

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

1 800 FLOWERS COM INC
Form 10-Q/A
May 14, 2003

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

FORM 10-Q/A

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 30, 2003

___ 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

11-3117311

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

1600 Stewart Avenue, Westbury, New York 11590

(Address of principal executive offices) (Zip code)

(516) 237-6000

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last
report)

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 ()

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

28,472,803

(Number of shares of Class A common stock outstanding as of May 7, 2003)

37,199,915

(Number of shares of Class B common stock outstanding as of May 7, 2003)

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

1-800-FLOWERS.COM, Inc.

FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 30, 2003

INDEX

	Page

Part I. Financial Information	
Item 1. Consolidated Financial Statements:	
Consolidated Balance Sheets - March 30, 2003 (Unaudited) and June 30, 2002	1
Consolidated Statements of Operations (Unaudited) - Three and Nine Months Ended March 30, 2003 and March 31, 2002	2
Consolidated Statements of Cash Flows (Unaudited) - Nine Months Ended March 30, 2003 and March 31, 2002	3
Notes to Consolidated Financial Statements (Unaudited)	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Item 3. Quantitative and Qualitative Disclosures About Market Risk	12
Item 4. Controls and Procedures	13
Part II. Other Information	
Item 1. Legal Proceedings	14
Item 2. Changes in Securities and Use of Proceeds	14
Item 3. Defaults upon Senior Securities	14
Item 4. Submission of Matters to a Vote of Security Holders	14
Item 5. Other Information	14
Item 6. Exhibits and Reports on Form 8-K	14
Signatures	15
Certifications	16

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

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

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

	March 30, 2003
(unaudited)	
Assets	
Current assets:	
Cash and equivalents	\$ 48,562
Short-term investments	12,130
Receivables, net	9,826
Inventories	24,417
Prepaid and other	2,903
Total current assets	97,838
Property, plant and equipment, net	44,454
Investments	4,394
Capitalized investment in leases	324
Goodwill	37,717
Other intangibles, net	3,369
Other assets	19,140
Total assets	\$207,236
Liabilities and stockholders' equity	
Current liabilities:	
Accounts payable and accrued expenses	\$ 61,454
Current maturities of long-term debt and obligations under capital leases	2,779
Total current liabilities	64,233
Long-term debt and obligations under capital leases	10,070
Other liabilities	4,478
Total liabilities	78,781
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, 28,454,180 and 28,319,677 shares issued at March 30, 2003 and June 30, 2002, respectively	285
Class B common stock, \$.01 par value, 200,000,000 shares authorized, 42,479,915 and 42,480,925 shares issued at March 30, 2003 and June 30, 2002, respectively	425
Additional paid-in capital	247,066
Retained deficit	(116,213)
Treasury stock, at cost-52,800 Class A and 5,280,000 Class B shares	(3,108)
Total stockholders' equity	128,455

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

Total liabilities and stockholders' equity

\$207,236
=====

See accompanying notes.

1

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

	Three Months En	
	March 30, 2003	March 2002
Net revenues	\$124,121	\$115,000
Cost of revenues	73,095	70,000
Gross profit	51,026	44,000
Operating expenses:		
Marketing and sales	35,710	31,000
Technology and development	3,323	3,000
General and administrative	7,343	6,000
Depreciation and amortization	3,594	3,000
Total operating expenses	49,970	45,000
Operating income (loss)	1,056	
Other income (expense):		
Interest income	245	
Interest expense	(213)	
Other, net	95	
Total other income (expense), net	127	
Income (loss) before income taxes	1,183	
Benefit from income taxes	-	
Net income (loss)	\$1,183	
	=====	=====
Basic and diluted net income (loss) per common share	\$0.02	\$0.02
	=====	=====
Weighted average shares used in the calculation of net income (loss) per common share:		

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

Basic	65,583	64
	=====	=====
Diluted	67,117	68
	=====	=====

See accompanying notes.

