as a medium for commerce. We expect to derive an increasing amount of the revenue from electronic commerce, and intend to extensively market the non-floral products online.
 - Unexpected system interruptions caused by system failures may result in reduced revenue and harm the reputation.

FINANCIAL MODEL

Revenue -- Sales of non-floral products represented 18.1 percent of online revenues compared with approximately 10 percent in the prior year period. This increase came despite the fact that the Company's fiscal third quarter includes Valentine's Day, traditionally a floral holiday. This illustrates how customers are increasingly embracing 1-800-FLOWERS.COM's expanded product offering, including everything from free online greeting cards, candies and gourmet items to thousands of unique gifts for the home and garden. For the first quarter of year 2000 the company reported a 127.3 percent increase in its online revenues to \$20.1 million for its third fiscal quarter ended March 26, 2000, compared with \$13.2 million in the same period last year. Total revenues for the quarter grew 26.4 percent to \$85.0 million compared with \$67.3 million in the prior year period. Pro forma net revenues grew 31.9 percent during the fiscal 2000 third quarter, compared with the year ago period, excluding the impact of the company's sale of its Floral Works wholesale division and its acquisition of Greatfoods.com

Gross Profit - With aggressive market penetration, the number of users and transactions are expected to increase exponentially. Gross profit should continue to increase as the cost of services should decline as economies of scale should help spread out the fixed costs. Thus, we expect gross margins to continue to increase.

Operating Expenses - Total operating expense should decrease in absolute terms in the next several quarters due to synergies and consolidation of effort.

Net Loss - Net loss should continue for the next several quarters due to increasing advertising and acquisition expenses. However, net loss should decrease with an increase in number of online transactions. The loss per share for the quarter reflects the Company's continued investments in marketing programs designed to enhance its leading brand name recognition, expand its product offering and further develop its management team and technology and operating infrastructure to support anticipated continued rapid growth.

Cash – The company has a significant reserve of cash on account, this should be sufficient in funding future marketing plan.

VALUATION

Internet Sector - The stock price dipped immensely from its IPO price after its Initial Public Offering price because of the negative sentiment for growing competition and overly saturated B-C Internet stocks. Since then, the stock has fallen considerably from its 52-week high of \$23.188 and has under performed the NASDAQ Composite average. Thus, 1800flowers.com has a strong potential to move higher from its current price and is not overvalued relative to the sector. As revenue numbers and earnings come out for the second quarter and client base continues to increase, it is likely the stock price should ascent higher in late third quarter.



Comparative Analysis Table2

Company	Price	Market Capitalization Mil.	Key Metric	Price to Sales ratio	Profit Margin	Relative Strengths	Relative Weakness
1800flowers.com	5.43	349.0	15,000 different flowers/ 60,000 gift products	.86	-15.1%	B2C leader in the floral/gifts	High Marketing Cost
Proflowers			Privately Held			Has a similar Products line	Short of money
Eftd.com	1.06	91.7	5.5 million unique users	1.06	-31.4%	Backed by FTD	Short of Money

Amazon	48.313	17,000	Amazon.com is an online retailer that serves over 17 million customer accounts in over 150 countries.	8.33	-41.8%	User-friendly website	Heavy Marketing Expenses
Average				3.4167	-29.43%		

Revenue Growth - Revenue should increase by approximately 29% in year 2000 as compared to last year. We expect revenue to continue to grow at a fast pace throughout this year and next year.

Price to Sales Ratio - Currently, 1800flowers.com price to sales ratio is .86 while its competitor (EFTD.com) averaged a P/S ratio of around 1.06. 1800flowers.com appears to be rather undervalued. If we look towards the future, the stock is trading at a roughly 1X the estimated year 2000 revenues, leading us to believe the stock is fairly valued.

Gross Margins - We expect a significant increase of gross margins as customer base and transaction volume increases and average fixed costs decline.

Investment Opinion – We believe that 1800flowers' business model has an excellent growth potential and along with its strong brand name, and aggressive strategic relationship strategy, we expect the company to break out of its bearish to an upward trend in the long term. However, the short term for 1800flowers.com may be negative due to pessimism for B-C internet companies. The market technicals seem to be bearish for the short term but the fundamentals illustrate a bullish long-term trend for the stock. We thus give the company an ACCUMULATE rating as the stock should be bought on weakness during this volatile period.

