

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

1 800 FLOWERS COM INC  
Form 10-Q  
May 09, 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 March 30, 2008

or

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

Commission File No. 0-26841

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

DELAWARE  
-----  
(State of  
incorporation)

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

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

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

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

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

Large accelerated filer ( ) Accelerated filer(X)  
Non-accelerated filer ( ) Smaller reporting company ( )

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

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

26,528,374  
-----  
(Number of shares of Class A common stock outstanding as of May 1, 2008)

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

36,858,465  
-----

(Number of shares of Class B common stock outstanding as of May 1, 2008)

1-800-FLOWERS.COM, Inc.

## TABLE OF CONTENTS

		INDEX	
			Page
Part I.	Financial Information		
Item 1.	Consolidated Financial Statements:		
	Consolidated Balance Sheets - March 30, 2008 (Unaudited) and July 1, 2007		1
	Consolidated Statements of Income (Unaudited) - Three and Nine Months Ended March 30, 2008 and April 1, 2007		2
	Consolidated Statements of Cash Flows (Unaudited) - Three and Nine Months Ended March 30, 2008 and April 1, 2007		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

## PART I. - FINANCIAL INFORMATION

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

### ITEM 1. - CONSOLIDATED FINANCIAL STATEMENTS

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

	March 30 2008 ----- (unaudited)
<b>Assets</b>	
Current assets:	
Cash and equivalents	\$38,329
Receivables, net	17,206
Inventories	67,370
Deferred income taxes	8,886
Prepaid and other	8,301
	-----
Total current assets	140,092
Property, plant and equipment, net	61,017
Goodwill	111,717
Other intangibles, net	50,751
Other assets	786
	-----
Total assets	\$364,363 =====
<b>Liabilities and stockholders' equity</b>	
Current liabilities:	
Accounts payable and accrued expenses	\$58,604
Current maturities of long-term debt and obligations under capital leases	12,203
	-----
Total current liabilities	70,807
Long-term debt and obligations under capital leases	58,438
Deferred income taxes	8,230
Other liabilities	3,004
	-----
Total liabilities	140,479
Commitments and contingencies	
Stockholders' equity:	
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	
Class A common stock, \$.01 par value, 200,000,000 shares authorized, 31,108,935 and 30,298,019 shares issued at March 30, 2008 and July 1, 2007, respectively	311
Class B common stock, \$.01 par value, 200,000,000 shares authorized, 42,138,465 shares issued at March 30, 2008 and July 1, 2007, respectively	421
Additional paid-in capital	276,438
Retained deficit	(22,137)
Treasury stock, at cost, 4,724,326 and 4,590,717 Class A shares at March 30, 2008 and July 1, 2007, respectively and 5,280,000 Class B shares	(31,149)
	-----
Total stockholders' equity	223,884
	-----
Total liabilities and stockholders' equity	\$364,363 =====

# 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	
	March 30, 2008	April 1, 2007
Net revenues	\$219,567	\$213,779
Cost of revenues	130,062	127,092
Gross profit	89,505	86,687
Operating expenses:		
Marketing and sales	60,587	59,023
Technology and development	5,515	5,469
General and administrative	13,151	14,198
Depreciation and amortization	5,011	4,447
Total operating expenses	84,264	83,137
Operating income	5,241	3,550
Other income (expense):		
Interest income	363	203
Interest expense	(1,073)	(1,551)
Other	25	1
Total other income (expense), net	(685)	(1,347)
Income before income taxes	4,556	2,203
Income taxes	(1,266)	(1,150)
Net income	\$3,290	\$1,053
Net income per common share:		
Basic	\$0.05	\$0.02
Diluted	\$0.05	\$0.02
Weighted average shares used in the calculation of net income per common share		
Basic	63,261	62,358
Diluted	65,413	64,284

See accompanying Notes to Consolidated Financial Statements.