2

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

	Nine

	March 30
	2003

Operating activities:	
Net income (loss)	\$3,976
Reconciliation of net income (loss) to net cash (used in) provided by operations:	
Depreciation and amortization	11,691
Bad debt expense	452
Other non-cash items	65
Changes in operating items:	
Receivables	(933)
Inventories	(8,770)
Prepaid and other	(683)
Accounts payable and accrued expenses	(2,702)
Other assets	(5,534)
Other liabilities	783

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

Net cash (used in) provided by operating activities	(1,655)
Investing activities:	
Purchase of investments	(21,350)
Sale of investments	37,215
Capital expenditures, net of non-cash expenditures	(4,680)
Other	284

Net cash provided by (used in) investing activities	11,469
Financing activities:	
Proceeds from employee stock options/stock purchase plan	571
Repayment of notes payable and bank borrowings	(721)
Payment of capital lease obligations	(1,703)

Net cash used in financing activities	(1,853)

Net change in cash and equivalents	7,961
Cash and equivalents:	
Beginning of period	40,601

End of period	\$48,562
	=====

See accompanying notes.

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

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

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 and nine months ended March 30, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending June 29, 2003.

The balance sheet information at June 30, 2002 has been derived from the audited financial statements at that date.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

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 (Loss)

For the three and nine months ended March 30, 2003 and March 31, 2002, the Company's comprehensive income (losses) were equal to the respective net income (losses) for each of the periods presented.

Note 2 - Employee Stock Incentive Plans

The Company accounts for its stock option plans under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, no stock-based compensation is reflected in net income, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation."

	Three Months Ended	
	March 30, 2003	March 31, 2002
		(in thousands)
Net income (loss):		
As reported	\$1,183	\$165
Pro-forma	(\$851)	(\$1,448)
Basic and diluted net income (loss) per common share:		
As reported	\$0.02	\$0.00
Pro-forma	(\$0.01)	(\$0.02)

Note 3 - Acquisition of Selected Assets of The Popcorn Factory

On May 3, 2002, the Company extended the breadth of its gourmet food product assortment when it completed the acquisition of selected operating assets and

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

liabilities of The Popcorn Factory, Inc. ("The Popcorn Factory"), a manufacturer

4

and direct marketer of premium popcorn and specialty food gifts. The purchase price of approximately \$12.6 million, including \$0.3 million of transaction costs, was comprised of \$7.3 million used to retire The Popcorn Factory's outstanding debt and the issuance of 353,003 shares of the Company's Class A common stock, valued at approximately \$5.0 million, based upon the average closing price of the Company's common stock on the date of and the two days preceding and following the closing of the transaction. The acquisition was accounted for as a purchase and, accordingly, acquired assets and liabilities are recorded at their fair values, and the operating results of The Popcorn Factory have been included in the Company's consolidated results of operations since the date of acquisition.

Pro forma Results of Operations

The following unaudited pro forma consolidated financial information has been prepared as if the acquisition of The Popcorn Factory business had taken place at the beginning of fiscal year 2002. 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 acquisition of The Popcorn Factory taken place at the beginning of the period presented.

	Nine Months Ended	
	March 30, 2003	March 31, 2002
	(in thousands, except per share data)	
Net revenues	\$410,775	\$387,079
Operating income (loss)	3,938	(11,020)
Net income (loss)	3,976	(9,594)
Basic and diluted net income (loss) per common share	\$0.06	(\$0.15)

Note 4 - Goodwill and Intangible Assets

The Company's goodwill and intangible assets consist of the following:

	March 30, 2003				
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount
	(in thousands)				
Goodwill	-	\$51,622	\$13,905	\$37,717	\$51,677
Intangible assets with		=====	=====	=====	=====

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

determinable lives					
Investment in licenses	14 - 16 years	\$4,927	\$2,711	\$2,216	\$4,927
Customer lists	3 years	910	278	632	910
Technology	3 years	1,659	1,659	-	1,659
Other	20 years	171	126	45	171
		-----	-----	-----	-----
		7,667	4,774	2,893	7,667
Trademarks with indefinite lives	-	480	4	476	480
		-----	-----	-----	-----
Total identifiable intangible assets		\$8,147	\$4,778	\$3,369	\$8,147
		=====	=====	=====	=====

Estimated amortization expense is as follows: fiscal 2003: \$0.9 million, fiscal 2004: \$0.6 million, fiscal 2005: \$0.6 million, fiscal 2006: \$0.3 million, fiscal 2007: \$0.3 million, and thereafter: \$0.9 million.

