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1 800 FLOWERS COM INC  
Form 10-Q  
November 08, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2007

or

\_\_\_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_ to \_\_\_

Commission File No. 0-26841

1-800-FLOWERS.COM, Inc.  
(Exact name of registrant as specified in its charter)

DELAWARE  
-----  
(State of  
incorporation)

11-3117311  
-----  
(I.R.S. Employer  
Identification No.)

One Old Country Road, Carle Place, New York 11514  
-----  
(Address of principal executive offices) (Zip code)

(516) 237-6000  
-----  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ( ) Accelerated filer(X) Non-accelerated filer ( )

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ( ) No (X)

The number of shares outstanding of each of the Registrant's classes of common stock:

26,137,840  
-----  
(Number of shares of Class A common stock outstanding as of November 2, 2007)

36,858,465  
-----

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(Number of shares of Class B common stock outstanding as of November 2, 2007)

1-800-FLOWERS.COM, Inc.

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PART I. - FINANCIAL INFORMATION

ITEM 1. - CONSOLIDATED FINANCIAL STATEMENTS

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1-800-FLOWERS.COM, Inc. and Subsidiaries  
 Consolidated Balance Sheets  
 (in thousands, except share data)

|   | September 30<br>2007<br>-----<br>(unaudited) |
|---|--|
| <b>Assets</b>   |  |
| Current assets:   |  |
| Cash and equivalents  | \$3,821                                      |
| Receivables, net  | 20,915                                       |
| Inventories   | 83,163                                       |
| Deferred income taxes   | 23,040                                       |
| Prepaid and other   | 18,342                                       |
|   | -----  |
| Total current assets  | 149,281                                      |
| Property, plant and equipment, net  | 62,666                                       |
| Goodwill  | 112,131                                      |
| Other intangibles, net  | 52,082                                       |
| Other assets  | 677  |
|   | -----  |
| Total assets  | \$376,837<br>=====                           |
| <br>  |  |
| <b>Liabilities and stockholders' equity</b>   |  |
| Current liabilities:  |  |
| Accounts payable and accrued expenses   | \$52,795                                     |
| Current maturities of long-term debt and obligations under capital leases   | 50,829                                       |
|   | -----  |
| Total current liabilities   | 103,624                                      |
| Long-term debt and obligations under capital leases   | 64,813                                       |
| Deferred income taxes   | 8,230  |
| Other liabilities   | 2,614  |
|   | -----  |
| Total liabilities   | 179,281                                      |
| 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 30,446,524 and 30,298,019 shares issued at September 30, 2007 and July 1, 2007, respectively | 304  |
| Class B common stock, \$.01 par value, 200,000,000 shares authorized 42,138,465 shares issued at September 30, 2007 and July 1, 2007                              | 421  |
| Additional paid-in capital  | 271,584                                      |
| Retained deficit  | (44,683)                                     |
| Treasury stock, at cost - 4,594,326 and 4,590,717 Class A Shares at September 30, 2007 and July 1, 2007, respectively and 5,280,000 Class B shares                | (30,070)                                     |
|   | -----  |
| Total stockholders' equity  | \$197,556                                    |
|   | -----  |
| Total liabilities and stockholders' equity  | \$376,837<br>=====                           |

See accompanying Notes to Consolidated Financial Statements.

1-800-FLOWERS.COM, Inc. and Subsidiaries  
Consolidated Statements of Income  
(in thousands, except per share data)  
(unaudited)

|   | Three Months Ended    |                    |
|---|-----------------------|--------------------|
|   | September 30,<br>2007 | October 1,<br>2006 |
| Net revenues  | \$145,810             | \$137,132          |
| Cost of revenues  | 85,929                | 82,318             |
| Gross profit  | 59,881                | 54,814             |
| Operating expenses:   |                       |                    |
| Marketing and sales   | 42,779                | 42,370             |
| Technology and development  | 5,235                 | 5,161              |
| General and administrative  | 15,218                | 13,343             |
| Depreciation and amortization   | 4,870                 | 4,744              |
| Total operating expenses  | 68,102                | 65,618             |
| Operating loss  | (8,221)               | (10,804)           |
| Other income (expense):   |                       |                    |
| Interest income   | 178                   | 337                |
| Interest expense  | (1,545)               | (1,828)            |
| Other   | 18                    | 11                 |
| Total other income (expense), net   | (1,349)               | (1,480)            |
| Loss before income taxes  | (9,570)               | (12,284)           |
| Income tax benefit  | 3,780                 | 4,865              |
| Net loss  | (\$5,790)             | (\$7,419)          |
| Basic and diluted net loss per common share   | (\$0.09)              | (\$0.11)           |
| Weighted average shares used in the calculation<br>of basic and diluted net loss per common share | 62,638                | 65,195             |

See accompanying Notes to Consolidated Financial Statements.

1-800-FLOWERS.COM, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(in thousands)  
(unaudited)

|  | Three Months<br>September 30,<br>2007 |
|--|---------------------------------------|
| Operating activities:                                      |                                       |
| Net loss   | (\$5,790)                             |
| Reconciliation of net loss to net cash used in operations: |                                       |
| Depreciation and amortization                              | 4,870                                 |
| Deferred income taxes                                      | (3,780)                               |
| Stock-based compensation                                   | 1,469                                 |
| Bad debt expense   | 584                                   |
| Other non-cash items                                       | 97                                    |
| Changes in operating items:                                |                                       |
| Receivables  | (4,489)                               |
| Inventories  | (21,179)                              |
| Prepaid and other  | (8,766)                               |
| Accounts payable and accrued expenses                      | (5,272)                               |
| Other assets   | 351                                   |
| Other liabilities  | (67)                                  |
| Net cash used in operating activities                      | (41,972)                              |
| Investing activities:                                      |                                       |
| Acquisitions, net of cash acquired                         | (4,366)                               |
| Capital expenditures                                       | (4,332)                               |
| Other  | 48                                    |
| Net cash used in investing activities                      | (8,650)                               |
| Financing activities:                                      |                                       |
| Proceeds from employee stock options                       | 846                                   |
| Proceeds from bank borrowings                              | 50,000                                |
| Repayment of notes payable and bank borrowings             | (12,481)                              |
| Repayment of capital lease obligations                     | (9)                                   |
| Net cash provided by financing activities                  | 38,356                                |
| Net change in cash and equivalents                         | (12,266)                              |
| Cash and equivalents:                                      |                                       |
| Beginning of period  | 16,087                                |
| End of period  | \$3,821                               |

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See accompanying Notes to Consolidated Financial Statements.