[PG NUMBER]

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

	Nine Mo March 30, 2008
Operating activities:	
Net income	\$16,756
Reconciliation of net income to net cash provided by operations	
Depreciation and amortization	14,848
Deferred income taxes	10,374
Bad debt expense	1,363
Stock-based compensation	3,339
Other non-cash items	275
Changes in operating items:	
Receivables	(1,559)
Inventories	(5,506)
Prepaid and other	1,275
Accounts payable and accrued expenses	608
Other assets	300
Other liabilities	323
Net cash provided by operating activities	42,396
Investing activities:	
Acquisitions, net of cash acquired	(4,135)
Dispositions	125
Capital expenditures	(11,615)
Other	204
Net cash used in investing activities	(15,421)
Financing activities:	
Acquisition of treasury stock	(1,079)
Proceeds from employee stock options	3,837
Proceeds from bank borrowings	80,000
Repayment of notes payable and bank borrowings	(87,466)
Repayment of capital lease obligations	(25)
Net cash used in financing activities	(4,733)
Net change in cash and equivalents	22,242
Cash and equivalents:	
Beginning of period	16,087
End of period	\$38,329

=====

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 nine months ended March 30, 2008 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 nine months ended March 30, 2008 and April 1, 2007, 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 (FASB) issued Statement No. 157, "Fair Value Measurements" (Statement No. 157) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. Statement No. 157

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

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

In December 2007, the FASB issued Statement No. 141 (Revised), Business Combinations (Statement 141R) and Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements (Statement No. 160). Statements No. 141R and No. 160 revise the method of accounting for a number of aspects of business combinations and non-controlling interests, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests), and post acquisition exit activities of acquired businesses. Statement Nos. 141R and 160 will be effective for the Company during its fiscal year beginning June 29, 2009.

### 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	
	March 30, 2008	April 1, 2007
	(in thousands, except per share amounts)	
Numerator:		
Net income	\$3,290	\$1,053
Denominator:		
Weighted average shares outstanding (*)	63,261	62,358
Effect of dilutive securities:		
Employee stock options	1,449	1,495
Employee restricted stock awards	703	431
	2,152	1,926
Adjusted weighted-average shares and assumed conversions	65,413	64,284

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

Net income per common share:		
Basic	\$0.05	\$0.02
Diluted	\$0.05	\$0.02

(\*) On December 28, 2006, the Company completed a 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 January 20, 2008. 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. During the period from January 21, 2008 through March 30, 2008, the Company repurchased 133,609 shares (approximately \$1.1 million) of Class A Common Stock at market prices.

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.

5

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

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

	Three Months Ended		Nine Months End	
	March 30, 2008	April 1, 2007	March 30, 2008	April 2007
	(in thousands, except per share data)			
Stock options	\$307	\$749	\$1,079	\$2,
Restricted stock awards	727	628	2,260	1,
Total	1,034	1,377	3,339	3,
Deferred income tax benefit	352	412	1,348	1,



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

Stock-based compensation expense, net	\$682	\$965	\$1,991	\$2,
	=====	=====	=====	=====

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

	Three Months Ended		Nine Months Ended	
	March 30, 2008	April 1, 2007	March 30, 2008	April 2007
	-----			
	(in thousands, except per share data)			
Marketing and sales	\$288	\$484	\$1,044	\$1,
Technology and development	133	206	452	
General and administrative	613	687	1,843	1,
	-----			
Total	\$1,034	\$1,377	\$3,339	\$3,
	=====			

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		Nine Months Ended	
	March 30, 2008	April 1, 2007	March 30, 2008	April 2007
	-----			
	(in thousands, except per share data)			
Weighted average fair value of options granted	\$3.10	\$3.51	\$4.40	\$3.0
Expected volatility	40.0%	46.0%	44.8%	46.0
Expected life	5.3 yrs	5.3 yrs	5.3 yrs	5.3 yr
Risk-free interest rate	2.98%	4.70%	4.12%	4.60
Expected dividend yield	0.0%	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%.