5

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

Note 5 - Long-Term Debt

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

	March 30, 2003	June 30, 2002
	-----	-----
	(in thousands)	
Commercial notes and revolving credit lines	\$6,661	\$7,388
Seller financed acquisition obligations	201	20
Obligations under capital leases	5,987	7,811
	-----	-----
	12,849	15,399
Less current maturities of long-term debt and obligations under capital leases	2,779	3,151
	-----	-----
	\$10,070	\$12,248
	=====	=====

Note 6 - Net Income (Loss) Per Common Share

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

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

	Three Months Ended	
	March 30, 2003	March 31, 2002
	(in thousand)	
Numerator:		
Net income (loss)	\$1,183	\$165
Denominator:		
Weighted average shares outstanding	65,583	64,807
Effect of dilutive securities:		
Employee stock options	1,534	3,223
Adjusted weighted-average shares and assumed conversions	67,117	68,030
Basic and diluted net income (loss) per common share	\$0.02	\$0.00

Note 7 - 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.

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

Forward Looking Statements

Certain of the matters and subject areas discussed in this Quarterly Report on Form 10-Q contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical information provided herein are forward-looking statements and may

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

contain information about financial results, economic conditions, trends and known uncertainties based on the Company's current expectations, assumptions, estimates and projections about its business and the Company's industry. These forward-looking statements involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those more fully described under the caption "Risk Factors that May Affect Future Results" within the Company's Annual Report on Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. The Company undertakes no obligation to publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Overview

1-800-FLOWERS.COM helps millions of customers connect to the people they care about with a broad range of thoughtful gifts, award-winning customer service and its unique technology and fulfillment infrastructure. The Company's product line - including flowers, plants, gourmet foods, candies, gift baskets and other unique gifts - is available to customers around the world via: the Internet (www.1800flowers.com); by calling 1-800-FLOWERS(R) (1-800-356-9377) 24 hours a day; or by visiting one of the Company-operated or franchised stores. The Company's collection of thoughtful gifting brands includes home decor and garden merchandise from Plow & Hearth(R) (phone: 1-800-627-1712 and web: www.plowandhearth.com), premium popcorn and other food gifts from The Popcorn Factory(R) (phone: 1-800-541-2676 and web: www.thepopcornfactory.com), gourmet food products from GreatFood.com(R) (www.greatfood.com), and children's gifts from HearthSong(R) (www.hearthsong.com) and Magic Cabin(R) (www.magiccabin.com).

The Company achieved profitability during the three and nine months ended March 30, 2003 and expects to be profitable for the full year of fiscal 2003. However, the Company's prospects for maintaining profitability must be considered in light of risks, uncertainties, expenses and the current challenging retail and geo-political environment, as well as those more fully described under the caption "Risk Factors that May Affect Future Results" within the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

Results of Operations

Net Revenues

	Three Months Ended			March 30, 2003
	March 30, 2003	March 31, 2002	% Change	
	-----			-----
	(in thousands)			
Net revenues:				
Telephonic	\$52,287	\$50,715	3.1%	\$208,817
Online	64,595	56,874	13.6%	181,145
Retail/fulfillment	7,239	7,835	(7.6%)	20,813
	-----			-----
Total net revenues	\$124,121	\$115,424	7.5%	\$410,775
	=====			=====

Net revenues consist primarily of the selling price of the merchandise, service or outbound shipping charges, less discounts, returns and credits. The Company's

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

combined telephonic and online revenue growth during the three and nine months ended March 30, 2003 was due primarily to an increase in order volume, resulting from the Company's effective marketing efforts, continued strong brand name recognition and further expansion of its non-floral product offerings such as candies and gourmet popcorn from The Popcorn Factory line of products which was acquired in May 2002, as well as items for the home and garden, children's toys and other specialty gifts. During the three and nine months ended March 30, 2003, non-floral gift products accounted for 38.1% and 52.5% of total combined telephonic and online net revenues, respectively, as compared to 34.3% and 47.9% during the same periods of the prior year.

