

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

1 800 FLOWERS COM INC
Form 10-Q
February 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 December 30, 2007

or

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

Commission File No. 0-26841

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

DELAWARE

(State of
incorporation)

11-3117311

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

One Old Country Road, Carle Place, New York 11514

(Address of principal executive offices) (Zip code)

(516) 237-6000

(Registrant's telephone number, including area code)

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

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

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

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

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

26,425,118

(Number of shares of Class A common stock outstanding as of February 4, 2008)

36,858,465

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

(Number of shares of Class B common stock outstanding as of February 4, 2008)

1-800-FLOWERS.COM, Inc.

TABLE OF CONTENTS

		INDEX	Page

Part I.	Financial Information		
Item 1.	Consolidated Financial Statements:		
	Consolidated Balance Sheets - December 30, 2007 (Unaudited) and July 1, 2007		1
	Consolidated Statements of Income (Unaudited) - Three and Six Months Ended December 30, 2007 and December 31, 2006		2
	Consolidated Statements of Cash Flows (Unaudited) - Three and Six Months Ended December 30, 2007 and December 31, 2006		3
	Notes to Consolidated Financial Statements (Unaudited)		4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations		12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk		23
Item 4.	Controls and Procedures		23
Part II.	Other Information		
Item 1.	Legal Proceedings		24
Item 1A.	Risk Factors		24
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds		24
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

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

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

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

	December 30, 2007
	(unaudited)
Assets	
Current assets:	
Cash and equivalents	\$65,412
Receivables, net	27,293
Inventories	62,650
Deferred income taxes	10,138
Prepaid and other	9,920
Total current assets	175,413
Property, plant and equipment, net	62,209
Goodwill	111,714
Other intangibles, net	51,416
Other assets	866
Total assets	\$401,618
Liabilities and stockholders' equity	
Current liabilities:	
Accounts payable and accrued expenses	\$97,673
Current maturities of long-term debt and obligations under capital leases	11,516
Total current liabilities	109,189
Long-term debt and obligations under capital leases	61,625
Deferred income taxes	8,230
Other liabilities	2,563
Total liabilities	181,607
Commitments and contingencies	
Stockholders' equity:	
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	
Class A common stock, \$.01 par value, 200,000,000 shares authorized, 30,997,224 and 30,298,019 shares issued at December 30, 2007 and July 1, 2007, respectively	310
Class B common stock, \$.01 par value, 200,000,000 shares authorized, 42,138,465 shares issued at December 30, 2007 and July 1, 2007, respectively	421
Additional paid-in capital	274,777
Retained deficit	(25,427)
Treasury stock, at cost, 4,590,717 Class A and 5,280,000 Class B Shares	(30,070)
Total stockholders' equity	220,011
Total liabilities and stockholders' equity	\$401,618

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

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	
	December 30, 2007	December 31, 2006
Net revenues	\$334,202	\$329,866
Cost of revenues	181,146	177,889
Gross profit	153,056	151,977
Operating expenses:		
Marketing and sales	93,594	99,037
Technology and development	5,419	5,201
General and administrative	15,448	13,931
Depreciation and amortization	4,967	3,834
Total operating expenses	119,428	122,003
Operating income	33,628	29,974
Other income (expense):		
Interest income	295	254
Interest expense	(1,737)	(2,425)
Other	12	(7)
Total other income (expense), net	(1,430)	(2,178)
Income before income taxes	32,198	27,796
Income taxes	(12,942)	(10,874)
Net income	\$19,256	\$16,922
Net income per common share:		
Basic	\$0.31	\$0.26
Diluted	\$0.29	\$0.26
Weighted average shares used in the calculation of net income per common share		
Basic	63,020	65,094
Diluted	66,050	66,089

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

See accompanying Notes to Consolidated Financial Statements.

2

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

	Six Months December 30, 2007
Operating activities:	
Net income	\$13,466
Reconciliation of net income to net cash provided by operations:	
Depreciation and amortization	9,837
Deferred income taxes	9,122
Bad debt expense	1,363
Stock-based compensation	2,305
Other non-cash items	171
Changes in operating items:	
Receivables	(11,646)
Inventories	(696)
Prepaid and other	(344)
Accounts payable and accrued expenses	39,605
Other assets	(350)
Other liabilities	(118)
Net cash provided by operating activities	63,415
Investing activities:	
Acquisitions, net of cash acquired	(4,135)
Dispositions	25
Capital expenditures	(8,279)
Other	81
Net cash used in investing activities	(12,308)
Financing activities:	
Acquisition of treasury stock	-
Proceeds from employee stock options	3,209
Proceeds from bank borrowings	80,000
Repayment of notes payable and bank borrowings	(84,971)
Repayment of capital lease obligations	(20)
Net cash used in financing activities	(1,782)
Net change in cash and equivalents	49,325
Cash and equivalents:	
Beginning of period	16,087
End of period	\$65,412

=====

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 and six months ended December 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 29, 2008.

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

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

Use of Estimates

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

Comprehensive Income

For the three and six months ended December 30, 2007 and December 31, 2006, the Company's comprehensive net income was equal to the respective net income for each of the periods presented.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement No. 157, "Fair Value Measurements" ("Statement No. 157") which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. Statement No. 157 is effective

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

for fiscal years beginning after November 15, 2007. The transition adjustment of the difference between the carrying amounts and the fair values of those financial instruments should be recognized as a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The company is currently evaluating the impact of adopting the provisions of Statement No. 157.