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

The following table summarizes stock option activity during the nine months ended March 30, 2008:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at July 1, 2007	9,152,665	\$8.10	
Granted	188,500	\$9.54	
Exercised	(790,533)	\$4.85	
Forfeited	(282,817)	\$10.92	
Outstanding at March 30, 2008	8,267,815	\$8.34	4.3 years
Options vested or expected to vest at March 30, 2008	8,120,951	\$8.36	4.2 years
Exercisable at March 30, 2008	6,987,843	\$8.52	3.7 years

As of March 30, 2008 the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$3.1 million and the weighted average period over which these awards are expected to be recognized was 2.7 years.

The Company grants shares of common stock to its employees that are subject to restrictions on transfer and risk of forfeiture until fulfillment of applicable service conditions and, in certain cases, holding periods (Restricted Stock Awards). The following table summarizes the activity of non-vested restricted stock during the nine months ended March 30, 2008:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at July 1, 2007	1,101,982	\$5.70
Granted	656,749	\$11.43
Vested	(18,677)	\$7.44
Forfeited	(195,729)	\$8.53
Non-vested at March 30, 2008	1,544,325	\$7.75

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of March 30, 2008, there was \$6.7 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 1.9 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

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

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.

7

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

### 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 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. In its most recently completed year ended April 30, 2006, prior to the acquisition, Fannie May Confections generated revenues of approximately \$75.0 million.

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.

### 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:

	March 30, 2008
	-----
	(in tho
Finished goods	\$48,072
Work-in-Process	4,291
Raw materials	15,007
	-----

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

\$67,370  
=====

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 Gifts Baskets
Balance at July 1, 2007	\$6,352	\$-	\$87,279
Disposition of retail stores/other	(187)	-	11
Balance at March 30, 2008	\$6,165	\$-	\$87,290

8

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

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

	March 30, 2008				
Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	
(in thousands)					
Intangible assets with determinable lives					
Investment in licenses	14 - 16 years	\$4,927	\$4,327	\$600	\$4,927
Customer lists	3 - 10 years	14,260	5,370	8,890	14,260
Other	5 - 8 years	2,644	1,062	1,582	2,639
		21,831	10,759	11,072	21,826
Trademarks with indefinite lives		39,679	-	39,679	39,676
Total identifiable intangible assets		\$61,510	10,759	\$50,751	\$61,502

Estimated future amortization expense is as follows: remainder of fiscal 2008 - \$0.7 million, fiscal 2009 - \$2.6 million, fiscal 2010 - \$2.5 million, fiscal 2011 - \$2.0 million, fiscal 2012 - \$0.9 million and thereafter - \$2.4 million.

Note 7 - Long-Term Debt

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

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

	March 31 2008
	-----
	(i)
Term loan	\$70,12
Revolving Line of Credit	
Commercial Note	45
Obligations under capital leases	5
	-----
	70,64
Less current maturities of long-term debt and obligations under capital leases	12,20
	-----
	\$58,43
	=====

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 March 30, 2008, the Company had no borrowings outstanding under the revolving credit facility.

9

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

Note 8 - Income Taxes

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. This estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The Company's effective tax rate for the three and nine months ended March 30, 2008 was 27.8% and 38.4%, respectively, compared to 52.2% and 40.4% during the comparative three and nine months ended April 1, 2007. The effective tax rate during the three and nine months ended March 30, 2008 includes the favorable impact of several tax credits. The Company's effective tax rate for the three and nine months ended March 30, 2008 and April 1, 2007 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by the aforementioned tax credits.

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

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;
- 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.

Net revenues	Three Months Ended		Nine
	March 30, 2008	April 1, 2007	March 3 2008
	(in thousands)		
Net revenues:			
1-800-Flowers.com Consumer Floral	\$141,018	\$140,058	\$342,6
BloomNet Wire Service	15,410	12,743	38,0
Gourmet Food & Gift Baskets	39,675	35,629	173,4
Home & Children's Gifts	24,565	26,507	147,3
Corporate (*)	371	143	2,0
Intercompany eliminations	(1,472)	(1,301)	(3,9
Total net revenues	\$219,567	\$213,779	\$699,5