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### 1-800-FLOWERS.COM, Inc. and Subsidiaries NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

#### Note 1 - Accounting Policies

##### Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by 1-800-FLOWERS.COM, Inc. and subsidiaries (the "Company") in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 29, 2008.

The balance sheet information at July 1, 2007 has been derived from the audited financial statements at that date.

The information in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2007.

##### Use of Estimates

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

##### Comprehensive Income

For the three months ended September 30, 2007 and October 1, 2006, the Company's comprehensive net losses were equal to the respective net losses for each of the periods presented.

##### Recent Accounting Pronouncements

On July 2, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a "more-likely-than-not" threshold for the recognition and derecognition of tax positions, providing guidance on the accounting for interest and penalties relating to tax positions and requires that the cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening

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balance sheet of retained earnings or other appropriate components of equity or net assets in the statement of financial position. The Company did not have any significant unrecognized tax benefits and there was no material effect on our financial condition or results of operations as a result of implementing FIN 48. See Note 8, "Income Taxes," for additional information relating to the Company's implementation of FIN 48.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("Statement No. 157") which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. Statement No. 157 is effective for fiscal years beginning after November 15, 2007. The transition adjustment of the difference between the carrying amounts and the fair values of those financial instruments should be recognized as a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The company is currently evaluating the impact of adopting the provisions of Statement No. 157.

### Reclassifications

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

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1-800-FLOWERS.COM, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

### Note 2 - Net Loss Per Common Share

Basic net loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed using the weighted average number of common shares outstanding during the period, and excludes the effect of dilutive potential common shares (consisting of employee stock options and unvested restricted stock awards) for the three months ended September 30, 2007 and October 1, 2006, respectively, as their inclusion would be antidilutive.

### Note 3 - Stock-Based Compensation

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 11 of the Company's 2007 Annual Report on Form 10-K, that 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 stock-based awards.

The amounts of stock-based compensation expense recognized in the periods presented are as follows:

| Three Months Ended    |                    |
|-----------------------|--------------------|
| September 30,<br>2007 | October 1,<br>2006 |

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|  | (in thousands, except<br>per share data) |              |
|--|--|--------------|
| Stock options  | \$502                                    | \$856        |
| Restricted stock awards                                  | 967                                      | 164          |
| <b>Total</b>   | <b>1,469</b>                             | <b>1,020</b> |
| Deferred income tax benefit                              | 487                                      | 281          |
| Stock-based compensation expense, net                    | \$982                                    | \$739        |
| Impact on basic and diluted net loss per<br>common share | \$0.02                                   | \$0.01       |

Stock-based compensation is recorded within the following line items of operating expenses:

|                            | Three Months Ended                       |                    |
|----------------------------|--|--------------------|
|                            | September 30,<br>2007                    | October 1,<br>2006 |
|                            | (in thousands, except<br>per share data) |                    |
| Marketing and sales        | \$514                                    | \$358              |
| Technology and development | 220                                      | 153                |
| General and administrative | 735                                      | 509                |
| <b>Total</b>               | <b>\$1,469</b>                           | <b>\$1,020</b>     |

1-800-FLOWERS.COM, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

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 granted during the respective periods were as follows:

|  | Three Months Ended |            |
|--|--------------------|------------|
|  | September 30,      | October 1, |



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|  | 2007    | 2006 (*) |
|--|---------|----------|
| Weighted average fair value of options granted | \$4.74  | -        |
| Expected volatility                            | 46.5%   | -        |
| Expected life                                  | 5.3 yrs | -        |
| Risk-free interest rate                        | 4.43%   | -        |
| Expected dividend yield                        | 0.0%    | -        |

(\*) The Company did not grant stock options during the three months ended October 1, 2006.

The expected volatility of the option is determined using historical volatilities based on historical stock prices. 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 three months ended September 30, 2007:

|  | Options   | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term |
|--|-----------|--|---|
| Outstanding at July 1, 2007                              | 9,152,665 | \$8.10                                   |   |
| Granted  | 127,500   | \$9.95                                   |   |
| Exercised  | (135,622) | \$5.22                                   |   |
| Forfeited  | (83,781)  | \$10.78                                  |   |
| Outstanding at September 30, 2007                        | 9,060,762 | \$8.14                                   | 4.7 years   |
| Options vested or expected to vest at September 30, 2007 | 8,794,680 | \$8.17                                   | 4.6 years   |
| Exercisable at September 30, 2007                        | 7,248,508 | \$8.35                                   | 3.9 years   |

As of September 30, 2007, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$4.8 million and the weighted average period over which these awards are expected to be recognized was 2.9 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

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Awards). The following table summarizes the activity of non-vested restricted stock awards during the three months ended September 30, 2007:

|                                  | Shares    | Weighted<br>Average Grant<br>Date Fair<br>Value |
|----------------------------------|-----------|---|
|                                  | -----     | -----   |
| Non-vested at July 1, 2007       | 1,101,982 | \$5.70  |
| Granted                          | 510,044   | \$12.87   |
| Vested                           | (11,177)  | \$5.89  |
| Forfeited                        | (17,476)  | \$9.70  |
|                                  | -----     |   |
| Non-vested at September 30, 2007 | 1,583,373 | \$8.01  |
|                                  | =====     |   |

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of September 30, 2007, there was \$9.0 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.4 years.

#### 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. Operating results of the acquired entities are reflected in the Company's consolidated financial statements from date of acquisition.

#### 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. ("Fannie May Confections"), a manufacturer and multi-channel retailer and wholesaler of premium chocolate and other confections under the Fannie May, Harry London and Fanny Farmer brands. The acquisition, for a purchase price of approximately \$96.6 million in cash, including estimated working capital adjustments and transaction costs, includes a 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 ended July 1, 2007 (of which \$4.4 million was achieved) and \$1.5 million during the year ending June 29, 2008, upon achievement of specified earnings targets. Fannie May Confections generated revenues of approximately \$75.0 million in its 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 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 was subsequently increased to \$75.0 million effective October 23, 2007), 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

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acquire all of the outstanding capital stock of Fannie May Confections.