Reclassifications

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

4

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

Note 2 - Net Income Per Common Share

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

	Three Months Ended	
	December 30, 2007	December 31, 2006
		(in thousands, e
Numerator:		
Net income	\$19,256	\$16,922
Denominator:		
Weighted average shares outstanding (*)	63,020	65,094
Effect of dilutive securities:		
Employee stock options	2,238	893
Employee restricted stock awards	792	102
	3,030	995
Adjusted weighted-average shares and assumed conversions	66,050	66,089
Net income per common share:		
Basic	\$0.31	\$0.26
Diluted	\$0.29	\$0.26

(*) On December 28, 2006, the Company completed its repurchase of 3,010,740 shares of Class A Common Stock in a privately negotiated transaction. The purchase price was \$15,689,000, or \$5.21 per share. The repurchase was approved by the disinterested members of the Company's Board of Directors and was in addition to the Company's then existing stock repurchase authorization of \$20.0 million, of which \$8.7 million remained authorized, but unused as of December 30, 2007. On January 21, 2008, the

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

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.

Note 3 - Stock-Based Compensation

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 11 of the Company's 2007 Annual Report on Form 10-K, that provides for the grant to eligible employees, consultants and directors of stock options, share appreciation rights (SARs), restricted shares, restricted share units, performance shares, performance units, dividend equivalents, and other share-based awards.

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

	Three Months Ended	
	December 30, 2007	December 31, 2006
	(in thousands, except per share data)	
Stock options	\$270	\$482
Restricted stock awards	566	507
Total	836	989
Deferred income tax benefit	509	317
Stock-based compensation expense, net	\$327	\$672
Impact on basic and diluted net income per common share	\$0.01	\$0.01

5

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

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

	Three Months Ended		Six Months
	December 30, 2007	December 31, 2006	December 30, 2007
	(in thousands, except per share data)		
Marketing and sales	\$242	\$347	\$756
Technology and development	99	148	319
General and administrative	495	494	1,230

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

	\$836	\$989	\$2,305
--	-------	-------	---------

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		Six Months
	December 30, 2007	December 31, 2006	December 30, 2007
Weighted average fair value of options granted	\$4.33	\$2.59	\$4.66
Expected volatility	42.6%	46.0%	45.8%
Expected life	5.3 yrs	5.3 yrs	5.3 yrs
Risk-free interest rate	4.20%	4.50%	4.39%
Expected dividend yield	0.0%	0.0%	0.0%

The expected volatility of the option is determined using historical volatilities based on historical stock prices. The Company estimated the expected life of options granted to be the average of the Company's historical expected term from vest date and the midpoint between the average vesting term and the contractual term. The risk-free interest rate is determined using the yield available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the option. The Company has never paid a dividend, and as such the dividend yield is 0.0%.

The following table summarizes stock option activity during the six months ended December 30, 2007:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at July 1, 2007	9,152,665	\$8.10	
Granted	157,500	\$9.91	
Exercised	(681,322)	\$4.71	
Forfeited	(167,192)	\$10.71	
	8,461,651	\$8.35	4.5 years
Outstanding at December 30, 2007	8,461,651	\$8.35	4.5 years
Options vested or expected to vest at December 30, 2007	8,115,447	\$8.40	4.3 years
Exercisable at December 30, 2007	7,005,207	\$8.56	3.9 years

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

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

As of December 30, 2007, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$3.8 million and the weighted average period over which these awards are expected to be recognized was 2.8 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 during the six months ended December 30, 2007:

	Shares	Weighted Average Grant Date Fair Value
	-----	-----
Non-vested at July 1, 2007	1,101,982	5.70
Granted	637,249	\$11.53
Vested	(16,177)	\$7.08
Forfeited	(51,177)	\$7.54

Non-vested at December 30, 2007	1,671,877	\$7.85
	=====	

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of December 30, 2007, there was \$8.5 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.2 years.

Note 4 - Acquisitions

The Company accounts for its business combinations in accordance with SFAS No. 141, "Business Combinations," which addresses financial accounting and reporting for business combinations and requires that all such transactions be accounted for using the purchase method. Under the purchase method of accounting for business combinations, the aggregate purchase price for the acquired business is allocated to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. Operating results of the acquired entities are reflected in the Company's consolidated financial statements from date of acquisition.

Acquisition of Fannie May Confections Brands, Inc.

On May 1, 2006, the Company acquired all of the outstanding common stock of Fannie May Confections Brands, Inc. ("Fannie May Confections"), a manufacturer and multi-channel retailer and wholesaler of premium chocolate and other confections under the Fannie May, Harry London and Fanny Farmer brands. The acquisition, for a purchase price of approximately \$92.1 million in cash, including estimated working capital adjustments and transaction costs, includes a modern 200,000-square foot manufacturing facility in North Canton, Ohio and 52 Fannie May retail stores in the Chicago area, where the chocolate brand has been

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

a tradition since 1920. The purchase price is subject to "earn-out" incentives which amounted to a maximum of \$4.5 million during the year ending July 1, 2007 (of which \$4.4 million was achieved) and \$1.5 million during the year ending June 29, 2008, upon achievement of specified earnings targets. Fannie May Confections generated revenues of approximately \$75.0 million in its most recent fiscal year ended April 30, 2006.

As described further under "Long-Term Debt," in order to finance the acquisition, on May 1, 2006, the Company entered into a secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility includes an \$85.0 million term loan and a \$50.0 million revolving facility (which was subsequently increased to \$75.0 million effective October 23, 2007), which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed \$85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections.