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

Operating Income	March 30, 2008	April 1, 2007	March 30 2008
	(in thousands)		
Category Contribution Margin:			
1-800-Flowers.com Consumer Floral	\$17,221	\$19,133	\$42,727
BloomNet Wire Service	5,561	3,835	12,583
Gourmet Food & Gift Baskets	3,281	1,832	26,338
Home & Children's Gifts	(3,239)	(3,122)	3,212
Category Contribution Margin Subtotal	22,824	21,678	84,860
Corporate (*)	(12,572)	(13,681)	(39,364)
Depreciation and amortization	(5,011)	(4,447)	(14,848)
Operating income	\$5,241	\$3,550	\$30,648

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

Note 10 - Commitments and Contingencies

Legal Proceedings

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

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 alleged willful violation of the statute, as well as, attorneys' fees, costs, punitive damages and a permanent injunction. We are currently examining information relating to the allegation 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.

Note 11 - Subsequent Event - Acquisition of DesignPac Gifts LLC

On April 30, 2008, the Company acquired all of the outstanding common stock of

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

DesignPac Gifts LLC (DesignPac), a designer, assembler and distributor of gourmet gift baskets, gourmet food towers and gift sets, including a broad range of branded and private label components, based in Melrose Park, IL. The acquisition, for approximately \$36.3 million in cash (subject to adjustment for working capital), was financed utilizing a combination of available cash generated from operations and through borrowings against the Company's revolving credit facility. Although the Company expects that such borrowings will be repaid prior to the Company's fiscal year-end, the Company also anticipates that it will increase its revolving credit facility by the second quarter of fiscal 2009, in order to fund the associated increase in working capital requirements. The purchase price is subject to "earn-out" incentives which amount to a maximum of \$2.0 million through the years ending June 27, 2010, upon achievement of specified performance targets. DesignPac generated revenues of approximately \$53.3 million in its most recent fiscal year ended December 31, 2007.

11

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

#### Forward Looking Statements

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

1-800-FLOWERS.COM, Inc. is the world's leading florist and a provider of specialty gifts for all occasions. For more than 30 years, 1-800-FLOWERS.COM, Inc. has been providing customers with fresh flowers and the finest selection of plants, gift baskets, gourmet foods, confections and plush stuffed animals perfect for every occasion. 1-800-FLOWERS.COM(R) (1-800-356-9377 or [www.1800flowers.com](http://www.1800flowers.com)), named one of the top 50 online retailers by Internet Retailer and the recipient of ICMI's 2006 Global Call Center of the Year Award, 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 Growerssm." As always, 100% satisfaction and freshness are guaranteed.

The 1-800-FLOWERS.COM, Inc. collection of brands also includes Gourmet Gifts such as popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or [www.thepopcornfactory.com](http://www.thepopcornfactory.com)); exceptional cookies and baked gifts from Cheryl&Co.(R) (1-800-443-8124 or [www.cherylandco.com](http://www.cherylandco.com)); premium chocolates and confections from Fannie May Confections Brands(R) ([www.fanniemay.com](http://www.fanniemay.com) and [www.harrylondon.com](http://www.harrylondon.com)); gourmet foods from Greatfood.com(R) ([www.greatfood.com](http://www.greatfood.com)); wine gifts from Ambrosia(R) ([www.ambrosia.com](http://www.ambrosia.com)); gift baskets from 1-800-BASKETS.COM(R) ([www.1800baskets.com](http://www.1800baskets.com)) as well as Home Decor and Children's Gifts from Plow & Hearth(R) (1-800-627-1712 or [www.plowandhearth.com](http://www.plowandhearth.com)), Wind & Weather(R) ([www.windandweather.com](http://www.windandweather.com)), HearthSong(R) ([www.hearthsong.com](http://www.hearthsong.com)) and Magic Cabin(R) ([www.magiccabin.com](http://www.magiccabin.com)); and the BloomNet(R) ([www.mybloomnet.net](http://www.mybloomnet.net)) international floral wire service provides quality products and diverse services to a select network of professional florists. 1-800-FLOWERS.COM, Inc. stock is traded on the NASDAQ Global Select Market under ticker symbol FLWS.