7

The Company fulfilled approximately 1,871,000 and 6,339,000 orders through its combined telephonic and online sales channels during the three and nine months ended March 30, 2003, an increase of 8.7% and 23.1% over the respective prior year periods. The growth in order volume was generated on both the Company's online sales channel, which experienced increases of 11.3% and 23.7% during the three and nine months ended March 30, 2003, respectively, in comparison to the prior year periods, driven by traffic increases through the Company's websites as well as through third party portals and affiliates, and the Company's telephonic sales channel, which during the three and nine months ended March 30, 2003 increased 5.2% and 22.5%, over the respective prior year periods, resulting primarily from the acquisition of the Company's gourmet popcorn product line in May 2002. The Company's combined telephonic and online sales channels average order value of \$62.46 during the three months ended March 30, 2003, was consistent with the same period of the prior year, but decreased 5.4% to \$61.52 during the nine months ended March 30, 2003, in comparison to the same period of the prior year, due to the seasonal impact of The Popcorn Factory product line which has a lower average order value. The Company intends to continue to drive revenue growth through its online business, and continue the migration of its customers from the telephone to the Web for several important reasons: (i) online orders are less expensive to process than telephonic orders, (ii) online customers can view the Company's full array of gift offerings including non-floral gifts, which yield higher gross margin opportunities, (iii) online customers can utilize all of the Company's services, such as the various gift search functions, order status check and reminder service, thereby deepening the relationship with its customers and leading to increased order rates, and (iv) when customers visit the Company online, it provides an opportunity to interact with them in an electronic dialog via cost efficient marketing programs.

Retail/fulfillment revenues for the three and nine months ended March 30, 2003 decreased in comparison to the same periods of the prior year, primarily as a result of closing or converting certain company owned retail stores into franchised operations.

Gross Profit

	Three Months Ended			March 30, 2003
	March 30, 2003	March 31, 2002	% Change	
	(in thousands)			
Gross profit	\$51,026	\$44,734	14.1%	\$177,798
Gross margin %	41.1%	38.8%		43.3%

Gross profit consists of net revenues less cost of revenues, which is comprised primarily of florist fulfillment costs (fees paid to florists directly and through wire services that serve as clearinghouses for floral orders, net of wire service rebates), the cost of floral and non-floral merchandise sold from inventory or through third parties, and associated costs including inbound and outbound shipping charges. Additionally, cost of revenues include labor and facility costs related to direct-to-consumer merchandise production operations, as well as facility costs on properties that are sublet to the Company's franchisees. Gross profit increased during the three and nine months ended March 30, 2003, in comparison to the same periods of the prior year, primarily as a result of increased order volume and an improved gross margin percentage. Gross margin percentage increased by 230 and 220 basis points during the three and nine months ended March 30, 2003, respectively, due to several factors including: i) increased non-floral product sales, which were further complemented by the acquisition of The Popcorn Factory line of products in May 2002, which generate higher gross margins, ii) improvements in product shipping costs, inventory management and product sourcing, iii) an increase in the Company's service charge, aligning it with industry norms, and iv) the Company's continued focus on customer service, whereby stricter quality control standards and enforcement methods reduced the rate of product credits/returns and replacements.

As the Company continues to grow its higher margin, non-floral business, the Company expects that gross margin percentage, while varying by quarter due to seasonal changes in product mix, will continue to increase.