7

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

Note 5 - Inventory

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

	December 2007

Finished goods	\$41,0
Work-in-Process	16,8
Raw materials	4,7

	\$62,6

Note 6 - Goodwill and Intangible Assets

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

	1-800- Flowers.com Consumer Floral	BloomNet Wire Service	Gourmet Food and Gift Baskets
	-----	-----	-----
Balance at July 1, 2007	\$6,352	\$-	\$87,279
Disposition of retail stores/other	(187)	\$-	11
Balance at December 30, 2007	\$6,165	\$-	\$87,290

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

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

	December 30, 2007				
	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	\$4,247	\$ 680	\$4,927
Customer lists	3 - 10 years	14,260	4,886	9,374	14,260
Other	5 - 8 years	2,639	956	1,683	2,639
		21,826	10,089	11,737	21,826
Trademarks with indefinite lives		39,679	-	39,679	39,676
Total identifiable intangible assets		\$61,505	10,089	\$51,416	\$61,502

Estimated future amortization expense is as follows: remainder of fiscal 2008 - \$1.3 million, fiscal 2009 - \$2.6 million, fiscal 2010 - \$2.5 million, fiscal 2011 - \$2.0 million, fiscal 2012 -\$0.9 and thereafter - \$2.4 million.

8

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

Note 7 - Long-Term Debt

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

	December 2007
Term loan	\$72,2
Revolving Line of Credit	8
Commercial Note	8
Obligations under capital leases	73,1
Less current maturities of long-term debt and obligations under capital leases	11,5

In order to finance the acquisition of Fannie May Confections, on May 1, 2006, the Company entered into a secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility includes an \$85.0 million term loan and a \$50.0 million revolving facility (which was subsequently increased to \$75.0 million effective October 23, 2007), which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed \$85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections. The Company is required to pay the outstanding term loan in escalating quarterly installments, with the final installment payment due on May 1, 2012. As of December 30, 2007, the Company had no borrowings outstanding under the revolving credit facility.

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 and six months ended December 30, 2007 was 40.2% and 40.5%, respectively, compared to 39.1% and 38.7% during the comparative three and six months ended December 31, 2006. The effective tax rate during the three and six months ended December 31, 2006 includes the favorable impact of a tax settlement. The Company's effective tax rate for the three and six months ended December 30, 2007 and December 31, 2006 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by various tax credits.

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

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

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

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

- 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		Six
	December 30, 2007	December 31, 2006	December 2007
Net revenues			
	(in thousands)		
Net revenues:			
1-800-Flowers.com Consumer Floral	\$114,070	\$114,725	\$201,66
BloomNet Wire Service	12,732	9,640	22,62
Gourmet Food & Gift Baskets	110,605	108,910	133,76
Home & Children's Gifts	98,013	98,145	122,74
Corporate (*)	585	121	1,71
Intercompany eliminations	(1,803)	(1,675)	(2,50)
	\$334,202	\$329,866	\$480,01
	\$334,202	\$329,866	\$480,01

	Three Months Ended		Six
	December 30, 2007	December 31, 2006	December 2007
Operating Income			
	(in thousands)		
Category Contribution Margin:			
1-800-Flowers.com Consumer Floral	\$13,561	\$13,451	\$25,50
BloomNet Wire Service	4,458	3,256	7,02
Gourmet Food & Gift Baskets	24,912	25,326	23,05
Home & Children's Gifts	8,747	3,896	6,45
	51,678	45,929	62,03
Category Contribution Margin Subtotal	51,678	45,929	62,03
Corporate (*)	(13,083)	(12,121)	(26,79)
Depreciation and amortization	(4,967)	(3,834)	(9,83)
	\$33,628	\$29,974	\$25,40
Operating income	\$33,628	\$29,974	\$25,40
	\$33,628	\$29,974	\$25,40

(*) 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 Share-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

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

categories based upon usage, are included within corporate expenses, as they are not directly allocable to a specific category.

10

Note 10 - Commitments and Contingencies

Legal Proceedings

From time to time, the Company is subject to legal proceedings and claims arising in the ordinary course of business.

In October 2007, 1-800-Flowers.Com., Inc. and its subsidiary, 1-800-Flowers Retail, Inc. (collectively "the Company"), were served with a purported nationwide class action lawsuit filed in the United States District Court, in and for the Southern District of Florida (Grabein v. 1-800-Flowers.Com., Inc., et al; Case No. 07-22235). The Complaint alleges violation of the federal Fair and Accurate Credit Transaction Act ("FACTA") based upon the allegation that the Company printed/provided receipts to consumers at the point of sale or transaction on which receipts appeared more than the last five digits of customers' credit or debit card numbers and/or the expiration dates of such cards. Similar complaints have been filed against a number of retailers. The Complaint does not specify any actual damages for any member of the purported class. However, the Complaint does seek statutory damages of \$100 to \$1,000 for each proven alleged willful violation of the statute, if any, as well as, attorneys' fees, costs, unspecified punitive damages and a permanent injunction. We are currently examining information relating to the allegations in the Complaint and are evaluating developing judicial interpretations of the statute and pending legislation in Congress that would amend FACTA. While we intend to vigorously defend against the claims asserted, this case is in the preliminary stages of litigation and, as a result, the ultimate outcome of this case and any potential financial impact on the Company are not reasonably determinable at this time.

11

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

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

OF OPERATIONS.

Forward Looking Statements

The section entitled "Forward Looking Information and Factors that May Affect Future Results," provides a description of the risks and uncertainties that could cause actual results to differ materially from those discussed in forward-looking statements set forth in this report relating to the financial results, operations and business prospects of the Company. Such forward-looking statements are based on management's current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances.

Overview

For more than 30 years, 1-800-FLOWERS.COM Inc. - "Your Florist of Choice(R)" - has been providing customers around the world with the freshest flowers and finest selection of plants, gift baskets, gourmet foods, confections and plush stuffed animals perfect for every occasion. 1-800-FLOWERS.COM(R) offers the best of both worlds: exquisite, florist-designed arrangements individually created by some of the nation's top floral artists and hand-delivered the same day, and spectacular flowers shipped overnight "Fresh From Our Growers(sm)."