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

	Three Months Ended			March 2008
	March 30, 2008	April 1, 2007	% Change	
Net revenues				
(in thousands)				
Net revenues:				
1-800-Flowers.com Consumer Floral	\$141,018	\$140,058	0.7%	\$342
BloomNet Wire Service	15,410	12,743	20.9%	38
Gourmet Food & Gift Baskets	39,675	35,629	11.4%	173
Home & Children's Gifts	24,565	26,507	(7.3)%	147
Corporate (*)	371	143	159.4%	2
Intercompany eliminations	(1,472)	(1,301)	(13.1)%	(3)
Total net revenues	\$219,567	\$213,779	2.7%	\$699

	Three Months Ended			March 2008
	March 30, 2008	April 1, 2007	% Change	
Gross Profit				
(in thousands)				
Gross Profit:				
1-800-Flowers.com Consumer Floral	\$53,520 38.0%	\$53,987 38.5%	(0.9)%	\$132, 3



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

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		Nine Months
	March 30, 2008	April 1, 2007	March 30, 2008
	(in thousands)		
Net income	\$3,290	\$1,053	\$16,756
Add:			
Interest expense	1,073	1,551	4,355
Depreciation and amortization	5,011	4,447	14,848
Income tax expense	1,266	1,150	10,428
Less:			
Interest income	363	203	836
Other income	25	1	55
 EBITDA	 \$10,252	 \$7,997	 \$45,496

### Results of Operations

#### Net Revenues

	Three Months Ended			March 30,
	March 30, 2008	April 1, 2007	% Change	2008
Net revenues				
	(in thousands)			
Net revenues:				
E-Commerce	\$177,476	\$175,592	1.1%	\$566,147
Other	42,091	38,187	10.2%	133,432
 Total net revenues	 \$219,567	 \$213,779	 2.7%	 \$699,579

The Company's revenue growth of 2.7% and 2.8% during the three and nine months ended March 30, 2008 respectively, was primarily attributable to the continued expansion of the Company's BloomNet Wire Service business, which increased 20.9% and 28.7%, during the respective periods, as well as growth from the Company's

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

Gourmet Food and Gift Basket business, which increased 11.4% and 4% during the respective periods. The growth in this category was primarily the result of the

14

shift of the Easter holiday into the Company's fiscal third quarter, in comparison to the prior fiscal year when Easter was in the Company's fourth quarter. Easter sales however, were negatively impacted by the inclement weather throughout much of the country, and the early date placement, which reduces consumer focus on the holiday. 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 quarter, the Company was able to achieve EBITDA growth of 28.2%, on more modest revenue growth.

The Company fulfilled approximately 2,739,000 and 8,797,000 orders through its E-commerce sales channels (online and telephonic sales) during the three and nine months ended March 30, 2008, respectively, which represents increases of 2.1% and 1.2% over the respective prior year periods. The Company's E-commerce average order value of \$64.79 during the three months ended March 30, 2008 decreased 1.0% over the prior year period due to an increase in Valentine and Easter holiday promotions, while the average order during the nine months ended March 30, 2008 increased 0.8% to \$64.35 as a result of price initiatives and product mix. Other revenues, for the three and nine months ended March 30, 2008, 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, and increased retail store revenue 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 and nine months ended March 30, 2008 increased by 0.7% and 1.6% over the respective prior year periods, primarily due to the aforementioned shift in the Easter holiday.

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 nine months ended March 30, 2008 increased by 20.9% and 28.7% over the respective prior year periods, primarily as a result of increased florist membership revenues, due to its pricing initiatives and 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 nine months ended March 30, 2008 increased by 11.4% and 4.0% over the respective prior year periods as a result of increased direct to consumer order volume from the Cheryl & Co., Fannie May Confections and Popcorn Factory brands, primarily related to the shift in the Easter Holiday, offset in part by decreased revenue from Cheryl & Co. and Fannie May Confections' wholesale operations.

The Home & Children's Gifts category includes revenues from the Plow & Hearth,

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

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. During the three and nine months ended March 30, 2008 net revenue decreased 7.3% and 1.5%, respectively, in comparison to the prior year period, reflecting management's planned reduction in marketing as it focuses on improving operating results in the category, as well as the impact on consumer demand related to the continued weakness in the housing market.