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1-800-FLOWERS.COM, Inc. and Subsidiaries  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (unaudited)

Note 5 - Inventory

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

|                 | September<br>2007 |
|-----------------|-------------------|
| Finished goods  | \$59,5            |
| Work-in-Process | 5,0               |
| Raw materials   | 18,6              |
|                 | -----             |
|                 | \$83,1            |
|                 | =====             |

Note 6 - Goodwill and Intangible Assets

There were no changes in the carrying amount of the Company's goodwill during the three month period ended September 30, 2007. Goodwill by segment is as follows:

|                               | 1-800-<br>Flowers.com<br>Consumer<br>Floral | BloomNet<br>Wire<br>Service | Gourmet<br>Food and<br>Gift<br>Baskets |
|-------------------------------|---|-----------------------------|--|
| Balance at July 1, 2007       | \$6,352                                     | \$-                         | \$87,279                               |
| Change                        | -   | -                           | -                                      |
| Balance at September 30, 2007 | \$6,352                                     | \$-                         | \$87,279                               |
|                               | =====                                       | =====                       | =====                                  |

The Company's other intangible assets consist of the following:

|  | September 30, 2007          |                             |         |                             |
|--|-----------------------------|-----------------------------|---------|-----------------------------|
| Amortization<br>Period                       | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net     | Gross<br>Carrying<br>Amount |
|  | -----                       |                             |         |                             |
|  | (in thousands)              |                             |         |                             |
| Intangible assets with<br>determinable lives |                             |                             |         |                             |
| Investment in licenses                       | 14 - 16 years               | \$4,927                     | \$4,166 | \$761                       |
| Customer lists                               | 3 - 10 years                | 14,260                      | 4,403   | 9,857                       |
|  |                             |                             |         | \$4,927                     |
|  |                             |                             |         | 14,260                      |

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|                                      |             |          |         |          |          |
|--------------------------------------|-------------|----------|---------|----------|----------|
| Other                                | 5 - 8 years | 2,639    | 851     | 1,788    | 2,639    |
|                                      |             | -----    | -----   | -----    | -----    |
|                                      |             | 21,826   | 9,420   | 12,406   | 21,826   |
| Trademarks with indefinite lives     | -           | 39,676   | -       | 39,676   | 39,676   |
|                                      |             | -----    | -----   | -----    | -----    |
| Total identifiable intangible assets |             | \$61,502 | \$9,420 | \$52,082 | \$61,502 |
|                                      |             | =====    | =====   | =====    | =====    |

Estimated future amortization expense is as follows: remainder of fiscal 2008 - \$2.0 million, fiscal 2009 - \$2.6 million, fiscal 2010 - \$2.5 million, fiscal 2011 - \$2.0 million, fiscal 2012 - \$0.9 and thereafter - \$2.4 million.

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1-800-FLOWERS.COM, Inc. and Subsidiaries  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (unaudited)

Note 7 - Long-Term Debt

The Company's long-term debt and obligations under capital leases consist of the following:

|  |                   |
|--|-------------------|
|  | September<br>2007 |
|  | -----             |
|  | (                 |
| Term loan  | \$74,375          |
| Revolving line of credit   | 40,000            |
| Commercial note  | 1,193             |
| Obligations under capital leases   | 74                |
|  | -----             |
|  | 115,6             |
| Less current maturities of long-term debt and obligations under capital leases | 50,8              |
|  | -----             |
|  | \$64,8            |
|  | =====             |

In order to finance the acquisition of Fannie May Confections, on May 1, 2006, the Company entered into a 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 was subsequently increased to \$75.0 million effective October 23, 2007), 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. The Company is required to pay the outstanding term loan in escalating quarterly installments, with the final installment payment due on May 1, 2012. As of September 30, 2007, the Company had \$40.0 million outstanding under its revolving credit facility, bearing interest at a rate of 5.5%.

Note 8 - Income Taxes

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. This estimate is

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used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The Company's effective tax rate for the three months ended September 30, 2007 was 39.5%, compared to 39.6% during the comparative three months ended October 1, 2006. The Company's effective tax rate for the three months ended September 30, 2007 and October 1, 2006 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by various tax credits.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, or FIN 48, on July 2, 2007. The Company did not have any significant unrecognized tax benefits and there was no material effect on its financial condition or results of operations as a result of implementing FIN 48.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The tax years that remain subject to examination are fiscal 2003 through fiscal 2006. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the quarter.

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1-800-FLOWERS.COM, Inc. and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(unaudited)

### Note 9 - Business Segments

The Company's management reviews the results of the Company's operations by the following four business categories:

- o 1-800-Flowers.com Consumer Floral;
- o BloomNet Wire Service;
- o Gourmet Food and Gift Baskets; and
- o Home and Children's Gifts.

Category performance is measured based on contribution margin, which includes only the direct controllable revenue and operating expenses of the categories. As such, management's measure of profitability for these categories does not include the effect of corporate overhead (see (\*) below), which are operated under a centralized management platform, providing services throughout the organization, nor does it include stock-based compensation, depreciation and amortization, other income (net), and income taxes. Assets and liabilities are reviewed at the consolidated level by management and not accounted for by category.

|               | Three Months Ended    |                    |
|---------------|-----------------------|--------------------|
|               | September 30,<br>2007 | October 1,<br>2006 |
| Net revenues  |                       |                    |
|               | -----                 |                    |
|               | In thousands          |                    |
| Net revenues: |                       |                    |

