

NON-U.S. GAAP FINANCIAL MEASURE: EBITDA

Regulation G, *Conditions for Use of Non-GAAP Financial Measures*, and other provisions of the Securities Exchange Act of 1934, define and prescribe the conditions of use of certain non-U.S. GAAP financial information. Our measure of EBITDA meets the definition of a non-U.S. GAAP financial measure.

EBITDA is defined as earnings before net interest expense, income taxes, depreciation and amortization and is computed on a consistent method from quarter to quarter and year to year.

We use EBITDA, in conjunction with U.S. GAAP measures such as operating income and net income, to assess our operating performance and that of each of our businesses and segments. Specifically, we use EBITDA, alongside other U.S. GAAP measures such as gross margin, operating income and net income, to measure profitability and profit margins and to make budgeting decisions relating to historical performance and future expectations of our segments and business as a whole, and to make performance comparisons of our Company compared to other peer companies. We believe that, like management, debt and equity investors frequently use (and expect to be able to continue to use) EBITDA to assess our operating performance and compare it to that of other peer companies.

Furthermore, we use EBITDA (in conjunction with other U.S. GAAP and non-U.S. GAAP measures such as operating income, capital expenditures, taxes and changes in working capital) to measure return on capital employed. EBITDA allows us to determine the cash return before taxes, capital spending and changes in working capital generated by the total equity employed in our company. We believe return on capital employed is a useful measure because it indicates the total returns generated by our business, which, when viewed together with profit margin information, allows us to better evaluate profitability and profit margin trends.

As a performance measure, we also use return on capital employed to assist us in making budgeting decisions related to how debt and equity capital is being employed and how it will be employed in the future. Historical measures of return on capital employed, which include EBITDA, are used in estimating and predicting future return on capital trends. Combined with other U.S. GAAP financial measures, historical return on capital information helps us make decisions about how to employ capital effectively going forward.

However, because EBITDA does not take into account certain of these non-cash items, which do affect our operations and performance, EBITDA has inherent limitations as an operating measure. These limitations include:

- EBITDA does not reflect the cash cost of acquiring assets or the non-cash depreciation and amortization of those assets over time, or the replacement of those assets in the future;
- EBITDA does not reflect cash capital expenditures on an historical basis or in the current period, or address future requirements for capital expenditures or contractual commitments;
- EBITDA is not a measure of discretionary cash available to us to invest in the growth of our business;
- EBITDA does not reflect changes in working capital or cash needed to fund our business;
- EBITDA does not reflect our tax expenses or the cash payments we are required to make to fulfill our tax liabilities; and
- Other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

To compensate for these limitations we analyze EBITDA alongside other U.S. GAAP financial measures of operating performance, including, operating income, net income and changes in working capital, in terms of the impact on other non-operating income and losses that affect profitability and return on capital. You should not consider EBITDA in isolation or as a substitute for these U.S. GAAP measures of operating performance.

A reconciliation of net income (loss), by segment, to EBITDA, by segment, is as follows:

<i>Dollars in millions</i>	Harry and David Direct Marketing	Harry and David Stores	Jackson & Perkins	Other	Total
Fiscal 2006 (Successor)					
Net income (loss)	\$ 30.3	\$ (3.4)	\$ (11.6)	\$ (25.0)	\$ (9.7)
Net interest (expense) income	-	-	-	(24.7)	(24.7)
Provision (benefit) for income taxes	(0.3)	-	0.1	0.3	0.1
Depreciation and amortization expense	1.8	2.7	1.2	13.2	18.9
Depreciation and amortization allocated ⁽¹⁾	12.0	0.9	0.3	(13.2)	-
EBITDA	<u>43.8</u>	<u>0.2</u>	<u>(10.0)</u>	<u>-</u>	<u>34.0</u>

⁽¹⁾ Represents depreciation and amortization included in the non-cash corporate expense allocation