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 offset the lower anticipated revenue contribution expected from its Home and Children's Gifts category.

15

### Gross Profit

	Three Months Ended			March 30,
	March 30, 2008	April 1, 2007	% Change	2008
	(in thousands)			
Gross profit	\$89,505	\$86,687	3.3%	\$302,442
Gross margin %	40.8%	40.5%		43.2%

Gross profit and gross margin percentage increased for the three and nine months ended March 30, 2008, in comparison to the same period of the prior year, primarily as a result of the revenue growth described above as well as product mix and manufacturing efficiencies.

The 1-800-Flowers.com Floral Consumer category gross profit and gross margin percentage for the three months ended March 30, 2008 decreased by 0.9% and 50 basis points, respectively, over the prior year period as a result of increased promotional offerings during the Valentine's and Easter holidays. Gross profit during the nine months ended March 30, 2008 increased 1.2% over the prior year period, resulting from increased net revenues, while gross margin percentage decreased 10 basis points due to increased promotional offers.

The BloomNet Wire Service category gross profit for the three and nine months ended March 30, 2008 increased by 27.3% and 29.2%, over the respective prior year periods as a result of increases in florist membership revenues resulting from pricing initiatives and increased product and service offerings. Gross margin percentage for the three and nine months ended March 30, 2008 increased 270 basis points and 20 basis points over the respective prior year periods, primarily as a result of sales mix.

The Gourmet Food & Gift Basket category gross profit for the three and nine months ended March 30, 2008 increased by 18.3% and 7.0% over the respective prior year periods as a result of the aforementioned increased revenue as well as improved gross margin percentage. Gross margin percentage for the three and nine months ended March 30, 2008, increased by 270 basis points and 140 basis points, to 45.9% and 47.3%, respectively, in comparison to the respective prior year periods, as a result of manufacturing efficiencies, and sales channel mix.

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

The Home & Children's Gift category gross profit for the three and nine months ended March 30, 2008 decreased by 10.1% and 3.7% over the respective prior year periods as a result of the lower revenues and reduced gross margin percentage, which decreased 110 basis points, to 38.9% and 45.0%, during the three and nine months ended March 30, 2008 respectively, due to free shipping offers, as well as increases in outbound shipping costs as a result of higher fuel surcharges from the carriers.

While the Company expects continued improvement in its gross margin over the longer term, 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, during the remainder of fiscal 2008, the Company expects that its gross margin percentage will decline slightly, due to the shift in the Easter Holiday which results in a heavier proportion of sales from the 1-800-Flowers Consumer Floral brand in the Company's fiscal fourth quarter, which carry lower gross margins, as well as the overall promotional environment.

16

### Marketing and Sales Expense

	Three Months Ended			March 30, 2008
	March 30, 2008	April 1, 2007	% Change	
	(in thousands)			
Marketing and sales	\$60,587	\$59,023	2.6%	\$196,960
Percentage of net revenues	27.6%	27.6%		28.2%

During the three months ended March 30, 2008, marketing and sales expenses increased 2.6%, but remained at 27.6% of net revenues, as a result of increased on-line advertising during the Valentine's Day holiday, while marketing and sales expense during the nine months ended March 30, 2008 decreased 1.7% and 120 basis points as a percentage of revenue due to 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 to improve the operating performance within the Home and Children's Gift category.

During the three and nine months ended March 30, 2008, the Company added approximately 853,000 and 2,631,000 new e-commerce customers, respectively. As a result of the Company's effective customer retention efforts, approximately 1,250,000 and 2,773,000 existing customers placed e-commerce orders during the three and nine months ended March 30, 2008 respectively, representing an increase of 4.7% and 6.2% over the same periods of the prior year. Of the 2,103,000 and 5,404,000 total customers who placed e-commerce orders during the three and nine months ended March 30, 2008, approximately 59.4% and 51.3% were repeat customers, compared to 58.6% and 49.5% during the respective prior year periods, reflecting the Company's ongoing focus on deepening the relationship