Customers can "call, click or come in" to shop 1-800-FLOWERS.COM 24/7 at 1-800-356-9377 or www.1800flowers.com. As always, 100 percent satisfaction and freshness are guaranteed. The 1-800-FLOWERS.COM collection of brands also includes home decor and children's gifts from Plow & Hearth(R) (1-800-627-1712 or www.plowandhearth.com), Wind & Weather(R) (www.windandweather.com), HearthSong(R) (www.hearthsong.com) and Magic Cabin(R) (www.magiccabin.com); gourmet gifts including popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or www.thepopcornfactory.com); exceptional cookies and baked gifts from Cheryl&Co.(R) (1-800-443-8124 or www.cherylandco.com); premium chocolates and confections from Fannie May Confections Brands(R) (www.fanniemay.com and www.harrylondon.com); gourmet foods from GreatFood.com(R) (www.greatfood.com); wine gifts from Ambrosia.com (www.ambrosia.com); gift baskets from 1-800-BASKETS.COM(R) (www.1800baskets.com) and the BloomNet(R) international floral wire service, which provides quality products and diverse services to a select network of florists.

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

12

Category Information

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.

The following table presents the contribution of net revenues, gross profit and

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

category contribution margin or category "EBITDA" (earnings before interest, taxes, depreciation and amortization) from each of the Company's business categories.

	Three Months Ended			December 2007
	December 30, 2007	December 31, 2006	% Change	
Net Revenues				
	(in thousands)			
Net revenues:				
1-800-Flowers.com Consumer Floral	\$114,070	\$114,725	(0.6)%	\$201,669
BloomNet Wire Service	12,732	9,640	32.1%	22,623
Gourmet Food & Gift Baskets	110,605	108,910	1.6%	133,767
Home & Children's Gifts	98,013	98,145	(0.1)%	122,748
Corporate (*)	585	121	383.5%	1,710
Intercompany eliminations	(1,803)	(1,675)	(7.6)%	(2,505)
Total net revenues	\$334,202	\$329,866	1.3%	\$480,012

	Three Months Ended			December 2007
	December 30, 2007	December 31, 2006	% Change	
Gross Profit				
	(in thousands)			
Gross Profit:				
1-800-Flowers.com Consumer Floral	\$44,924 39.4%	\$45,575 39.7%	(1.4)%	\$79,020 39.2%
BloomNet Wire Service	7,273 57.1%	5,777 59.9%	25.9%	12,882 56.9%
Gourmet Food & Gift Baskets	54,298 49.1%	52,706 48.4%	3.0%	63,781 47.7%
Home & Children's Gifts	46,591 47.5%	47,904 48.8%	(2.7)%	56,797 46.3%
Corporate (*)	256 43.8%	75 62.0%	241.3%	763 44.6%
Intercompany eliminations	(286)	(60)		(306)
Total gross profit	\$153,056 45.8%	\$151,977 46.1%	0.7%	\$212,937 44.4%

	Three Months Ended			December 2007
	December 30, 2007	December 31, 2006	% Change	
EBITDA (**)				
	(in thousands)			
Category Contribution Margin:				
1-800-Flowers.com Consumer Floral	\$13,561	\$13,451	0.8%	\$25,506
BloomNet Wire Service	4,458	3,256	36.9%	7,022

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

Gourmet Food & Gift Baskets	24,912	25,326	(1.6)%	23,057
Home & Children's Gifts	8,747	3,896	124.5%	6,451
	-----	-----		-----
Category Contribution Margin Subtotal	51,678	45,929	12.5%	62,036
Corporate (*)	(13,083)	(12,121)	(7.9)%	(26,792)
	-----	-----		-----
EBITDA	\$38,595	\$33,808	14.2%	\$35,244
	=====	=====		=====

13

(*) 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 Share-Based Compensation. In order to leverage the Company's infrastructure, these functions are operated under a centralized management platform, providing support services throughout the organization. The costs of these functions, other than those of the Customer Service Center, which are allocated directly to the above categories based upon usage, are included within corporate expenses as they are not directly allocable to a specific category.

(**) Performance is measured based on category contribution margin or category EBITDA, reflecting only the direct controllable revenue and operating expenses of the categories. As such, management's measure of profitability for these categories does not include the effect of corporate overhead, described above, nor does it include depreciation and amortization, other income (net), and income taxes. Management utilizes EBITDA as a performance measurement tool because it considers such information a meaningful supplemental measure of its performance and believes it is frequently used by the investment community in the evaluation of companies with comparable market capitalization. The Company also uses EBITDA as one of the factors used to determine the total amount of bonuses available to be awarded to executive officers and other employees. The Company's credit agreement uses EBITDA (with additional adjustments) to measure compliance with covenants such as interest coverage and debt incurrence. EBITDA is also used by the Company to evaluate and price potential acquisition candidates. EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. Some of these limitations are: (a) EBITDA does not reflect changes in, or cash requirements for, the Company's working capital needs; (b) EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Company's debts; and (c) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA does not reflect any cash requirements for such capital expenditures. Because of these limitations, EBITDA should only be used on a supplemental basis combined with GAAP results when evaluating the Company's performance.

Reconciliation of Net Income to EBITDA:

	Three Months Ended		
	December 30, 2007	December 31, 2006	Dece
	-----	-----	-----
Net income	\$19,256	\$16,922	(in thous
Add:			

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

Interest expense	1,737	2,425
Depreciation and amortization	4,967	3,834
Income tax expense	12,942	10,874
Other expense (income)	(12)	7
Less:		
Interest income	295	254
EBITDA	\$38,595	\$33,808

Results of Operations

Net Revenues

	Three Months Ended			December 30, 2007
	December 30, 2007	December 31, 2006	% Change	
	(in thousands)			
Net revenues:				
E-Commerce	\$274,168	\$270,159	1.5%	\$388,671
Other	60,034	59,707	0.5%	91,341
Total net revenues	\$334,202	\$329,866	1.3%	\$480,012

The Company's revenue growth of 1.3% and 2.8% during the three and six months ended December 30, 2007, respectively, was primarily attributable to the continued expansion of the Company's BloomNet Wire Service business, which increased 32.1% and 34.6%, during the respective periods. During this challenging consumer environment, which was characterized by cautious consumer spending and aggressive promotional activity by competitors across the gifting industry, the Company made the conscious decision not to chase revenue growth in its direct-to-consumer businesses, instead focusing on achieving its primary goal of leveraging its business platform to drive profitable growth while reducing its operating expense ratio. As a result, despite the difficult retail consumer environment experienced during the current Holiday season, the Company was able to achieve net income growth of 13.8% on more modest revenue growth.

