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1 800 FLOWERS COM INC  
Form 10-Q  
November 07, 2008

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 28, 2008

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, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [X]  
Non-accelerated filer [ ] (Do not check if a smaller reporting company)  
Smaller reporting company [ ]

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:

26,681,093  
-----  
(Number of shares of Class A common stock outstanding as of November 3, 2008)

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36,858,465

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(Number of shares of Class B common stock outstanding as of November 3, 2008)

1-800-FLOWERS.COM, Inc.

## TABLE OF CONTENTS

### INDEX

	Page	
	----	
Part I.	Financial Information	
Item 1.	Consolidated Financial Statements:	
	Consolidated Balance Sheets - September 28, 2008 (Unaudited) and June 29, 2008	1
	Consolidated Statements of Income (Unaudited) - Three Months Ended September 28, 2008 and September 30, 2007	2
	Consolidated Statements of Cash Flows (Unaudited) - Three Months Ended September 28, 2008 and September 30, 2007	3
	Notes to Consolidated Financial Statements (Unaudited)	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	24
Item 4.	Controls and Procedures	24
Part II.	Other Information	
Item 1.	Legal Proceedings	25
Item 1A.	Risk Factors	25
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3.	Defaults upon Senior Securities	25
Item 4.	Submission of Matters to a Vote of Security Holders	25
Item 5.	Other Information	25
Item 6.	Exhibits	25
Signatures		26

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PART I. - FINANCIAL INFORMATION  
 ITEM 1. - CONSOLIDATED FINANCIAL STATEMENTS

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

	September 28 2008
	(unaudited)
<b>Assets</b>	
Current assets:	
Cash and equivalents	\$3,490
Receivables, net	35,324
Inventories	119,809
Deferred tax assets	7,977
Prepaid and other	16,731
Total current assets	183,331
Property, plant and equipment at cost, net	73,620
Goodwill	124,062
Other intangibles, net	66,993
Other assets	6,158
Total assets	\$454,164
<b>Liabilities and stockholders' equity</b>	
Current liabilities:	
Accounts payable and accrued expenses	\$73,272
Current maturities of long-term debt and obligations under capital leases	44,797
Total current liabilities	118,069
Long-term debt and obligations under capital leases	100,063
Deferred tax liabilities	5,527
Other liabilities	3,011
Total liabilities	226,670
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 31,405,419 and 31,368,241 shares issued at September 28, 2008 and June 29, 2008, respectively	314
Class B common stock, \$.01 par value, 200,000,000 shares authorized 42,138,465 shares issued at September 28, 2008 and June 29, 2008	421
Additional paid-in capital	281,051
Retained deficit	(23,143)
Treasury stock, at cost - 4,724,326 Class A shares and 5,280,000 Class B shares	(31,149)
Total stockholders' equity	\$227,494
Total liabilities and stockholders' equity	\$454,164

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See accompanying Notes to Consolidated Financial Statements.

1

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

	Three Months Ended	
	September 28, 2008	September 30, 2007
Net revenues	\$158,033	\$145,810
Cost of revenues	96,210	85,929
Gross profit	61,823	59,881
Operating expenses:		
Marketing and sales	42,648	42,779
Technology and development	5,670	5,235
General and administrative	15,516	15,218
Depreciation and amortization	5,688	4,870
Total operating expenses	69,522	68,102
Operating loss	(7,699)	(8,221)
Other income (expense):		
Interest income	96	178
Interest expense	(1,159)	(1,545)
Other	9	18
Total other income (expense), net	(1,054)	(1,349)
Loss before income taxes	(8,753)	(9,570)
Income tax benefit	3,449	3,780
Net loss	(\$5,304)	(\$5,790)
Basic and diluted net loss per common share	(\$0.08)	(\$0.09)
Weighted average shares used in the calculation of basic and diluted net loss per common share	63,518	62,638

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months September 28, 2008
Operating activities:	
Net loss	(\$5,304)
Reconciliation of net loss to net cash used in operations:	
Depreciation and amortization	5,688
Deferred taxes	-
Stock-based compensation	1,219
Bad debt expense	517
Other non-cash items	(124)
Changes in operating items:	
Receivables	(20,446)
Inventories	(49,092)
Prepaid and other	(7,973)
Accounts payable and accrued expenses	8,250
Other assets	88
Other liabilities	49
Net cash used in operating activities	(67,128)
Investing activities:	
Capital expenditures	(7,113)
Proceeds from sale of business	25
Acquisitions, net of cash acquired	(9,297)
Other, net	61
Net cash used in investing activities	(16,324)
Financing activities:	
Proceeds from exercise of employee stock options	114
Proceeds from bank borrowings	83,000
Repayment of notes payable and bank borrowings	(6,276)
Debt issuance cost	(2,018)
Repayment of capital lease obligations	(2)
Net cash provided by financing activities	74,818
Net change in cash and equivalents	(8,634)
Cash and equivalents:	
Beginning of period	12,124
End of period	\$3,490

See accompanying Notes to Consolidated Financial Statements.

3

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 28, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending June 28, 2009.

The balance sheet information at June 29, 2008 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 June 29, 2008.

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 28, 2008 and September 30, 2007, the Company's comprehensive net losses were equal to the respective net losses for each of the periods presented.