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|                                       |                    |            |
|---------------------------------------|--------------------|------------|
| 1-800-Flowers.com Consumer Floral     | \$87,599           | \$82,668   |
| BloomNet Wire Service                 | 9,891              | 7,166      |
| Gourmet Food & Gift Baskets           | 23,162             | 22,224     |
| Home & Children's Gifts               | 24,735             | 24,867     |
| Corporate (*)                         | 1,125              | 915        |
| Intercompany eliminations             | (702)              | (708)      |
|                                       | -----              | -----      |
| Total net revenues                    | \$145,810          | \$137,132  |
|                                       | =====              | =====      |
|                                       | Three Months Ended |            |
|                                       | -----              | -----      |
|                                       | September 30,      | October 1, |
| Operating Loss                        | 2007               | 2006       |
|                                       | -----              | -----      |
|                                       | In thousands       |            |
| Category Contribution Margin:         |                    |            |
| 1-800-Flowers.com Consumer Floral     | \$11,945           | \$7,870    |
| BloomNet Wire Service                 | 2,564              | 1,702      |
| Gourmet Food & Gift Baskets           | (1,855)            | (1,574)    |
| Home & Children's Gifts               | (2,296)            | (1,878)    |
|                                       | -----              | -----      |
| Category Contribution Margin Subtotal | 10,358             | 6,120      |
| Corporate (*)                         | (13,709)           | (12,180)   |
| Depreciation and amortization         | (4,870)            | (4,744)    |
|                                       | -----              | -----      |
| Operating loss                        | (8,221)            | (10,804)   |
|                                       | =====              | =====      |

(\*) Corporate expenses consist of the Company's enterprise shared service cost centers, and include, among others, Information Technology, Human Resources, Accounting and Finance, Legal, Executive and Customer Service Center functions, as well as Stock-Based Compensation. In order to leverage the Company's infrastructure, these functions are operated under a centralized management platform, providing support services throughout the organization. The costs of these functions, other than those of the Customer Service Center which are allocated directly to the above categories based upon usage, are included within corporate expenses, as they are not directly allocable to a specific category.

### Note 10 - Commitments and Contingencies

#### Legal Proceedings

From time to time, the Company is subject to legal proceedings and claims arising in the ordinary course of business. The Company is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its consolidated financial position, results of operations or liquidity.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

#### Forward Looking Statements

The section entitled "Forward Looking Information and Factors that May Affect Future Results," provides a description of the risks and uncertainties that could cause actual results to differ materially from those discussed in

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forward-looking statements set forth in this report relating to the financial results, operations and business prospects of the Company. Such forward-looking statements are based on management's current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances.

### Overview

For more than 30 years, 1-800-FLOWERS.COM Inc. - "Your Florist of Choice(R)" - has been providing customers around the world with the freshest flowers and finest selection of plants, gift baskets, gourmet foods, confections and plush stuffed animals perfect for every occasion. 1-800-FLOWERS.COM(R) 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(sm)."

Customers can "call, click or come in" to shop 1-800-FLOWERS.COM 24/7 at 1-800-356-9377 or [www.1800flowers.com](http://www.1800flowers.com). 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(R) (1-800-627-1712 or [www.plowandhearth.com](http://www.plowandhearth.com)), Wind & Weather(R) ([www.windandweather.com](http://www.windandweather.com)), HearthSong(R) ([www.hearthsong.com](http://www.hearthsong.com)) and Magic Cabin(R) ([www.magiccabin.com](http://www.magiccabin.com)); gourmet gifts including popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or [www.thepopcornfactory.com](http://www.thepopcornfactory.com)); exceptional cookies and baked gifts from Cheryl&Co.(R) (1-800-443-8124 or [www.cherylandco.com](http://www.cherylandco.com)); premium chocolates and confections from Fannie May Confections Brands(R) ([www.fanniemay.com](http://www.fanniemay.com) and [www.harrylondon.com](http://www.harrylondon.com)); gourmet foods from GreatFood.com(R) ([www.greatfood.com](http://www.greatfood.com)); wine gifts from Ambrosia(R) ([www.ambrosia.com](http://www.ambrosia.com)); gift baskets from 1-800-BASKETS.COM(R) ([www.1800baskets.com](http://www.1800baskets.com)) and the BloomNet(R) international floral wire service, which provides quality products and diverse services to a select network of florists.

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

### Category Information

During the first quarter of fiscal 2007, the Company segmented its organization to improve execution and customer focus and to align its resources to meet the demands of the markets it serves. The following table presents the contribution of net revenues, gross profit and category contribution margin or category "EBITDA" (earnings before interest, taxes, depreciation and amortization) from each of the Company's business categories.

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| Net Revenues                      | Three Months Ended    |                    | % Cha |
|-----------------------------------|-----------------------|--------------------|-------|
|                                   | September 30,<br>2007 | October 1,<br>2006 |       |
|                                   | (in thousands)        |                    |       |
| Net revenues:                     |                       |                    |       |
| 1-800-Flowers.com Consumer Floral | \$87,599              | \$82,668           | 6.    |
| BloomNet Wire Service             | 9,891                 | 7,166              | 38.   |
| Gourmet Food & Gift Baskets       | 23,162                | 22,224             | 4.    |
| Home & Children's Gifts           | 24,735                | 24,867             | (0.   |
| Corporate (*)                     | 1,125                 | 915                | 23.   |
| Intercompany eliminations         | (702)                 | (708)              | 0.    |
| Total net revenues                | \$145,810             | \$137,132          | 6.    |

| Gross Profit                      | Three Months Ended    |                    | % Cha |
|-----------------------------------|-----------------------|--------------------|-------|
|                                   | September 30,<br>2007 | October 1,<br>2006 |       |
|                                   | (in thousands)        |                    |       |
| Gross Profit:                     |                       |                    |       |
| 1-800-Flowers.com Consumer Floral | \$34,096<br>38.9%     | \$31,451<br>38.0%  | 8.    |
| BloomNet Wire Service             | 5,609<br>56.7%        | 4,100<br>57.2%     | 36.   |
| Gourmet Food & Gift Baskets       | 9,483<br>40.9%        | 8,519<br>38.3%     | 11.   |
| Home & Children's Gifts           | 10,206<br>41.3%       | 10,342<br>41.6%    | (1.   |
| Corporate (*)                     | 507<br>45.1%          | 446<br>48.7%       | 13.   |
| Intercompany eliminations         | (20)                  | (44)               | 54.   |
| Total gross profit                | \$59,881<br>41.1%     | \$54,814<br>40.0%  | 9.    |

| EBITDA**                              | Three Months Ended    |                    | % Cha |
|---------------------------------------|-----------------------|--------------------|-------|
|                                       | September 30,<br>2007 | October 1,<br>2006 |       |
|                                       | (in thousands)        |                    |       |
| Category Contribution Margin:         |                       |                    |       |
| 1-800-Flowers.com Consumer Floral     | \$11,945              | \$7,870            | 51.   |
| BloomNet Wire Service                 | 2,564                 | 1,702              | 50.   |
| Gourmet Food & Gift Baskets           | (1,855)               | (1,574)            | (17.  |
| Home & Children's Gifts               | (2,296)               | (1,878)            | (22.  |
| Category Contribution Margin Subtotal | 10,358                | 6,120              | 69.   |
| Corporate (*)                         | (13,709)              | (12,180)           | (12.  |



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EBITDA

-----  
(\$3,351)

(\$6,060)  
-----

44.