14

The Company fulfilled approximately 4,404,000 and 6,058,000 orders through its E-commerce sales channels (online and telephonic sales) during the three and six months ended December 30, 2007, respectively, which represents increases of 0.7% and 0.8% over the respective prior year periods. The Company's E-commerce average order value of \$62.25 and \$64.16 during the three and six months ended December 30, 2007, respectively, increased 0.8% and 1.7%, over the respective prior year periods, primarily from a combination of product mix and pricing initiatives. Other revenues, for the three and six months ended December 30, 2007, increased in comparison to the same period of the prior year, primarily as a result of the continued membership revenue growth and expanded product and service offerings from the Company's BloomNet Wire Service category, offset by reduced wholesale revenues from its Gourmet Food and Gift Baskets category.

The 1-800-Flowers.com Consumer Floral category includes the 1-800-Flowers brand operations which derives revenue from the sale of consumer floral products through its E-Commerce sales channels (telephonic and online sales) and company-owned and operated retail floral stores, as well as royalties from its franchise operations. Net revenues during the three months ended December 30, 2007 decreased by 0.6% over the prior year period, primarily due to lower retail sales from its company-owned floral stores as a result of the continued

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

transition of Company stores to franchise ownership. A slight E-Commerce order volume reduction was offset by a higher average sale, due to product mix and pricing initiatives.

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 and six months ended December 30, 2007 increased by 32.1% and 34.6% over the respective prior year periods, primarily as a result of increased florist membership revenues due in part to its pricing initiatives and a growing volume of orders sent between florists, as well as expanded product and service offerings.

The Gourmet Food & Gift Basket category includes the operations of the Cheryl & Co., Fannie May Confections, The Popcorn Factory and The Winetasting Network brands. Revenue is derived from the sale of cookies, baked gifts, premium chocolates and confections, gourmet popcorn and wine gifts through its E-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Cheryl & Co. and Fannie May brands, as well as wholesale operations. Net revenue during the three and six months ended December 30, 2007 increased by 1.6% and 2.0% over the respective prior year periods as a result of increased order volumes on the E-Commerce sales channel from the Cheryl & Co., Fannie May Confections and Popcorn Factory brands, offset in part by reductions within Cheryl & Co. and Fannie May Confections' wholesale operations.

The Home & Children's Gifts category includes revenues from Plow & Hearth, Wind & Weather, HearthSong and Magic Cabin brands. Revenue is derived from the sale of home decor and children's gifts through its E-commerce sales channels (telephonic and online sales) or company-owned and operated retail stores under the Plow & Hearth brand. Net revenue during the three and six months ended December 30, 2007 remained relatively consistent with the respective prior year periods, and is expected to remain flat for the balance of the fiscal year. As a result of the poor results during the second quarter of fiscal 2007, the Company's management implemented several changes to improve the performance within this category including: (i) discontinuing catalog titles, such as Madison Place and Problem Solvers, (ii) strengthening the management team, (iii) improving the creative look and feel of the catalogs and (iv) reducing the circulation plans for all titles to place more focus on the category's existing customer base. These changes had the desired effect of improving the operating results within the category, while maintaining prior year revenue levels, resulting in category contribution margin improvements of 124.5% and 219.7%, during the respective three and six months ended December 30, 2007.

The Company anticipates that its revenue growth for fiscal 2008 will be in the range of 2-4 percent, as anticipated revenue growth in the Company's key business categories of 1-800-Flowers Consumer Floral, BloomNet Wire Service and Gourmet Food & Gift Baskets offsets the lower anticipated revenue contribution expected from its Home and Children's Gifts category.

15

Gross Profit

Three Months Ended			Si
December 30, 2007	December 31, 2006	% Change	December 30, 2007
(in thousands)			

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

Gross profit	\$153,056	\$151,977	0.7%	\$212,937
Gross margin %	45.8%	46.1%		44.4%

Gross profit increased during the three and six months ended December 30, 2007, in comparison to the same period of the prior year, primarily as a result of the revenue growth described above. Gross margin percentage during the three months ended December 30, 2007 decreased 30 basis points, reflecting the promotional nature of the current holiday season. During the six months ended December 30, 2007 gross margin percentage increased 10 basis points as a result of product mix and manufacturing efficiencies.

The 1-800-Flowers.com Floral Consumer category gross profit and gross margin percentage for the three months ended December 30, 2007 decreased by 1.4% and 30 basis points, respectively, over the prior year period as a result of the aforementioned decrease in net revenues, and due to a greater use of selective promotional offerings during the current Holiday season. Gross profit and gross margin percentage during the six months ended December 30, 2007 increased 2.6% and 20 basis points, respectively, over the prior year period, resulting from increased net revenues, and improvements in fulfillment logistics and pricing initiatives.

The BloomNet Wire Service category gross profit for the three and six months ended December 30, 2007 increased by 25.9% and 30.4% over the respective prior year periods as a result of increases in florist membership revenues resulting in part from pricing initiatives and a growing volume of orders sent between florists, and increased revenues from its expanded product and service offerings. Gross margin percentage decreased 280 basis points and 190 basis points, to 57.1% and 56.9% during the three and six months ended December 30, 2007, respectively, primarily as a result of sales mix, impacted by increased revenue related to a growing volume of orders sent between florists which bear lower margins, but support membership.