8

Marketing and Sales Expense

	Three Months Ended			Nin
	March 30, 2003	March 31, 2002	% Change	
	(in thousands)			
Marketing and sales	\$35,710	\$31,533	13.2%	\$129,641
Percentage of net revenues	28.8%	27.3%		31.6%

Marketing and sales expense consists primarily of advertising and promotional expenditures, catalog costs, online portal agreements, retail store and fulfillment operations (other than costs included in cost of revenues) and customer service center expenses, as well as the operating expenses of the Company's departments engaged in marketing, selling and merchandising activities. Marketing and sales expenses increased as a percentage of net revenues during the three months ended March 30, 2003, compared to the same period of the prior fiscal year due primarily to three factors specific to this current fiscal period: i) the timing of revenues associated with the Easter

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

Holiday, which occurs in the Company's fiscal fourth quarter ending June 29, 2003, in comparison to fiscal 2002 when it occurred in the Company's fiscal third quarter; ii) an increase in fixed operating expenses associated with The Popcorn Factory, acquired in May 2002. Due to the highly seasonal nature of its business, The Popcorn Factory has low sales volume relative to its overhead during the Company's fiscal third quarter; and iii) slower demand in the latter part of the quarter due to the war in Iraq and the severe weather in much of the country which reduced demand for spring-related products. Despite the aforementioned increase in the fiscal third quarter, during the nine months ended March 30, 2003, marketing and sales expenses as a percentage of net revenues were consistent with prior year due to targeted cost-effective online advertising, coupled with the Company's strong brand name and order processing cost reduction initiatives. As a result of the Company's cost-efficient customer retention programs, of the 1,516,000 and 4,219,000 customers who placed orders during the three and nine months ended March 30, 2003, respectively, approximately 55.1% and 43.9% represented repeat customers as compared to 50.4% and 42.7% in the respective prior year periods. In addition, as a result of the strength of the Company's brands, combined with its cost-efficient marketing programs, the Company added approximately 680,000 and 2,366,000 new customers during the three and nine months ended March 30, 2003, respectively.

In order to further execute its business plan, the Company expects to continue to prudently invest in its marketing and sales efforts to acquire new customers, while also leveraging its already significant customer base through cost effective, customer retention initiatives. Such spending will be within the context of the Company's overall marketing plan, which is continually evaluated and revised to reflect the results of the Company's most recent market research, including changing economic conditions, and seeks to determine the most cost-efficient use of the Company's marketing dollars. Although the Company believes that increased spending in the area of marketing and sales will be necessary for the Company to continue to grow its revenues, the Company expects that on an annual basis marketing and sales expense will decline as a percentage of net revenues.

Technology and Development Expense

	Three Months Ended			March 30, 2003
	March 30, 2003	March 31, 2002	% Change	
	(in thousands)			
Technology and development	\$3,323	\$3,222	3.1%	\$10,316
Percentage of net revenues	2.7%	2.8%		2.5%

Technology and development expense consists primarily of payroll and operating expenses of the Company's information technology group, costs associated with its Web sites, including hosting, design, content development and maintenance and support costs related to the Company's order entry, customer service, fulfillment and database systems. Technology and development expense increased during the three months ended March 30, 2003, in comparison to the same period of the prior year, as a result of incremental costs associated with The Popcorn Factory, acquired in May 2002, but decreased as a percentage of net revenues during the three and nine months ended March 30, 2003 due to

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

cost-efficiencies realized by in-sourcing technology applications and bringing the Company's disaster recovery web-hosting platform in-house. Internalizing the Company's development functions has enabled the Company to cost effectively enhance the content and functionality of its Web sites and improve the performance of the Company's fulfillment and database systems, while adding improved operational flexibility and supplemental back-up and system redundancy. During the three and nine months ended March 30, 2003, the Company expended \$4.3 million and \$13.5 million, respectively, on technology and development, of which \$1.0 million and \$3.2 million has been capitalized.

Although the Company believes that continued investment in technology and development is critical to attaining its strategic objectives, the Company expects that its spending in comparison to prior fiscal periods will continue to decrease as a percentage of net revenues due to the expected benefits from previous investments in the Company's current technology platform.