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- (\*) Corporate expenses consist of the Company's enterprise shared service cost centers, and include, among other items, Information Technology, Human Resources, Accounting and Finance, Legal, Executive and Customer Service Center functions, as well as Stock-Based Compensation. In order to leverage the Company's infrastructure, these functions are operated under a centralized management platform, providing support services throughout the organization. The costs of these functions, other than those of the Customer Service Center, which are allocated directly to the above categories based upon usage, are included within corporate expenses as they are not directly allocable to a specific category.
- (\*\*) Performance is measured based on category contribution margin or category EBITDA, reflecting only the direct controllable revenue and operating expenses of the categories. As such, management's measure of profitability for these categories does not include the effect of corporate overhead, described above, nor does it include depreciation and amortization, other income (net), and income taxes. Management utilizes EBITDA as a performance measurement tool because it considers such information a meaningful supplemental measure of its performance and believes it is frequently used by the investment community in the evaluation of companies with comparable market capitalization. The Company also uses EBITDA as one of the factors used to determine the total amount of bonuses available to be awarded to executive officers and other employees. The Company's credit agreement uses EBITDA (with additional adjustments) to measure compliance with covenants such as interest coverage and debt incurrence. EBITDA is also used by the Company to evaluate and price potential acquisition candidates. EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. Some of these limitations are: (a) EBITDA does not reflect changes in, or cash requirements for, the Company's working capital needs; (b) EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Company's debts; and (c) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA does not reflect any cash requirements for such capital expenditures. Because of these limitations, EBITDA should only be used on a supplemental basis combined with GAAP results when evaluating the Company's performance.

Reconciliation of Net Loss to EBITDA:

|                               | Three Months Ended    |                    |
|-------------------------------|-----------------------|--------------------|
|                               | September 30,<br>2007 | October 1,<br>2006 |
|                               | -----                 | -----              |
| Net loss                      | (\$5,790)             | (\$7,419)          |
| Add:                          |                       |                    |
| Interest expense              | 1,545                 | 1,828              |
| Depreciation and amortization | 4,870                 | 4,744              |
| Less:                         |                       |                    |
| Interest income               | 178                   | 337                |

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|                    |           |           |
|--------------------|-----------|-----------|
| Other income       | 18        | 11        |
| Income tax benefit | 3,780     | 4,865     |
|                    | -----     | -----     |
| EBITDA             | (\$3,351) | (\$6,060) |
|                    | =====     | =====     |

### Results of Operations

#### Net Revenues

|                    | Three Months Ended    |                    |          |
|--------------------|-----------------------|--------------------|----------|
|                    | September 30,<br>2007 | October 1,<br>2006 | % Change |
|                    | -----                 |                    |          |
|                    | (in thousands)        |                    |          |
| Net revenues:      |                       |                    |          |
| E-commerce         | \$114,503             | \$109,259          | 4.8%     |
| Other              | 31,307                | 27,873             | 12.3%    |
|                    | -----                 | -----              |          |
| Total net revenues | \$145,810             | \$137,132          | 6.3%     |
|                    | =====                 | =====              |          |

The Company's revenue growth of 6.3% during the three months ended September 30, 2007 resulted primarily from growth within the Company's 1-800-Flowers.com Consumer Floral and BloomNet Wire Service businesses, which increased 6.0% and 13

38.0%, respectively. Excluding the Home and Children's Gift category, total revenue growth during the three months ended September 30, 2007 was 8.0%, reflecting: (i) the Company's strong brand name recognition, (ii) continued leveraging of its existing customer base, and (iii) cost effective spending on its marketing and selling programs.

The Company fulfilled approximately 1,654,200 orders through its E-commerce sales channels (online and telephonic sales) during the three months ended September 30, 2007, an increase of 1.1% over the prior year period. The Company's E-commerce average order value of \$67.84 during the three months ended September 30, 2007, increased 2.8% over the prior year period, primarily from a combination of product mix and pricing initiatives. Other revenues, for the three months ended September 30, 2007, increased in comparison to the same period of the prior year, primarily as a result of the continued membership growth and expanded product and service offerings from the Company's BloomNet Wire Service category as well as increased retail/wholesale revenues from Fannie May Confections Brands, Inc.

The 1-800-Flowers.com Consumer Floral category includes the 1-800-Flowers brand operations which derives revenue from the sale of consumer floral products through its E-Commerce sales channels (telephonic and online sales) and company-owned and operated retail floral stores, as well as royalties from its franchise operations. Net revenues during the three months ended September 30, 2007 increased by 6.0% over the prior year period, primarily from a combination of increased average order value and order volumes from its E-commerce sales channel (which grew at a rate of 7.2%), offset in part by lower retail sales from its company-owned floral stores due to the continued transition of Company stores to franchise ownership.

The BloomNet Wire Service category includes revenues from membership fees as well as other product and service offerings to florists. Net revenues during the three months ended September 30, 2007 increased by 38.0% over the prior year

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period, primarily as a result of increased florist membership, expanded product and service offerings, pricing initiatives and a growing volume of orders sent between florists.

The Gourmet Food & Gift Basket category includes the operations of the Cheryl & Co., Fannie May Confections, The Popcorn Factory and The Winetasting Network brands. Revenue is derived from the sale of cookies, baked gifts, premium chocolates and confections, gourmet popcorn and wine gifts through its E-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Cheryl & Co. and Fannie May brands, as well as wholesale operations. Net revenue during the three months ended September 30, 2007 increased by 4.2% over the prior year period, reflecting the Company's seasonally slower summer months.