The Gourmet Food & Gift Basket category gross profit for the three and six months ended December 30, 2007 increased by 3.0% and 4.2% over the respective prior year periods as a result of the aforementioned increased revenue as well as an improved gross margin percentage. Gross margin percentage increased by 70 basis points and 100 basis points, to 49.1% and 47.7%, in comparison to the respective three and six months ended December 31, 2006, as a result of manufacturing efficiencies, improved product sourcing, and sales channel mix.

The Home & Children's Gift category gross profit for the three and six months ended December 30, 2007 decreased by 2.7% and 2.5% over the respective prior year periods as a result of the lower gross margin percentage, which declined 130 basis points and 100 basis points, to 47.5% and 46.3%, during the three and six months ended December 30, 2007, respectively, due to sales mix and the increase in the use of selective promotional pricing and free shipping offers during the current Holiday season.

During the remainder of fiscal 2008, the Company expects that its gross margin percentage will improve slightly, although vary by quarter due to seasonal changes in product mix, primarily through the growth of its higher margin business categories including Gourmet Food and Gift Baskets and BloomNet Wire Service, and improved product sourcing, new product development and process improvement initiatives implemented during the second half of fiscal 2007.

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

Marketing and Sales Expense

	Three Months Ended			Si
	December 30, 2007	December 31, 2006	% Change	December 30, 2007
	(in thousands)			
Marketing and sales	\$93,594	\$99,037	(5.5)%	\$136,373
Percentage of net revenues	28.0%	30.0%		28.4%

During the three and six months ended December 30, 2007, marketing and sales expenses decreased 5.5% and 3.6%, and declined from 30.0% and 30.3% of net revenues, to 28.0% and 28.4% of net revenues, as a result of improved operating leverage from a number of cost-saving initiatives, including catalog printing and e-mail pricing improvements, and planned reductions in catalog prospecting and the discontinuance of the Madison Place and Problem Solvers titles within the Home & Children's category, as well as the impact of the growth of the Company's BloomNet category. During the three and six months ended December 30, 2007, the Company added approximately 1,259,000 and 1,764,000 new e-commerce customers, respectively. As a result of the Company's effective customer retention efforts, approximately 1,501,000 and 2,324,000 existing customers placed e-commerce orders during the three and six months ended December 30, 2007, respectively, representing an increase of 5.1% and 4.4% over the same periods of the prior year. Of the 2,760,000 and 4,088,000 total customers who placed e-commerce orders during the three and six months ended December 30, 2007, approximately 54.4% and 56.8% were repeat customers, compared to 53.0% and 52.0% during the respective prior year periods, reflecting the Company's ongoing focus on deepening the relationship with its existing customers as their trusted source for gifts and services for all of their celebratory occasions.

During fiscal 2008, the Company is focused on continuing to improve its operating expense ratio through a number of cost saving initiatives, including catalog printing and e-mail pricing improvements, as well as a review of the type, quantity and effectiveness of its marketing programs. In addition to the improved operating results expected now that the Company has completed the investment phase of its BloomNet florist business, the Company expects that marketing and sales expense, as a percentage of revenue, will continue to decrease in comparison to the prior year.

Technology and Development Expense

	Three Months Ended			Si
	December 30, 2007	December 31, 2006	% Change	December 30, 2007
	(in thousands)			
Technology and development	\$5,419	\$5,201	4.2%	\$10,654
Percentage of net revenues	1.6%	1.6%		2.2%

During the three and six months ended December 31, 2007, technology and development expense increased in comparison to the respective prior year periods by 4.2% and 2.8%, but remained consistent as a percentage of net revenues, as a result of increased labor costs required to support the Company's technology platform, offset in part by savings derived from renegotiating various

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

technology maintenance and license agreements. During the three and six months ended December 30, 2007, the Company expended \$7.5 million and \$16.0 million on technology and development, of which \$2.1 million and \$5.3 million has been capitalized.

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

17

General and Administrative Expense

	Three Months Ended			December 30,
	December 30, 2007	December 31, 2006	% Change	2007
	(in thousands)			
General and administrative	\$15,448	\$13,931	10.9%	\$30,666
Percentage of net revenues	4.6%	4.2%		6.4%

General and administrative expense increased 10.9% and 12.4% during the three and six months ended December 30, 2007, respectively, and by 40 basis points and 60 basis points of net revenues in comparison to the respective prior year periods, primarily as a result of increased professional fees and corporate initiatives. The benefit of these increased costs are reflected in the improvements within the Company's overall operating expense ratios, in comparison to the same periods of the prior year.

The Company believes that its current general and administrative infrastructure is sufficient to support existing requirements and drive operating leverage, and as a result the Company expects that its general and administrative expenses as a percentage of net revenue during the remainder of fiscal 2008 will be consistent, to slightly above, the prior year period.

Depreciation and Amortization Expense

	Three Months Ended			December 30,
	December 30, 2007	December 31, 2006	% Change	2007
	(in thousands)			
Depreciation and amortization	\$4,967	\$3,834	29.6%	\$9,837
Percentage of net revenues	1.5%	1.2%		2.0%

Depreciation and amortization expense during the three and six months ended

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

December 30, 2007 increased by 29.6% and 14.7%, respectively, and by 30 basis points and 20 basis points of net revenue as compared to the respective prior year periods. The increases are the result of recent capital additions, and a reduction in amortization expense recorded during the three months ended December 31, 2006 associated with the Company's Fannie May acquisition. During the second quarter of the prior year, the Company completed its allocation of the purchase price of Fannie May Confections to the individual assets acquired and liabilities assumed, which resulted in adjustments to the carrying value of recorded assets and liabilities, including revisions to the value and expected lives of certain intangible assets, subject to amortization, and the residual amount that was allocated to goodwill. As a result, during the three months ended December 31, 2006, the Company recorded a reduction in amortization expense in the amount of \$0.6 million, reflecting the impact of the change in estimate in that period.