Balance Sheet

1 800 FLOWERS COM INC

Balance Sheet

Period End: Dec 26, 1999

Date Filed: Feb 8, 2000

Values in this worksheet are in thousands, except where noted.

	06/27/99	12/26/99	03/26/00
Cash and equivalents	\$99,183	\$153,681	\$128,589
Receivables, net	9,284	17,778	9,983
Inventories	7,496	11,193	14,025
Prepaid and other	1,307	2,243	1,624
Recoverable income taxes	2,431	3,214	3,674
Deferred tax assets	1,504	801	611
Total current assets	121,205	188,910	158,506
Property, plant and equipment at cost, net	27,525	36,478	38,678
Investments	984	937	1,937
Capitalized investment in leases	1,452	1,222	1,147
Notes receivable, net	722	514	426
Goodwill, net of accumulated amortization	21,362	40,421	36,773
Investment in licenses, net of accumulated amortization	3,428	3,267	3,186
Other	5,677	8,551	7,808
Total assets	\$182,355	\$280,300	\$248,461
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$23,396	\$59,366	\$48,559
Accrued expenses	5,543	12,164	10,132
Current maturities of long-term debt and obligations under capital leases	6,647	3,305	4,380
Total current liabilities	35,586	74,835	63,071
Long-term debt and obligations under capital leases	27,457	9,145	8,869
Deferred rent and other liabilities	4,009	5,488	4,717
Management put liability	6,300	--	--
Total liabilities	73,352	89,468	76,657
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, \$.01 par value, shares authorized-10,000,000, shares issued and outstanding-none at December 26, 1999 and 1,127,546 at June 27, 1999, stated at liquidation value	117,573	--	--

1 800 FLOWERS COM INC

Income Statement

Period End: Mar 26, 2000

Date Filed: May 10, 2000

Values in this worksheet are in thousands, except where noted.

	9 ME 03/28/99	9 ME 03/26/00	3 ME 03/28/99	3 ME 03/26/00	EST 2000	EST 2001
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)		
Net revenues	\$203,668	\$261,962	\$67,290	\$85,045	\$437,546.56	\$564,435.06
Cost of revenues	123,738	161,886	42,098	54,143	278,559.39	358,288.86
Gross profit	79,930	100,076	25,192	30,902	\$158,987.17	\$206,146.21
Operating expenses:						
Marketing and sales	67,204	115,987	19,684	36,789	160,000	185,000
Technology and development	5,207	11,999	2,273	4,097	16,388	17,500
General and administrative	10,528	21,949	4,907	6,773	27,092	30,000
Depreciation and amortization	6,043	10,202	2,157	4,487	17,948	20,000
Total operating expenses	88,982	160,137	29,021	52,146	221,428	252,500
Operating loss	(9,052)	(60,061)	(3,829)	(21,244)	(\$62,440.83)	(\$46,353.79)
Other income (expense):						
Interest income	702	6,153	298	1,894	7,576.00	8,333.60
Interest expense	(1,863)	(1,116)	(660)	(294)	(1,176.00)	(1,293.60)
Other, net	32	194	47	107	428.00	470.80
Total other income (expense)	(1,129)	5,231	(315)	1,707	6,828.00	7,510.80
Loss before income taxes and minority interests	(10,181)	(54,830)	(4,144)	(19,537)	(55,612.83)	(38,842.99)
Benefit from income taxes	2,926	867	1,178	268	1,072.00	1,179.20
Loss before minority interests	(7,255)	(53,963)	(2,966)	(19,269)	(54,540.83)	(37,663.79)
Minority interests in operations of consolidated subsidiaries	(99)	43	(63)	4	16	17.6
Net loss	(7,354)	(53,920)	(3,029)	(19,265)	(\$54,524.83)	(\$37,646.19)
Redeemable Class C common stock dividends	(1,328)	--	(443)	--		
Net loss applicable to common stockholders	(\$8,682)	(\$53,920)	(\$3,472)	(\$19,265)	(\$54,524.83)	(\$37,646.19)
Basic and diluted net loss per common share applicable to common stockholders	(\$0.20)	(\$0.90)	(\$0.08)	(\$0.31)	(\$0.87)	(\$0.60)

Shares used in the calculation of basic and diluted net loss per common share applicable to common stockholders

44,000

59,711

44,000

62,667

62,667

62,667

Inputs

Total Revenue Growth % (9 Months Ended 3/28/00)

28.62%

Total Cost Growth % (9 Months Ended 3/28/00)

30.83%