General and Administrative Expense

	Three Months Ended			Ni
	March 30, 2003	March 31, 2002	% Change	March 30, 2003
	(in thousands)			
General and administrative	\$7,343	\$6,847	7.2%	\$22,212
Percentage of net revenues	5.9%	5.9%		5.4%

General and administrative expense consists of payroll and other expenses in support of the Company's executive, finance and accounting, legal, human resources and other administrative functions, as well as professional fees and other general corporate expenses. The increase in general and administrative expense during the three and nine months ended March 30, 2003, in comparison to the same periods of the prior year, was primarily attributable to incremental costs associated with the operation of The Popcorn Factory, acquired in May 2002, and increased insurance costs resulting from overall market conditions, partially offset by various cost reduction initiatives.

The Company believes that its current general and administrative infrastructure is sufficient to support existing requirements, and as such, while increasing in absolute dollars, general and administrative expenses on an annual basis are expected to continue to decline as a percentage of net revenues.

Depreciation and Amortization Expense

	Three Months Ended			Ni
	March 30, 2003	March 31, 2002	% Change	March 30, 2003
	(in thousands)			
Depreciation and amortization	\$3,594	\$3,788	(5.1%)	\$11,691
Percentage of net revenues	2.9%	3.3%		2.8%

The decrease in depreciation and amortization expense during the three months ended March 30, 2003, in comparison to the same period of the prior year,

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

reflects the impact of the Company's declining rate of capital additions, and the fact that certain software components of the Company's order entry, customer service, fulfillment and database systems, implemented in fiscal 2000, are now fully depreciated. The increase in depreciation and amortization expense during the nine months ended March 31, 2003, in comparison to the same period of the prior year, was primarily the result of additional depreciation and amortization associated with The Popcorn Factory, acquired in May 2002, and current year capital additions, offset in part by the aforementioned reduction due to fully depreciated assets.

Although the Company believes that continued investment in its infrastructure, primarily in the areas of technology and development, is critical to attaining its strategic objectives, the Company expects that depreciation and amortization will continue to decrease as a percentage of net revenues in comparison to prior fiscal periods.

10

Other Income (Expense)

	Three Months Ended			Ni
	March 30, 2003	March 31, 2002	% Change	March 30, 2003
	(in thousands)			
Interest income	\$245	\$515	(52.4%)	\$880
Interest expense	(213)	(308)	30.8%	(789)
Other	95	(92)	203.3%	(53)
	\$127	\$115	10.4%	\$38

Other income (expense) consists primarily of interest income earned on the Company's investments and available cash balances, offset by interest expense, primarily attributable to the Company's capital leases and other long-term debt. The increase in other income (expense) for the three months ended March 30, 2003 was primarily due to a gain related to the sale of certain retail store assets, offset in part by lower interest income due to the decline in invested cash and investment balances in order to fund operations, capital expenditures and the acquisition of The Popcorn Factory in May 2002, as well as a decline in the Company's average rate of return on its investments due to market conditions. The decrease in other income (expense) for the nine months ended March 30, 2003 was primarily due to the decline in invested cash and investment balances in order to fund operations, capital expenditures and the acquisition of The Popcorn Factory in May 2002, as well as a decline of the Company's average rate of return on its investments due to market conditions.

Income Taxes

During the three and nine months ended March 30, 2003 the Company provided no income tax provision due to the availability of net operating loss carryforwards. However, during the three and nine months ended March 31, 2002

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

the Company recovered previously paid income taxes of approximately \$0.7 million as a result of tax law changes, which extended the period for which companies were allowed to carry-back losses. The Company has provided a full valuation allowance against the remaining portion of its deferred tax asset, consisting primarily of net operating losses, because of uncertainty regarding its future realization.

Liquidity and Capital Resources

At March 30, 2003, the Company had working capital of \$33.6 million, including cash and equivalents and short-term investments of \$60.7 million, compared to working capital of \$23.3 million, including cash and equivalents and short-term investments of \$63.4 million, at June 30, 2002. The increase in working capital resulted primarily from earnings, adjusted for non-cash items primarily consisting of depreciation and amortization, offset in part by capital expenditures, repayment of long-term debt and capital lease obligations and the final payment on a long-term online marketing contract. In addition to its cash and short-term investments, at March 30, 2003 and June 30, 2002, the Company maintained approximately \$4.4 million and \$9.6 million of long-term investments, respectively, consisting primarily of investment grade corporate and U.S. government securities.