Fair Value Measurements

Effective June 30, 2008, the Company adopted Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" ("SFAS 157") for certain financial assets and liabilities. This standard establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly

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transaction between market participants. SFAS 157 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active markets for similar assets and liabilities, quoted prices for indentically similar assets or liabilities in markets that are not active and models for which all significant inputs are observable either directly or indirectly.

Level 3: Unobservable inputs reflecting the reporting entity's own assumptions or external inputs for inactive markets.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. As of September 30, 2008, the Company holds approximately \$2.6 million of "level 1" cash equivalents that are measured at fair value on a recurring basis. The Company does not have any assets or liabilities that are based on "level 2" or "level 3" inputs.

### Recent Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 (Revised), "Business Combinations" ("SFAS No. 141R") and SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements ("SFAS 160"). SFAS No. 141R and SFAS 160 revise the method of accounting for a number of aspects of business combinations and non-controlling interests, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests), and post acquisition exit activities of acquired businesses. SFAS 141R and SFAS 160 will be effective for the Company during the fiscal year beginning June 29, 2009. The Company cannot anticipate whether the adoption of SFAS No. 141R will have a material impact on its results of operations and financial condition as the impact is solely dependent on the terms of any business combination entered into by the Company after June 29, 2009.

4

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

On April 25, 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets," or SFAS 142. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other generally accepted accounting principles. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the impact, if any, that this FSP will have on its results of operations, financial position or cash flows.

### 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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### 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 28, 2008 and September 30, 2007, 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 to the consolidated financial statements included in the Company's 2008 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 28, 2008	September 30, 2007
	(in thousands, except per share data)	
Stock options	\$360	\$502
Restricted stock awards	859	967
Total	1,219	1,469
Deferred income tax benefit	389	487
Stock-based compensation expense, net	\$830	\$982

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

	Three Months Ended	
	September 28, 2008	September 30, 2007
	(in thousands, except per share data)	
Marketing and sales	\$531	\$514
Technology and development	175	220
General and administrative	513	735
Total	\$1,219	\$1,469



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5

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 28, 2008	September 30, 2007
Weighted average fair value of options granted	\$3.06	\$4.74
Expected volatility	41.0%	46.5%
Expected life	6.4 yrs	5.3 yrs
Risk-free interest rate	2.84%	4.43%
Expected dividend yield	0.0%	0.0%

The following table summarizes stock option activity during the three months ended September 28, 2008:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at June 29, 2008	7,872,344	\$8.47	
Granted	210,000	\$6.80	
Exercised	(24,803)	\$4.60	
Forfeited	(85,710)	\$8.02	
Outstanding at September 28, 2008	7,971,831	\$8.44	3.9 years
Options vested or expected to vest at September 28, 2008	7,781,069	\$8.46	3.8 years
Exercisable at September 28, 2008	6,704,615	\$8.63	3.2 years

As of September 28, 2008, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$2.8 million and the weighted average period over which these awards are expected to be recognized was 2.7 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 Awards). The following table summarizes the activity of non-vested restricted stock awards during the three months ended September 28, 2008:

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	Shares	Weighted Average Grant Date Fair Value
	-----	-----
Non-vested at June 29, 2008	1,275,153	\$7.58
Granted	19,456	\$6.80
Vested	(12,375)	\$9.95
Forfeited	(28,301)	\$8.03
	-----	
Non-vested at September 28, 2008	1,253,933	\$7.54
	=====	

6

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

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of September 28, 2008, there was \$3.8 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 1.4 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 Napco Marketing Corp.

On July 21, 2008, the Company acquired selected assets of Napco Marketing Corp. (Napco), a wholesale merchandiser and marketer of products designed primarily for the floral industry. The purchase price of approximately \$10.9 million included the acquisition of a fulfillment center located in Jacksonville, FL, inventory, and certain other assets, as well as the assumption of certain related liabilities, including their seasonal line of credit of approximately \$4.0 million. The acquisition was financed utilizing a combination of available cash generated from operations and through borrowings against the Company's revolving credit facility, which as described below, was subsequently amended by the Company's 2008 Credit Facility. The purchase price includes an up-front cash payment of \$9.3 million, net of cash acquired, and potential "earn-out" incentives, which amount to a maximum of \$1.6 million through the years ending July 2, 2012, upon achievement of specified performance targets.

The Company is in the process of finalizing its allocation of the purchase price

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to individual assets acquired and liabilities assumed as a result of the acquisition of Napco. This will result in potential adjustments to the carrying value of Napco's recorded assets and liabilities, the establishment of certain additional intangible assets, revisions of useful lives of intangible assets, some of which will have indefinite lives not subject to amortization, and the determination of any residual amount that will be allocated to goodwill. The preliminary allocation of the purchase price included in the current period balance sheet is based on the best estimates of management and is subject to revision based on final determination of asset fair values and useful lives.