The Home & Children's Gifts category includes revenues from Plow & Hearth, Wind & Weather, HearthSong and Magic Cabin brands. Revenue is derived from the sale of home decor and children's gifts through its E-commerce sales channels (telephonic and online sales) or company-owned and operated retail stores under the Plow & Hearth brand. Net revenue during the three months ended September 30, 2007 was consistent with the prior year period, and is expected to remain flat for the balance of the fiscal year. As a result of the poor results during the second quarter of fiscal 2007, the Company announced a planned reduction in investment spending in this category, and as a result, beginning with the third quarter of fiscal 2007, management implemented several changes to improve the performance within this category: (i) discontinued such as Madison Place and Problem Solvers, (ii) strengthened the management team, (iii) improved the creative look and feel of the catalogs and (iv) reduced the circulation plans for all titles to place more focus on the category's existing customer base.

Over the past several years, through a combination of organic efforts and strategic acquisitions, the Company has rapidly grown its revenues, achieving a solid base of business which is approaching \$1 billion. The Company anticipates that its revenue growth for fiscal 2008 will be in the range of 7-9 percent, as strong revenue growth in the Company's key business categories of 1-800-Flowers Consumer Floral, BloomNet Wire Service and Gourmet Food & Gift Baskets offsets the lower revenue contribution expected from its Home and Children's Gifts category.

### Gross Profit

|                | Three Months Ended    |                    |          |
|----------------|-----------------------|--------------------|----------|
|                | September 30,<br>2007 | October 1,<br>2006 | % Change |
|                | -----                 |                    |          |
|                | (In thousands)        |                    |          |
| Gross profit   | \$59,881              | \$54,814           | 9.2%     |
| Gross margin % | 41.1%                 | 40.0%              |          |

Gross profit increased during the three months ended September 30, 2007, in comparison to the same period of the prior year, primarily as a result of the revenue growth described above, as well as an increase in gross margin percentage. Gross margin percentage increased 110 basis points to 41.1% during the three months ended September 30, 2007, as a result of product mix and pricing initiatives, as well as continued improvements in customer service, fulfillment, including improved outbound shipping rates, and merchandising programs.

The 1-800-Flowers.com Consumer Floral category gross profit for the three months ended September 30, 2007 increased by 8.4% over the prior year period as a

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result of the aforementioned increase in net revenues, as well as improvements in sourcing, fulfillment logistics, including reduced outbound shipping rates, and pricing initiatives, which resulted in an increase in gross margin percentage of 90 basis points to 38.9%, during the three months ended September 30, 2007.

The BloomNet Wire Service category gross profit for the three months ended September 30, 2007 increased by 36.8% over the prior year period as a result of increases in florist membership, product and service offerings and pricing initiatives. Gross margin percentage decreased 50 basis points to 56.7% during the three months ended September 30, 2007, primarily as a result of sales mix, impacted by increased revenue related to a growing volume of orders sent between florists which bear lower margins, but support membership growth.

The Gourmet Food & Gift Basket category gross profit for the three months ended September 30, 2007 increased by 11.3% over the prior year period as a result of the aforementioned increased revenue as well as an improved gross margin percentage. The gross margin percentage increased by 260 basis points to 40.9% during the three months ended September 30, 2007, driven primarily by reduced manufacturing costs and improved product sourcing, as well as sales mix.

The Home & Children's Gift category gross profit for the three months ended September 30, 2007 decreased by 1.3% over the prior year period as a result of the lower gross margin percentage, which declined 30 basis points to 41.3%, due to sales mix.

During the remainder of fiscal 2008, the Company expects that its gross margin percentage will improve, although varying by quarter due to seasonal changes in product mix, primarily through: (i) growth of its higher margin business categories including Gourmet Food and Gift Baskets and BloomNet Wire Service, (ii) improved product sourcing, new product development and process improvement initiatives implemented during the second half of fiscal 2007, and (iii) the continued improved performance of the Consumer Floral category.

### Marketing and Sales Expense

|                            | Three Months Ended    |                    |          |
|----------------------------|-----------------------|--------------------|----------|
|                            | September 30,<br>2007 | October 1,<br>2006 | % Change |
|                            | -----                 |                    |          |
|                            | (In thousands)        |                    |          |
| Marketing and sales        | \$42,779              | \$42,370           | 1.0%     |
| Percentage of net revenues | 29.3%                 | 30.9%              |          |

During the three months ended September 30, 2007, marketing and sales expenses decreased from 30.9% of net revenues to 29.3% of net revenues, reflecting improved operating leverage from a number of cost-saving initiatives, such as catalog printing and e-mail pricing improvements, as well as the impact of the growth of the Company's BloomNet category. Marketing and sales expense increased slightly over the prior year period, by 1.0%, as a result of incremental variable costs to accommodate higher sales volumes. During the three months ended September 30, 2007, the Company added approximately 506,000 new e-commerce customers. As a result of the Company's effective customer retention efforts, approximately 822,000 existing customers placed e-commerce orders during the three months ended September 30, 2007, representing an increase of 3.1% over the same period of the prior year. Of the 1,328,000 total customers who placed e-commerce orders during the three months ended September 30, 2007, approximately 61.9% were repeat customers, compared to 59.3% during the prior

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year, reflecting the Company's ongoing focus on deepening the relationship with its existing customers as their trusted source for gifts and services for all of their celebratory occasions.

During fiscal 2008, the Company is focused on continuing to improve 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 continue to decrease in comparison to the prior year.

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### Technology and Development Expense

|                            | Three Months Ended    |                    |          |
|----------------------------|-----------------------|--------------------|----------|
|                            | September 30,<br>2007 | October 1,<br>2006 | % Change |
|                            | (In thousands)        |                    |          |
| Technology and development | \$5,235               | \$5,161            | 1.4%     |
| Percentage of net revenues | 3.6%                  | 3.8%               |          |

During the three months ended September 30, 2007, technology and development expense decreased to 3.6% of net revenue, reflecting improved operating leverage, but increased over the prior year period by 1.4% as a result of increased cost of hosting, maintenance and license agreements required to support the Company's technology platform. During the three months ended September 30, 2007, the Company expended \$8.4 million on technology and development, of which \$3.2 million has been capitalized.