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

18

Other Income (Expense)

	Three Months Ended		Six Months End	
	December 30, 2007	December 31 2006	December 30, 2007	December 200
	(in thousands)			
Interest income	\$295	\$254	\$473	\$59
Interest expense	(1,737)	(2,425)	(3,282)	(4,25
Other	12	(7)	30	
	(\$1,430)	(\$2,178)	(\$2,779)	(\$3,65

Other income (expense) consists primarily of interest income earned on the Company's investments and available cash balances, offset by interest expense, primarily attributable to the Company's long-term debt, and revolving line of credit. In order to finance the acquisition of Fannie May Confections Brands, on May 1, 2006, the Company entered into a \$135.0 million secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility, as amended on October 23, 2007, includes an \$85.0 million term loan and a \$75.0 million revolving facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed \$85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands, Inc. As of December 30, 2007, the outstanding balance on the term loan under the Company's 2006 Credit Facility was \$72.3 million. During the three and six months ended December 30, 2007, the Company borrowed under its line of credit to fund working capital needs in preparation for the holiday season. All such borrowings were repaid by December 30, 2007.

Income Taxes

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

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

During the three and six months ended December 30, 2007 and December 31, 2006, the Company recorded income tax expense of \$12.9 million and \$9.2 million, respectively. The Company's effective tax rate for the three and six months ended December 30, 2007 was 40.2% and 40.5%, respectively, compared to 39.1% and 38.7% during the comparative three and six months ended December 31, 2006. The effective tax rate during the three and six months ended December 31, 2006 includes the favorable impact of a tax settlement. The Company's effective tax rate for the three and six months ended December 30, 2007 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 December 30, 2007, the Company had working capital of \$67.0 million, including cash and equivalents of \$65.4 million, compared to working capital of \$51.4 million, including cash and equivalents of \$16.1 million, at July 1, 2007.

Net cash provided by operating activities of \$62.7 million for the six months ended December 30, 2007 was primarily attributable to the Company's net income, adjusted for non-cash charges for depreciation and amortization and deferred income taxes, as well as seasonal changes in working capital, primarily related to a quarter end increase in accounts payable, which will be paid down during the third quarter.

Net cash used in investing activities of \$12.3 million for the six months ended December 30, 2007 was primarily attributable to capital expenditures related to the Company's technology and distribution infrastructure, and to the payment of a \$4.4 million "earn-out" incentive, for financial targets achieved during fiscal 2007, related to the acquisition of Fannie May Confections Brands, Inc.

19

Net cash used in financing activities of \$1.0 million for the six months ended December 30, 2007 was primarily from the net repayment of bank borrowings on outstanding debt and long-term capital lease obligations, offset in part by proceeds from employee stock option exercises.

On May 1, 2006, the Company entered into a \$135.0 million secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility, as amended on October 23, 2007, includes an \$85.0 million term loan and a \$75.0 million revolving credit facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed \$85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands, Inc. The Company is required to pay the outstanding term loan in quarterly installments, with the final installment payment due on May 1, 2012. The 2006 Credit Facility contains

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

various conditions to borrowing, and affirmative and negative financial covenants. As of December 30, 2007, the Company had no borrowings outstanding under the revolving credit facility.

The Company believes, based on current circumstances, that its existing and future cash flows from operations will be sufficient to fund its working capital needs, capital expenditures and repayments of bank borrowings on outstanding debt and long-term capital lease obligations until the first quarter of fiscal 2009, at which time it will borrow against its line of credit to fund working capital requirements related to pre-holiday manufacturing and inventory purchases. The Company anticipates that, as in the current year, such borrowings will peak during the second quarter of 2009, before being repaid prior to the end of that quarter.

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

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.

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

	Payments due by period			
	Total	Less than 1 year	(in thousands) 1-3 years	3 - 5 y
Long-term debt	\$84,956	\$15,559	\$33,530	\$35
Capital lease obligations	77	27	25	
Operating lease obligations	63,894	6,129	16,436	13
Sublease obligations	4,920	1,020	2,720	
Purchase commitments (*)	38,028	28,028	10,000	
Total	\$191,875	\$50,763	\$62,711	\$50

(*) Purchase commitments consist primarily of inventory, equipment purchase orders, online marketing and licensing 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

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

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

20

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

Revenue Recognition

Net revenues are generated by E-commerce operations from the Company's online and telephonic sales channels as well as other operations (retail/fulfillment) and primarily consist of the selling price of merchandise, service or outbound shipping charges, less discounts, returns and credits. Net revenues are recognized upon product shipment. Shipping terms are FOB shipping point. Net revenues generated by the Company's BloomNet Wire Service operations include membership fees as well as other product and service offerings to florists. Membership fees are recognized monthly in the period earned, and product sales are recognized upon shipment with shipping terms of FOB shipping point.

Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers or franchisees to make required payments. If the financial condition of the Company's customers or franchisees were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory

The Company states inventory at the lower of cost or market. In assessing the realization of inventories, we are required to make judgments as to future demand requirements and compare that with inventory levels. It is possible that changes in consumer demand could cause a reduction in the net realizable value of inventory.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired and is evaluated annually for impairment. The cost of intangible assets with determinable lives is amortized to reflect the pattern of economic benefits consumed, on a straight-line basis, over the estimated periods benefited, ranging from 3 to 16 years.