The following table summarizes the allocation of purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition of Napco:

	Napco Purchase Price Allocation ----- (in thousands)
Current assets	\$5,419
Property, plant and equipment	5,597
Intangible assets	-
Goodwill	-
Other	74
	-----
Total assets acquired	11,090
	-----
Current liabilities	162
	-----
Total liabilities assumed	162
	-----
Net assets acquired	\$10,928 =====

7

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

### Acquisition of DesignPac Gifts LLC

On April 30, 2008, the Company acquired all of the membership interest in DesignPac Gifts LLC (DesignPac), a designer, assembler and distributor of gourmet gift baskets, gourmet food towers and gift sets, including a broad range of branded and private label components, based in Melrose Park, IL. The acquisition, for approximately \$33.4 million in cash, net of cash acquired, was financed utilizing a combination of available cash generated from operations and through borrowings against the Company's revolving credit facility. The purchase price is subject to "earn-out" incentives which amount to a maximum of \$2.0 million through the years ending June 27, 2010, upon achievement of specified performance targets. In its most recently completed year ended December 31, 2007, prior to the acquisition, DesignPac generated revenues of approximately \$53.3 million.

In order to fund the increase in working capital requirements associated with DesignPac, and to provide for additional operational flexibility, on August 28, 2008, the Company entered into a \$293.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank N.A., as administrative agent, and a group of lenders (the "2008 Credit Facility"). The 2008 Credit Facility provides for

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borrowings of up to \$293.0 million, including: (i) a \$165.0 million revolving credit commitment, (ii) \$60.0 million of new term loan debt, and (iii) \$68.0 million of existing term loan debt associated with the Company's previous credit facility. Outstanding amounts under the 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's existing term loan and revolving credit facility will range from 1.50% to 2.50% for LIBOR loans and 0.50% to 1.50% for base rate loans, and the Company's new term loan will range from 2.00% to 3.00% for LIBOR loans and 1.00% to 2.00% for base rate loans in each case with pricing based upon the Company's leverage ratio.

The Company is in the process of finalizing its allocation of the purchase price to individual assets acquired and liabilities assumed as a result of the acquisition of DesignPac. This will result in potential adjustments to the carrying value of DesignPac's recorded assets and liabilities, the establishment of certain additional intangible assets, revisions of useful lives of intangible assets, some of which will have indefinite lives not subject to amortization, and the determination of any residual amount that will be allocated to goodwill. The preliminary allocation of the purchase price included in the current period balance sheet is based on the best estimates of management and is subject to revision based on final determination of asset fair values and useful lives.

The following table summarizes the allocation of purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition of DesignPac:

	DesignPac Purchase Price Allocation
-----	
(in thousands)	
Current assets	\$1,287
Property, plant and equipment	1,172
Intangible assets	18,908
Goodwill	12,131
Other	81
	-----
Total assets acquired	33,579
	-----
Current liabilities	184
	-----
Total liabilities assumed	184
	-----
Net assets acquired	\$33,395
	=====

Although not finalized, of the \$18.9 million of acquired intangible assets related to the DesignPac acquisition, \$6.4 million was assigned to trademarks that are not subject to amortization, while the remaining acquired intangibles of \$12.5 million were allocated primarily to customer related intangibles which are being amortized over the assets' determinable useful life of 10 years. Approximately \$12.1 million of goodwill is deductible for tax purposes.

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The following unaudited pro forma consolidated financial information has been prepared as if the acquisitions of DesignPac and Napco had taken place at the beginning of fiscal year 2008. The following unaudited pro forma information is not necessarily indicative of the results of operations in future periods or results that would have been achieved had the acquisitions taken place at the beginning of the periods presented.

	Quarter Ended	
	September 28, 2008	September 30, 2007
	(in thousands, except per share data)	
Net revenues	\$159,063	\$164,650
Operating loss	(\$7,596)	(\$5,701)
Net loss	(\$5,235)	(\$4,502)
Basic and diluted net loss per common share	\$(0.08)	\$(0.07)

### 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 28, 2008
	(in thousands)
Finished goods	\$93,339
Work-in-Process	5,706
Raw materials	20,764
	\$119,809

### Note 6 - Goodwill and Intangible Assets

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

	1-800- Flowers.com Consumer Floral	BloomNet Wire Service	Gourmet Food and Gift Baskets
Balance at June 29, 2008	\$6,165	\$-	\$99,737
Change	-	-	(102)
Balance at September 28, 2008	\$6,165	\$-	\$99,635

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9

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

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

		September 28, 2008			
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount
(in thousands)					
Intangible assets with determinable lives					
Investment in licenses	14 - 16 years	\$4,927	\$4,489	\$438	\$4,927
Customer lists	3 - 10 years	25,570	6,808	18,762	25,570
Other	5 - 8 years	2,488	767	1,721	2,488
		32,985	12,064	20,921	32,985
Trademarks with indefinite lives					
	-	46,072	-	46,072	46,053
Total identifiable intangible assets		\$79,057	\$12,064	\$66,993	\$79,038

Estimated future amortization expense is as follows: remainder of fiscal 2009 - \$2.8 million, fiscal 2010 - \$3.7 million, fiscal 2011 - \$3.2 million, fiscal 2012 - \$2.0, fiscal 2013-\$2.0 and thereafter - \$7.2 million.