Net cash used in operating activities of \$1.7 million for the nine months ended March 30, 2003 was primarily attributable to seasonal changes in working capital, consisting of inventory purchases for the upcoming holidays and spring selling season, a contractual payment on a long-term online marketing agreement and a reduction in accounts payable and accrued expenses, offset by net income, adjusted for non-cash charges of depreciation and amortization.

Net cash provided by investing activities of \$11.5 million for the nine months ended March 30, 2003 was principally comprised of net maturities of long-term investments, reduced by capital expenditures related to the Company's technology infrastructure.

Net cash used in financing activities was \$1.9 million for the nine months ended March 30, 2003, resulting primarily from repayments of amounts outstanding under the Company's credit facilities and long-term capital lease obligations, offset in part by the net proceeds received upon the exercise of employee stock options and purchases of stock under the Company's Employee Stock Purchase Plan.

At March 30, 2003, the Company's material capital commitments consist of:

11

- o obligations outstanding under capital and operating leases (excluding guarantees of \$0.5 million), as well as commercial notes related to obligations arising from, and collateralized by, the underlying assets of the Company's warehousing/fulfillment facility in Madison, Virginia (fiscal 2003: \$3.4 million, fiscal 2004: \$10.2 million, fiscal 2005: \$8.9 million, fiscal 2006: \$5.2 million, fiscal 2007: \$3.2 million, fiscal 2008: \$1.6 million, and thereafter: \$9.4 million);
- o online marketing agreements (\$1.1 million); and
- o inventory commitments (\$8.0 million).

On September 16, 2001, the Company's Board of Directors approved the repurchase of up to \$10.0 million of the Company's Class A common stock. Although no repurchases have been made as of May 7, 2003, 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

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

be funded utilizing available cash.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial statements and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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, affects the Company's more significant judgments and estimates used in preparation of its consolidated financial statements.

Revenue Recognition

Net revenues are generated by online, telephonic and retail fulfillment operations and primarily consist of the selling price of merchandise, service or outbound shipping charges, less discounts, returns and credits. Net revenues are recognized upon product shipment.

Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers 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 periodically evaluates acquired businesses for potential impairment indicators. 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 are impaired.

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 investment grade corporate and U.S. government securities and, secondarily,

12

certain of its financing arrangements. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

For purposes of rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934 ("Exchange Act") the term "disclosure controls and procedures" refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Within 90 days prior to the date of this report ("Evaluation Date"), the Company carried out an evaluation under the supervision and with the participation of the Company's Chief Executive Officer and its Chief Financial Officer of the effectiveness of the design and operation of its disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our periodic reports filed under and pursuant to the Exchange Act.

(b) Changes in internal controls

There were no significant changes to our internal controls or in other factors that could significantly affect our internal controls subsequent to the Evaluation Date.

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 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

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

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

99.1 Certification by James F. McCann, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification by William E. Shea, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

(b) Reports on Form 8-K

On April 7, 2003, the Company announced that it received notification from J.P. Morgan Partners (SBIC), LLC that it had terminated its Rule 10b5-1 Sales Plan, effective at the close of business on Tuesday, April 8, 2003.

On April 22, 2003, the Company filed a report on Form 8-K announcing results of operations and financial condition for its fiscal 2003 third quarter ended March 30, 2003.

14

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: May 14, 2003

/s/ James F. McCann

James F. McCann

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

Chief Executive Officer
Chairman of the Board of Directors
(Principal Executive Officer)

Date: May 14, 2003

/s/ William E. Shea

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

15

CERTIFICATIONS

I, James McCann, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of 1-800-FLOWERS.COM,

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

Inc.;

- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ James F. McCann

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

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

16

I, William Shea, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of 1-800-FLOWERS.COM, Inc.;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q/A

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ William E. Shea

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