While the Company believes that continued investment in technology and development is critical to attaining its strategic objectives, the Company expects that its spending for the remainder of fiscal 2008 will remain consistent as a percentage of net revenues in comparison to the prior year.

### General and Administrative Expense

|                            | Three Months Ended    |                    |          |
|----------------------------|-----------------------|--------------------|----------|
|                            | September 30,<br>2007 | October 1,<br>2006 | % Change |
|                            | (In thousands)        |                    |          |
| General and administrative | \$15,218              | \$13,343           | 14.1%    |
| Percentage of net revenues | 10.4%                 | 9.7%               |          |

General and administrative expense increased 14.1% during the three months ended September 30, 2007, and by 70 basis points of net revenues in comparison to the prior year period, primarily as a result of increased professional fees and corporate initiatives. The benefit of these increased costs are reflected in the improvements in the Company's gross profit margin and marketing and selling expense ratios, in comparison to the same period of the prior year.

The Company believes that its current general and administrative infrastructure is sufficient to support existing requirements and drive operating leverage, and

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as a result the Company expects that its general and administrative expenses as a percentage of net revenue during the remainder of fiscal 2008 will be consistent with the prior year period.

### Depreciation and Amortization Expense

|                               | Three Months Ended    |                    |          |
|-------------------------------|-----------------------|--------------------|----------|
|                               | September 30,<br>2007 | October 1,<br>2006 | % Change |
| -----                         |                       |                    |          |
| (In thousands)                |                       |                    |          |
| Depreciation and amortization | \$4,870               | \$4,744            | 2.7%     |
| Percentage of net revenues    | 3.3%                  | 3.5%               |          |

Depreciation and amortization expense, as a percentage of net revenue, decreased by 20 basis points in comparison to the prior year period, as a result of the Company's ability to leverage its existing technology infrastructure. Depreciation and amortization expense increased 2.7% during the three months ended September 30, 2007, as a result of the completion of technology projects designed to provide improved order/warehouse management functionality across the enterprise.

The Company believes that continued investment in its infrastructure, primarily in the areas of technology and development, including the improvement of its technology platforms are critical to attaining its strategic objectives. As a result of these improvements, the Company expects that depreciation and amortization for the remainder of fiscal 2008 will remain consistent as a percentage of net revenues in comparison to the prior year.

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### Other Income (Expense)

|                  | Three Months Ended    |                    |          |
|------------------|-----------------------|--------------------|----------|
|                  | September 30,<br>2007 | October 1,<br>2006 | % Change |
| -----            |                       |                    |          |
| (In thousands)   |                       |                    |          |
| Interest income  | \$178                 | \$337              | (47.2%)  |
| Interest expense | (1,545)               | (1,828)            | 15.5%    |
| Other            | 18                    | 11                 | 63.6%    |
| -----            |                       |                    |          |
|                  | (\$1,349)             | (\$1,480)          | 8.9%     |
| =====            |                       |                    |          |

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 long-term debt, and revolving line of credit. 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, as amended on October 23, 2007, includes an \$85.0 million term loan and a \$75.0 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. As of September 30, 2007, the outstanding

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balances on the term loan and revolving credit line under the Company's 2006 Credit Facility was \$74.4 million and \$40.0 million, respectively. The outstanding balance on the Company's credit line was used to fund working capital needs in preparation for the upcoming holiday season.

The increase in other income (expense) during the three months ended September 30, 2007, in comparison to the prior year period was primarily the result of lower interest expense on the Company's 2006 Credit Facility due to a reduced outstanding balance on the Company's term loan as a result of the scheduled repayments, and a reduction in rates, offset in part by lower interest income, resulting from a decrease in average cash balances and rates.

### Income Taxes

On July 2, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a "more-likely-than-not" threshold for the recognition and derecognition of tax positions, providing guidance on the accounting for interest and penalties relating to tax positions and requires that the cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance sheet of retained earnings or other appropriate components of equity or net assets in the statement of financial position. The Company did not have any significant unrecognized tax benefits and there was no material effect on our financial condition or results of operations as a result of implementing FIN 48. See Note 7, "Income Taxes," for additional information relating to the Company's implementation of FIN 48.

During the three months ended September 30, 2007 and October 1, 2006, the Company recorded an income tax benefit of \$3.8 million and \$4.9 million, respectively. The Company's effective tax rate for the three months ended September 30, 2007 and October 1, 2006 was 39.5% and 39.6%, respectively. The Company's effective tax rate for the three months ended September 30, 2007 and October 1, 2006 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by various tax credits.

### Liquidity and Capital Resources

At September 30, 2007, the Company had working capital of \$45.7 million, including cash and equivalents of \$3.8 million, compared to working capital of \$51.4 million, including cash and equivalents of \$16.1 million, at July 1, 2007.

Net cash used in operating activities of \$42.0 million for the three months ended October 1, 2006 was primarily attributable to the Company's net loss and seasonal changes in working capital, including increases in inventory, receivables and prepaids, consisting primarily of prepaid catalog production costs, as well as lower accounts payable and accrued expenses due to payments related to the Company's fiscal 2007 performance-based bonuses.

Net cash used in investing activities of \$8.7 million for the three months ended September 30, 2007 was primarily attributable to capital expenditures related to the Company's technology and distribution infrastructure and to the payment of a \$4.4 million "earn-out" incentive, for financial targets achieved during fiscal 2007, related to the acquisition of Fannie May Confections Brands, Inc.

Net cash provided by financing activities of \$38.4 million for the three months ended September 30, 2007 was primarily from bank borrowings used to fund

seasonal operating losses and working capital requirements, net of the repayment of bank borrowings on outstanding debt and long-term capital lease obligations.

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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, as amended on October 23, 2007, includes an \$85.0 million term loan and a \$75.0 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.