Note 7 - Long-Term Debt

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

	September 2008
Term loan	\$124,8
Revolving line of credit	20,0
Commercial note	
Obligations under capital leases	
	144,8
Less current maturities of long-term debt and obligations under capital leases	44,7
	\$100,0

In order to fund the increase in working capital requirements associated with

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DesignPac, and to provide for additional operational flexibility, on August 28, 2008, the Company entered into a \$293.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank N.A., as administrative agent, and a group of lenders (the "2008 Credit Facility"). The 2008 Credit Facility provides for borrowings of up to \$293.0 million, including: (i) a \$165.0 million revolving credit commitment, (ii) \$60.0 million of new term loan debt, and (iii) \$68.0 million of existing term loan debt associated with the Company's previous credit facility. Outstanding amounts under the 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's existing term loan and revolving credit facility will range from 1.50% to 2.50% for LIBOR loans and 0.50% to 1.50% for base rate loans, and the Company's new term loan will range from 2.00% to 3.00% for LIBOR loans and 1.00% to 2.00% for base rate loans in each case with pricing based upon the Company's leverage ratio.

At closing of the 2008 Credit Facility, the Company utilized the proceeds of the new term loan to pay down amounts outstanding under its previous revolving credit facility. The repayment terms of the existing term loan remain unchanged, while the new term loan is required to be repaid in equal quarterly installments of \$3.0 million beginning in December 2008, with the final installment payment due on August 28, 2013. The 2008 Credit Facility contains various conditions to borrowing affirmative and negative covenants, and events of default. The obligations of the Company and its subsidiaries under the 2008 Credit Facility are secured by liens on all personal property of the Company and its subsidiaries.

10

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

### 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 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 28, 2008 was 39.4%, compared to 39.5% during the comparative three months ended September 30, 2007. The Company's effective tax rate for the three months ended September 28, 2008 and September 30, 2007 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 2005 through fiscal 2008, with the exception of certain states where the statute remains open from fiscal 2004, due to non-conformity with the federal statute of limitations for assessment. 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

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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.

### 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 28, 2008	September 30, 2007
	In thousands	
Net revenues		
Net revenues:		
1-800-Flowers.com Consumer Floral	\$83,501	\$87,599
BloomNet Wire Service	15,715	9,891
Gourmet Food & Gift Baskets	37,184	23,162
Home & Children's Gifts	22,595	24,735
Corporate (*)	204	1,125
Intercompany eliminations	(1,166)	(702)
	\$158,033	\$145,810

11

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

	Three Months Ended	
	September 28, 2008	September 30, 2007
	In thousands	
Operating Loss		
Category Contribution Margin:		
1-800-Flowers.com Consumer Floral	\$10,742	\$11,945
BloomNet Wire Service	4,419	2,564
Gourmet Food & Gift Baskets	(891)	(1,855)



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Home & Children's Gifts	(2,206)	(2,296)
	-----	-----
Category Contribution Margin Subtotal	12,064	10,358
Corporate (*)	(14,075)	(13,709)
Depreciation and amortization	(5,688)	(4,870)
	-----	-----
Operating Loss	\$(7,699)	\$(8,221)
	=====	=====

(\*) 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

There are various claims, lawsuits, and pending actions against the Company and its subsidiaries incident to the operations of its businesses. It is the opinion of management, after consultation with counsel, that the ultimate resolution of such claims, lawsuits and pending actions will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

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

#### Forward Looking Statements

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) is intended to provide an understanding of our financial condition, change in financial condition, cash flow, liquidity and results of operations. The following MD&A discussion should be read in conjunction with the

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consolidated financial statements and notes to those statements that appear elsewhere in this Form 10-Q and in the Company's Annual Report on Form 10-K. The following discussion contains forward-looking statements that reflect the Company's plans, estimates and beliefs. The Company's actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to any differences include, but are not limited to, those discussed under the caption "Forward-Looking Information" and under Item 1A -- "Risk Factors".

### Overview

1-800-FLOWERS.COM, Inc. is the world's leading florist and gift shop. For more than 30 years, 1-800-FLOWERS.COM, Inc. has been providing customers with fresh flowers and the finest selection of plants, gift baskets, gourmet foods, confections, balloons and plush stuffed animals perfect for every occasion. 1-800-FLOWERS.COM(R) (1-800-356-9377 or [www.1800flowers.com](http://www.1800flowers.com)), is one of the top 50 online retailers by Internet Retailer, as well as 2008 Laureate Honoree by the Computerworld Honors Program and the recipient of ICMI's 2006 Global Call Center of the Year Award. 1-800-FLOWERS.COM offers the best of both worlds: exquisite arrangements created by some of the nation's top floral artists and hand-delivered the same day, and spectacular flowers shipped overnight under our Fresh From Our Growers(R) program. As always, 100% satisfaction and freshness are guaranteed. The Company's BloomNet(R) international floral wire service ([www.mybloomnet.net](http://www.mybloomnet.net)) provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably.

The 1-800-FLOWERS.COM, Inc. "Gift Shop" also includes gourmet gifts such as popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or [www.thepopcornfactory.com](http://www.thepopcornfactory.com)); 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) or [www.winetasting.com](http://www.winetasting.com)); gift baskets from 1-800-BASKETS.COM(R) ([www.1800baskets.com](http://www.1800baskets.com)) and DesignPac Gifts(TM) ([www.designpac.com](http://www.designpac.com)) as well as 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)).

Shares in 1-800-FLOWERS.COM, Inc. are traded on the NASDAQ Global Select Market under ticker symbol FLWS.

### Category Information

The Company has 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.