The Company performs an annual impairment test as of the first day of its fiscal fourth quarter, or earlier if indicators of potential impairment exist, to evaluate goodwill. Goodwill is considered impaired if the carrying amount of the reporting unit exceeds its estimated fair value. In assessing the recoverability of goodwill, the Company reviews both quantitative as well as qualitative factors to support its assumptions with regard to fair value. Judgment regarding 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.

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

Capitalized Software

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

Stock-based Compensation

SFAS No. 123R requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. The Company determines the fair value of stock options issued by using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model considers a range of assumptions related to volatility, dividend yield, risk-free interest rate and employee exercise behavior. Expected volatilities are based on historical volatility of the Company's stock price. The dividend yield is based on historical experience and future expectations. The risk-free interest rate is derived from the US Treasury yield curve in effect at the time of grant. The Black-Scholes model also incorporates expected forfeiture rates, based on historical behavior. Determining these assumptions are subjective and complex, and therefore, a change in the assumptions utilized could impact the calculation of the fair value of the Company's stock options.

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

21

effect when such assets or liabilities are realized or settled. The Company has recognized as a deferred tax asset the tax benefits associated with losses related to operations, which are expected to result in a future tax benefit. Realization of this deferred tax asset assumes that we will be able to generate sufficient future taxable income so that these assets will be realized. The factors that we consider in assessing the likelihood of realization include the forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements, and is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the effect that the adoption of this Statement will have on its consolidated results of operations and financial condition.

Forward Looking Information and Factors that May Affect Future Results

Our disclosure and analysis in this report contain forward-looking information about the Company's financial results and estimates, and 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

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

"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 growth;
 - 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 to leverage its operating infrastructure
- o general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products.

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 July 1, 2007 listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them in Part I, Item 1A, of that filing under the heading

22

"Cautionary Statements Under the Private Securities Litigation Reform Act of 1995". We incorporate that section of that Form 10-K in this filing and investors should refer to it. You should understand that it is not possible to 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. The Company currently does not use interest rate derivative instruments to manage exposure to interest rate changes. In order to finance the acquisition of Fannie May Confections, on May 1, 2006, the Company entered into a secured credit facility. The credit facility, as amended on October 23, 2007, includes an \$85.0 million term loan and a \$75.0 million revolving facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio.

ITEM 4. CONTROLS AND PROCEDURES

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

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 December 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

23

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.

In October 2007, 1-800-Flowers.Com., Inc. and its subsidiary, 1-800-Flowers Retail, Inc. (collectively "the Company"), were served with a purported nationwide class action lawsuit filed in the United States District Court, in and for the Southern District of Florida (Grabein v. 1-800-Flowers.Com., Inc., et al; Case No. 07-22235). The Complaint alleges violation of the federal Fair and Accurate Credit Transaction Act ("FACTA") based upon the allegation that the Company printed/provided receipts to consumers at the point of sale or transaction on which receipts appeared more than the last five digits of customers' credit or debit card numbers and/or the expiration dates of such cards. Similar complaints have been filed against a number of retailers. The Complaint does not specify any actual damages for any member of the purported class. However, the Complaint does seek statutory damages of \$100 to \$1,000 for each proven alleged willful violation of the statute, if any, as well as, attorneys' fees, costs, unspecified punitive damages and a permanent injunction. We are currently examining information relating to the allegations in the Complaint and are evaluating developing judicial interpretations of the statute and pending legislation in Congress that would amend FACTA. While we intend to vigorously defend against the claims asserted, this case is in the preliminary stages of litigation and, as a result, the ultimate outcome of this case and any potential financial impact on the Company are not reasonably determinable at

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

this time.

ITEM 1A. RISK FACTORS.

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

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

The following table sets forth, for the months indicated, the Company's purchase of common stock during the first six months of fiscal 2008, which includes the period July 1, 2007 through December 30, 2007.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
----- (in thousands, except average price paid per share)			
7/2/07 - 7/29/07	-	\$-	-
7/30/07 - 8/26/07	-	\$-	-
8/27/07 - 9/30/07	3.6	\$11.55	3.6
10/1/07 - 10/28/07	-	\$-	-
10/29/07 - 11/25/07	-	\$-	-
11/26/07 - 12/30/07	-	-	-
Total	----- 3.6 =====	----- \$11.55 =====	----- 3.6 =====

On May 12, 2005, the Company's Board of Directors increased the Company's authorization to repurchase the Company's Class A common stock up to \$20 million, from the previous authorized limit of \$10 million. All share purchases were made in open-market transactions. The average price paid per share is calculated on a settlement basis and excludes commission.

On December 28, 2006, the Company completed its repurchase of 3,010,740 shares of Class A Common Stock in a privately negotiated transaction. The purchase price was \$15,689,000, or \$5.21 per share. The repurchase was approved by the disinterested members of the Company's Board of Directors and was in addition to

the Company's then existing stock repurchase authorization of \$20.0 million, of which \$8.7 million remained authorized, but unused as of December 30, 2007. 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.

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

The Company's Annual Meeting of Stockholders was held on December 4, 2007.

The following nominees were elected as directors, each to serve until the 2010 Annual Meeting or until their respective successors shall have been duly elected and qualified, by the vote set forth below:

Nominee	For
John J. Conefry, Jr.	384,930,091
Leonard J. Elmore	383,473,013
Jan L. Murley	385,062,794

The following Directors who were not nominees for election at this Annual Meeting will continue to serve on the Board of Directors of the Company: James F. McCann, Christopher G. McCann, Lawrence Calcano, James Cannavino, and Jeffrey C. Walker.

The proposal to ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending June 29, 2008 was approved by the vote set forth below:

For	Against
384,484,241	798,176

There were no broker non-votes for this proposal.

ITEM 5. OTHER INFORMATION

None.

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.

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

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: February 6, 2008

/s/ James F. McCann

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

Date: February 6, 2008

/s/ William E. Shea

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