The Company has historically utilized cash generated from operations to meet its cash requirements, including all operating, investing and debt repayment activities. However, due to the Company's continued expansion into non-floral products, including the acquisition of Fannie May Confections Brands, as of September 30, 2007, the Company had borrowed \$40.0 million against its line of credit to fund working capital requirements, which have increased during this time period as a result of increased inventory and pre-holiday manufacturing requirements. The Company expects to increase its level of borrowing during its fiscal second quarter, but also expects that all such amounts will be repaid prior to the end of the quarter.

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 September 30, 2007, the Company had repurchased 1,538,286 shares of common stock for \$11.3 million, excluding the December 28, 2006 repurchase of 3,010,740 shares of common stock from an affiliate. The purchase price was \$15,689,000, or \$5.21 per share. The repurchase was approved by the disinterested members of the Company's Board of Directors and is in addition to the Company's existing stock repurchase authorization of \$20.0 million, of which \$8.7 million remains authorized but unused.

At September 30, 2007, the Company's contractual obligations consist of:

|                                    | Payments due by period |                     |                                  |             |
|------------------------------------|------------------------|---------------------|----------------------------------|-------------|
|                                    | Total                  | Less than 1<br>year | (in thousands)<br>1 - 3<br>years | 3 -<br>year |
| Long-term debt, including interest | 128,934                | 55,390              | 32,861                           | 40          |
| Capital lease obligations          | 89                     | 35                  | 25                               |             |
| Operating lease obligations        | 65,947                 | 8,182               | 16,436                           | 13          |
| Sublease obligations               | 5,656                  | 1,755               | 2,720                            |             |
| Purchase commitments (*)           | 34,305                 | 34,305              | -                                |             |
| Total                              | 234,931                | 99,667              | 52,042                           | 54          |

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

Critical Accounting Policies and Estimates



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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.

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### Revenue Recognition

Net revenues are generated by E-commerce operations from the Company's online and telephonic sales channels as well as other operations (retail/fulfillment) 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. Net revenues generated by the Company's BloomNet Wire Service operations include membership fees as well as other product and service offerings to florists. Membership fees are recognized monthly in the period earned, and product sales are recognized upon shipment with shipping terms of 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

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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.

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### 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

On July 2, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a "more-likely-than-not" threshold for the recognition and derecognition of tax positions, providing guidance on the accounting for interest and penalties relating to tax positions and requires that the cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance sheet of retained earnings or other appropriate components of equity or net assets in the statement of financial position. The Company did not have any significant unrecognized tax benefits and there was no material effect on our financial condition or results of operations as a result of implementing FIN 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements, and is effective for

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financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the effect that the adoption of this Statement will have on its consolidated results of operations and financial condition.

### Forward Looking Information and Factors that May Affect Future Results

Our disclosure and analysis in this report contain forward-looking information about the Company's financial results and estimates, business prospects that involve substantial risks and uncertainties. From time to time, we also may provide oral or written forward-looking statements in other materials we release to the public. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as "will," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "forecast" and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance, new products and product categories, the outcome of contingencies, such as legal proceedings, and financial results. Among the factors that could cause actual results to differ materially are the following:

- o the Company's ability:
  - o to achieve revenue and profitability;
  - o to reduce costs and enhance its profit margins;
  - o to manage the increased seasonality of its business;
  - o to effectively integrate and grow acquired companies;
  - o to cost effectively acquire and retain customers;
  - o to compete against existing and new competitors;
  - o to manage expenses associated with sales and marketing and necessary general and administrative and technology investments;
  - o to cost efficiently manage inventories;
  - o to leverage its operating infrastructure;
- o general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products; and
- o competition from existing and potential new competitors.

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 risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements.

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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 Forms 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission. Our Annual Report on Form 10-K filing for the fiscal year ended July 1, 2007 listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them in Part I, Item 1A, of that filing under the heading "Cautionary Statements Under the Private Securities Litigation Reform Act of 1995". We incorporate that section of that Form 10-K in this filing and investors should refer to it. You should understand that it is not possible to

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predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

### ITEM 3. 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. While the Company currently does not use interest rate derivative instruments to manage exposure to interest rate changes, in order to finance the acquisition of Fannie May Confections, on May 1, 2006, the Company entered into a secured credit facility. The credit facility, as amended on October 23, 2007, includes an \$85.0 million term loan and a \$75.0 million revolving facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio.

### ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, these disclosure controls and procedures are effective in alerting them in a timely manner to material information required to be disclosed in the Company's periodic reports filed with the SEC.

There were no changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the three months ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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## PART II. - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is subject to legal proceedings and claims arising in the ordinary course of business. The Company is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its business, consolidated financial position, results of operations or liquidity.

### ITEM 1A. RISK FACTORS.

There have been no material changes from the risk factors disclosed in Part 1, Item 1, of the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2007.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth, for the months indicated, the Company's purchase

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of common stock during the three months of fiscal 2008 which includes the period July 2, 2007 through September 30, 2007.

| Period  | Total Number of<br>Shares Purchased | Average Price<br>Paid Per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs |
|---|-------------------------------------|---------------------------------|--|
| (in thousands, except average price paid per share) |                                     |                                 |  |
| 7/2/07-7/29/07                                      | -                                   | \$-                             | -  |
| 7/30/07-8/26/07                                     | -                                   | \$-                             | -  |
| 8/27/07-9/30/07                                     | 3.6                                 | \$11.55                         | 3.6  |
| Total   | 3.6                                 | \$11.55                         | 3.6  |
|   | =====                               | =====                           | =====  |

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.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

- 10.1 Revolving Credit Commitment Increase Dated October 23, 2007.
- 10.2 Offer letter dated November 25, 2003 between Monica L. Woo and the Company.
- 10.3 Offer letter dated February 9, 2005 between the Company and Timothy J. Hopkins.
- 10.4 Offer letter dated February 21, 2007 between the Company and Stephen Bozzo.
- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

1-800-FLOWERS.COM, Inc.  
(Registrant)

Date: November 8, 2007  
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/s/ James F. McCann  
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James F. McCann  
Chief Executive Officer  
Chairman of the Board of Directors  
(Principal Executive Officer)

Date: November 8, 2007  
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/s/ William E. Shea  
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William E. Shea  
Senior Vice President Finance and  
Administration (Principal Financial  
and Accounting Officer)