Three Months Ended		
September 28, 2008	September 30, 2007	% Change
(In thousands)		

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Net Revenues:			
1-800-Flowers.com Consumer Floral	\$83,501	\$87,599	(4.7%)
BloomNet Wire Service	15,715	9,891	58.9%
Gourmet Food & Gift Baskets	37,184	23,162	60.5%
Home & Children's Gifts	22,595	24,735	(8.7%)
Corporate (*)	204	1,125	(81.9%)
Intercompany eliminations	(1,166)	(702)	(66.1%)
-----			
Total net revenues	\$158,033	\$145,810	8.4%
=====			

13

Three Months Ended			
-----			
	September 28, 2008	September 30, 2007	% Change
-----			
(In thousands)			
Gross Profit:			
1-800-Flowers.com Consumer Floral	\$31,709 38.0%	\$34,096 38.9%	(7.0%)
BloomNet Wire Service	8,340 53.1%	5,609 56.7%	48.7%
Gourmet Food & Gift Baskets	12,013 32.3%	9,483 40.9%	26.7%
Home & Children's Gifts	9,626 42.6%	10,206 41.3%	(5.7%)
Corporate (*)	157 77.0%	507 45.1%	(69.0%)
Intercompany eliminations	(22)	(20)	
-----			
Total gross profit	\$61,823	\$59,881	3.2%
=====			
	39.1%	41.1%	
=====			

Three Months Ended			
-----			
	September 28, 2008	September 30, 2007	% Change
-----			
(In thousands)			
EBITDA(**)			
Category Contribution Margin:			
1-800-Flowers.com Consumer Floral	\$10,742	\$11,945	(10.1%)
BloomNet Wire Service	4,419	2,564	72.3%
Gourmet Food & Gift Baskets	(891)	(1,855)	52.0%
Home & Children's Gifts	(2,206)	(2,296)	3.9%
-----			
Category Contribution Margin Subtotal	12,064	10,358	16.5%

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Corporate (*)	(14,075)	(13,709)	(2.7%)
EBITDA	(\$2,011)	(\$3,351)	40.0%

(\*) 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 the interest coverage ratio and consolidated leverage ratio. 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.

14

### Reconciliation of Net Loss to EBITDA:

	Three Months Ended	
	September 28, 2008	September 30, 2007
Net loss	(\$5,304)	(\$5,790)
Add:		
Interest expense	1,159	1,545
Depreciation and amortization	5,688	4,870
Less:		
Income tax benefit	3,449	3,780

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Interest income	96	178
Other income	9	18
	-----	-----
EBITDA	(\$2,011)	(\$3,351)
	-----	-----

### Results of Operations

	Three Months Ended		
	September 28, 2008	September 30, 2007	% Change
	(in thousands)		
Net revenues:			
E-commerce	\$107,749	\$114,503	5.9%
Other	50,284	31,307	60.6%
	-----	-----	
Total net revenues	\$158,033	\$145,810	8.4%
	-----	-----	

The Company's revenue growth of 8.4% during the three months ended September 28, 2008 was attributable to growth within the: (i) BloomNet Wire Service category which increased 58.9% over the prior year period due in part to the acquisition of Napco Marketing Corp. (Napco), a wholesaler of floral hardgoods, in July 2008, and the (ii) Gourmet Food & Gift Basket category, which increased 60.5% over the prior year period, due to the acquisition of DesignPac Gifts LLC (DesignPac), a wholesaler of gift baskets, in April 2008. Organic revenue, including post acquisition growth of DesignPac and Napco, and adjusted for the transition of Company-owned retail stores to franchise operations, declined approximately 3.0% during the quarter, reflecting the soft economic environment and its impact on consumer spending.

The Company fulfilled approximately 1,553,000 orders through its E-commerce sales channels (online and telephonic sales) during the three months ended September 28, 2008, a decrease of 6.1% over the prior year period. The Company's E-commerce average order value of \$69.37 was consistent with the prior year period. Other revenues, for the three months ended September 28, 2008, increased in comparison to the same period of the prior year, primarily as a result of the Company's recent acquisitions of Napco and DesignPac as previously mentioned above.

The 1-800-Flowers.com Consumer Floral category includes the operations of the 1-800-Flowers brand 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 28, 2008 decreased by 4.7% over the prior year period, due to lower order volume due to the soft economic environment, combined with the continued transition of Company owned retail stores to franchise operations, offset in part by a slightly higher average order value, which increased 1.6% to \$66.09 as a result of product mix and service and delivery charge increases.

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 28, 2008 increased by 58.9% over the prior year period, primarily as a result of the incremental revenue generated by the

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acquisition of Napco in July 2008, and continued strong organic growth within the category as a result of market share improvements, as well as expanded product and service offerings and pricing initiatives.

15

The Gourmet Food & Gift Basket category includes the operations of the Cheryl & Co., Fannie May, The Popcorn Factory, The Winetasting Network and DesignPac brands. Revenue is derived from the sale of cookies, baked gifts, premium chocolates and confections, gourmet popcorn, wine gifts and gift baskets 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 28, 2008 increased by 60.5% over the prior year period as a result of the acquisition of DesignPac in April 2008.

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) and company-owned and operated retail stores under the Plow & Hearth brand. Net revenue during the three months ended September 28, 2008 decreased by 8.7% over the prior year period as a result of lower order volume from its E-commerce sales channel, due to a planned reduction in catalog circulation designed to improve category contribution and lower retail store sales due to a decline in customer traffic.

In terms of revenue growth for fiscal 2009, while the Company has good visibility into anticipated revenue contributions from its recent acquisitions, as well as the continued market share growth in the BloomNet Wire Service business, the Company believes that consumers are under significant pressure to be more cautious in their spending as they head into the key holiday shopping period. Reflecting these factors, the Company believes that revenue growth during fiscal 2009 will be in the range of 5 to 7 percent.

### Gross Profit

	Three Months Ended		
	September 28, 2008	September 30, 2007	% Change
	-----		
	(In thousands)		
Gross profit	\$61,823	\$59,881	3.2%
Gross margin %	39.1%	41.1%	

Gross profit increased during the three months ended September 28, 2008, in comparison to the same period of the prior year, primarily as a result of the revenue attributable to the acquisitions described above. Gross margin percentage during the three months ended September 28, 2008 decreased 200 basis points, primarily as a result of the impact of the wholesale margins associated with the DesignPac acquisition, as well as higher year-over-year fuel surcharges from third party shippers.

The 1-800-Flowers.com Consumer Floral category gross profit and gross profit margin percentage decreased by 7.0% and 90 basis points, respectively, as a result of a reduction in sales volume due to softening consumer demand, and promotional pricing and higher fuel surcharges on direct-ship products from the Company's third-party shipping vendors.

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The BloomNet Wire Service category gross profit increased by 48.7% over the prior year period as a result of the aforementioned revenue from the Napco acquisition in July 2008, as well as increased revenue resulting from market share gains and expanded products and service offerings and pricing initiatives. Gross profit margins during the three months ended September 28, 2008 declined in comparison to the prior year as a result of product mix, reflecting the impact of the wholesale margins associated with the Napco product line.

The Gourmet Food & Gift Basket category gross profit increased by 26.7% over the prior year period as a result of the incremental gross profit generated by DesignPac, acquired in April 2008, which also had the effect of decreasing gross margin percentage during the quarter, as DesignPac products carry lower wholesale margins.

The Home & Children's Gift category gross profit for the three months ended September 28, 2008 decreased by 5.7% over the prior year period as a result of the aforementioned revenue decline, offset in part by a higher gross margin percentage which increased 130 basis points to 42.6%, due to sourcing and shipping initiatives.

During fiscal year 2009, the Company expects its gross margin percentage will decline slightly as a result of the acquisition of DesignPac, which carries a lower wholesale gross margin, but a strong overall contribution margin due to its efficient high volume packaging and distribution operations. This mix

16

decline is expected to be partially offset by anticipated gross margin improvements in most of its existing businesses through a combination of product sourcing, fulfillment improvements and pricing initiatives.

### Marketing and Sales Expense

	Three Months Ended		
	September 28, 2008	September 30, 2007	% Change
	(In thousands)		
Marketing and sales	\$42,648	\$42,779	-0.3%
Percentage of net revenues	27.0%	29.3%	

During the three months ended September 28, 2008, marketing and sales expense was consistent with the prior year period, and declined from 29.3% of net revenues to 27.0% of net revenues, as a result of improved operating leverage from a number of cost-saving initiatives, including catalog printing and co-mailing, and planned reductions in customer prospecting and advertising which were not expected to generate sufficient returns during this period of soft consumer demand. During the three months ended September 28, 2008 the Company added approximately 406,000 new E-commerce customers. Of the 1,279,000 total customers who placed E-commerce orders during the three months ended September 28, 2008, approximately 64% were repeat customers, compared to 61.9% during the prior 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 2009, the Company expects that marketing and sales expense will continue to decrease as a percentage of net revenue in comparison to the prior years, in part due to the acquisition of DesignPac which, as noted above,

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carries a lower wholesale gross margin, but a strong overall contribution margin due to its cost efficient, high volume product assembly and distribution operations, as well as Company initiatives which will gain further leverage within existing operations.

### Technology and Development Expense

	Three Months Ended		
	September 28, 2008	September 30, 2007	% Change
	-----		
	(In thousands)		
Technology and development	\$5,670	\$5,235	8.3%
Percentage of net revenues	3.6%	3.6%	

During the three months ended September 28, 2008, although consistent as a percentage of net revenue, technology and development expense increased 8.3% in comparison to the prior year period as a result of increased labor cost necessary to support the Company's technology platform, as well as incremental technology and integration costs associated with the acquisitions of DesignPac and Napco. During the three months ended September 28, 2008, the Company expended \$11.6 million on technology and development, of which \$5.9 million has been capitalized.

The Company believes that continued investment in technology and development is critical to attaining its strategic objectives, and as such, the Company expects that its spending for the fiscal 2009 will be consistent, as a percentage of net revenues, with the prior year.

### General and Administrative Expense

	Three Months Ended		
	September 28, 2008	September 30, 2007	% Change
	-----		
	(In thousands)		
General and administrative	\$15,516	\$15,218	2.0%
Percentage of net revenues	9.8%	10.4%	

17

General and administrative expense increased 2.0% during the three months ended September 28, 2008, but declined by 60 basis points as a percentage of net revenues in comparison to the prior year, due to the incremental expenses of DesignPac and Napco, offset in part by cost reduction initiatives.

Although the Company believes that its current general and administrative infrastructure is sufficient to support existing requirements and drive operating leverage, the Company expects that its fiscal 2009 general and administrative expenses will be consistent, as a percentage of net revenue, with fiscal 2008.

### Depreciation and Amortization Expense

Three Months Ended		
September 28,	September 30,	
-----		



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	2008	2007	% Change
	-----	-----	-----
	(In thousands)		
Depreciation and amortization	\$5,688	\$4,870	16.8%
Percentage of net revenues	3.6%	3.3%	

Depreciation and amortization expense increased by 16.8% during the three months ended September 28, 2008 in comparison to the prior year as a result of capital additions for technology platform improvements and the incremental amortization related to the intangibles established as a result of the acquisition of DesignPac in April 2008.

The Company believes that continued investment in its infrastructure, primarily in the areas of technology and development, including the improvement of the technology platforms are critical to attaining its strategic objectives. As a result of these improvements, and the increase in amortization expense associated with intangibles established as a result of recent acquisitions, the Company expects that depreciation and amortization for the fiscal 2009 will increase slightly as a percentage of net revenues in comparison to the prior year.

### Other Income (Expense)

	Three Months Ended		
	-----	-----	-----
	September 28, 2008	September 30, 2007	% Change
	-----	-----	-----
	(In thousands)		
Interest income	\$96	\$178	(46.1%)
Interest expense	(1,159)	(1,545)	25.0%
Other	9	18	50.0%
	-----	-----	
	(\$1,054)	(\$1,349)	21.9%
	=====	=====	

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.

Net borrowing costs declined during the three months ended September 28, 2008, in comparison to the prior year period, primarily as a result of declining interest rates.

On August 28, 2008, the Company entered into a \$293.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2008 Credit Facility"). The 2008 Credit Facility provides for borrowings of up to \$293.0 million, including: (i) a \$165.0 million revolving credit commitment, (ii) \$60.0 million of new term loan debt, and (iii) \$68.0 million of existing term loan debt associated with the Company's 2006 Credit Facility. Outstanding amounts under the 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's existing term loan and revolving credit facility will range from 1.50% to 2.50% for LIBOR loans and 0.50% to 1.50% for base rate loans, and the Company's new term loan will range from 2.00% to 3.00% for LIBOR loans and 1.00% to 2.00% for base rate loans in each case with pricing based upon the Company's leverage ratio. At closing of the 2008 Credit

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Facility, the Company utilized the proceeds of the new term loan to pay down amounts outstanding under its previous revolving credit facility.

18

### Income Taxes

During the three months ended September 28, 2008 and September 30, 2007, the Company recorded an income tax benefit of \$3.4 million and \$3.8 million, respectively. The Company's effective tax rates for the three months ended September 28, 2008 and September 30, 2007 was 39.4% and 39.5%, respectively. These effective rates 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 28, 2008, the Company had working capital of \$65.3 million, including cash and equivalents of \$3.5 million, compared to working capital of \$33.4 million, including cash and equivalents of \$12.1 million, at June 29, 2008.

Net cash used in operating activities of \$67.1 million for the three months ended September 28, 2008 was primarily attributable to the Company's net loss and seasonal changes in working capital, including increases in inventory (due primarily to the recently acquired DesignPac business), receivables and prepaids, consisting primarily of prepaid catalog production costs, offset in part by higher accounts payables and accrued expenses associated with the aforementioned inventory purchases.

Net cash used in investing activities of \$16.3 million for the three months ended September 28, 2008 was primarily attributable capital expenditures, primarily related to the Company's technology and distribution infrastructure, and the acquisition of Napco in July 2008. The purchase price of approximately \$10.9 million, includes an up-front cash payment of \$9.3 million, net of cash acquired, and potential "earn-out" incentives, which amount to a maximum of \$1.6 million through the years ending July 2, 2012, upon achievement of specified performance targets.

Net cash provided by financing activities of \$74.8 million for the three months ended September 28, 2008 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, as well as debt issuance costs related to the Company's 2008 Credit Facility.

In order to fund the increase in working capital requirements associated with DesignPac, and to provide operating flexibility, on August 28, 2008, the Company entered into a \$293.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2008 Credit Facility"). The 2008 Credit Facility provides for borrowings of up to \$293.0 million, including: (i) a \$165.0 million revolving credit commitment, (ii) \$60.0 million of new term loan debt, and (iii) \$68.0 million of existing term loan debt associated with the Company's previous credit facility. Outstanding amounts under the 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's existing term loan and revolving credit facility will range from 1.50% to 2.50% for LIBOR loans and 0.50% to 1.50% for base rate loans, and the Company's new term loan will range from 2.00% to 3.00% for LIBOR loans and 1.00% to 2.00% for base rate loans in each case with pricing based upon the Company's leverage ratio. At closing of the 2008 Credit Facility, the Company utilized the proceeds of the new term loan to pay down amounts outstanding under its previous revolving credit facility. The repayment terms of the existing term loan remain

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unchanged, while the new term loan is required to be repaid in equal quarterly installments of \$3.0 million beginning in December 2008, with the final installment payment due on August 28, 2013.

At September 28, 2008, the Company had borrowed \$20 million under its revolving credit facility to fund working capital requirements related to pre-holiday manufacturing and inventory purchases. The Company anticipates that such borrowings will peak during its fiscal second quarter, before being repaid prior to the end of that quarter.

On January 21, 2008, the Company's Board of Directors authorized an increase to its stock repurchase plan which, when added to the funds remaining on its earlier authorization, increased the amount available for repurchase to \$15.0 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 28, 2008, \$14.0 million remains authorized but unused.

19

At September 28, 2008, the Company's contractual obligations consist of:

	Payments due by period			
	Total	Less than 1 year	(in thousands) 1 - 3 years	3 - 5 years
Long-term debt, including interest	168,912	50,899	63,367	54,646
Capital lease obligations	55	13	25	17
Operating lease obligations	68,029	9,533	19,185	15,311
Sublease obligations	8,007	2,037	3,404	2,566
Marketing Agreement	12,638	2,638	10,000	
Purchase commitments (*)	46,016	46,016	-	-
<b>Total</b>	<b>\$303,657</b>	<b>\$111,136</b>	<b>\$95,981</b>	<b>\$71,539</b>

(\*) 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

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

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reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in preparation of its consolidated financial statements.

### Revenue Recognition

Net revenues are generated by E-commerce operations from the Company's online and telephonic sales channels as well as other operations (retail/wholesale) 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 products and service offerings to florists. Membership fees are recognized monthly in the period earned, and products sales are recognized upon product 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.

20

The Company performs an annual impairment test as of the first day of its fiscal fourth quarter, or earlier if indicators of potential impairment exist, to evaluate goodwill. Goodwill is considered impaired if the carrying amount of the reporting unit exceeds its estimated fair value. In assessing the recoverability of goodwill, the Company reviews both quantitative as well as qualitative factors to support its assumptions with regard to fair value. Judgment regarding the existence of impairment indicators is based on market conditions and operational performance of the Company. Future events could cause the Company to conclude that impairment indicators exist and that goodwill and other intangible assets associated with our acquired businesses is impaired.

### Capitalized Software

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

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### 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.

### 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.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more-likely-than-not to be sustained upon examination by taxing authorities. To the extent that the Company prevails in matters for which a liability for an unrecognized tax benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected.

### Recent Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 (Revised), "Business Combinations" ("SFAS No. 141R") and SFAS 160, "Non-controlling Interests in Consolidated Financial Statements ("SFAS 160"). SFAS No. 141R and SFAS 160 revise the method of accounting for a number of aspects of business combinations and non-controlling interests, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests), and post acquisition exit activities of acquired businesses. SFAS 141R and SFAS 160 will be effective for the Company during the fiscal year beginning June 29, 2009. The Company cannot anticipate whether the adoption of SFAS No. 141R will have a material impact on its results of operations and financial condition as the impact is solely dependent on the terms of any business combination entered into by the Company after June 29, 2009.

On April 25, 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets," or SFAS 142. The intent of this FSP is to improve the consistency between the useful life of a recognized

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intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other generally accepted accounting principles. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the impact, if any, that this FSP will have on its results of operations, financial position or cash flows.

21

### 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; and
  - o 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.

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 June 29, 2008 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

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investors should refer to it. You should understand that it is not possible to 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 and investment grade corporate and U.S. government securities, as well as from outstanding debt. As of September 28, 2008, the Company's outstanding debt, including current maturities, approximated \$144.9 million, of which \$144.8 million was variable rate debt. Each 25 basis point change in interest rates would have a corresponding effect on our interest expense of approximately \$0.1 million during the three months ended September 28, 2008. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

22

### 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 28, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

23

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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.

The Risk Factor presented below should be read in conjunction with the risk factors and information disclosed in our Annual Report on Form 10-K for the year ended June 29, 2008.

The financial and credit markets have been and continue to experience unprecedented disruption, which may have an adverse effect on our customer's spending patterns and in turn our business, financial condition and results of operations.

Consumer spending patterns are difficult to predict and are sensitive to the general economic climate, the consumer's level of disposable income, consumer debt, and overall consumer confidence. The ongoing global financial crisis affecting the banking system and financial markets has resulted in a low level of consumer confidence. In recent weeks, the volatility and disruption in the financial markets have reached unprecedented levels. This financial crisis could impact our business in a number of ways. Included among these potential negative impacts are reduced demand and lower prices for our products and services. Declines in consumer spending could reduce our revenues, gross margins and earnings. We are currently operating in challenging macroeconomic conditions which have continued into the second quarter of fiscal 2009 and we believe may continue during the remainder of fiscal 2009.

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

The Company had no purchases of common stock during the three months ended September 28, 2008 which includes the period June 30, 2008 through September 28, 2008.

On January 21, 2008, the Company's Board of Directors authorized an increase to its stock repurchase plan which, when added to the \$8.7 million remaining on its earlier authorization, increased the amount available for repurchase to \$15.0 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 28, 2008, \$14.0 remains authorized but unused.

#### 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.



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ITEM 6. EXHIBITS

- 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.

24

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.

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(Registrant)

Date: November 7, 2008

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/s/ James F. McCann

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James F. McCann  
Chief Executive Officer and  
Chairman of the Board of Directors

Date: November 7, 2008

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/s/ William E. Shea

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William E. Shea  
Senior Vice President Finance and  
Administration and  
Chief Financial Officer