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

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			March 30, 2008
	March 30, 2008	April 1, 2007	% Change	
	(in thousands)			
Technology and development	\$5,515	\$5,469	0.8%	\$16,169
Percentage of net revenues	2.5%	2.6%		2.3%

During the three and nine months ended March 30, 2008, technology and development expense increased 0.8% and 2.1%, in comparison to the respective prior year periods as a result of increased labor costs, but was relatively consistent as a percentage of net revenues. The increased labor costs were necessary to support the Company's technology platform, and were offset by savings derived from renegotiating various technology maintenance and license agreements. During the three and nine months ended March 30, 2008, the Company expended \$8.0 million and \$24.0 million on technology and development, of which \$2.5 million and \$7.8 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			March 30, 2008
	March 30, 2008	April 1, 2007	% Change	
	(in thousands)			
General and administrative	\$13,151	\$14,198	(7.4)%	\$43,817
Percentage of net revenues	6.0%	6.6%		6.3%

General and administrative expense decreased 7.4% and 60 basis points as a percentage of net revenues during the three months ended March 30, 2008, in comparison to the respective prior year period, due to reductions in

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

professional fees , as many of the Company's operating improvement programs have been fully implemented, and/or in-sourced, and for reductions in labor related to the underachievement of performance based incentive programs, in comparison to prior year achievement levels. During the nine months ended March 30, 2008, general and administrative expense increased 5.7% and 20 basis points, as a percentage of net revenues, in comparison to the respective prior year period, primarily as a result of increased professional fees and corporate initiatives. The benefit of these increased costs are reflected in the improvements 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 below, the prior year period.

### Depreciation and Amortization Expense

	Three Months Ended			March 30, 2008
	March 30, 2008	April 1, 2007	% Change	
	(in thousands)			
Depreciation and amortization	\$5,011	\$4,447	12.7%	\$14,848
Percentage of net revenues	2.3%	2.1%		2.1%

Depreciation and amortization expense during the three and nine months ended March 30, 2008 increased by 12.7% and 14.0%, respectively, and by 20 basis points of net revenue in comparison to the respective prior year periods, as the result of recent capital additions for technology platform improvements.

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		Nine Months Ended	
	March 30, 2008	April 1, 2007	March 30, 2008	April 1, 2007
	(in thousands)			
Interest income	\$363	\$203	\$836	\$794



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

Interest expense	(1,073)	(1,551)	(4,355)	(5,804)
Other	25	1	55	5
	-----	-----	-----	-----
	(\$685)	(\$1,347)	(\$3,464)	(\$5,005)
	=====	=====	=====	=====

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 March 30, 2008, the outstanding balance on the term loan under the Company's 2006 Credit Facility was \$70.1 million. As of March 30, 2008, the Company had no borrowings outstanding under the revolving credit facility. Net borrowing costs declined during the three and nine months ended March 30, 2008 in comparison to the prior year periods as a result of declining LIBOR rates and a reduction in outstanding debt.

### Income Taxes

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

During the three and nine months ended March 30, 2008, the Company recorded income tax expense of \$1.3 million and \$10.4 million, respectively, compared to \$1.2 million and \$7.2 million during the three months ended April 1, 2007, respectively. The Company's effective tax rate for the three and nine months ended March 30, 2008 was 27.8% and 38.4%, respectively, compared to 52.2% and 40.4% during the comparative three and nine months ended April 1, 2007. The effective tax rate during the three and nine months ended March 30, 2008 includes the favorable impact of various tax credits. The Company's effective tax rate for the three and nine months ended March 30, 2008 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by the aforementioned tax credits.

### Liquidity and Capital Resources

At March 30, 2008 the Company had working capital of \$69.3 million, including cash and equivalents of \$38.3 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 \$42.4 million for the nine months

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

ended March 30, 2008 was primarily attributable to the Company's net income, non-cash charges for depreciation and amortization, deferred income taxes and stock-based compensation, offset by changes in working capital, primarily related to seasonal increases in accounts receivable and inventory from the Company's BloomNet wholesale operations in preparation for the upcoming Mother's Day holiday.

Net cash used in investing activities of \$15.4 million for the nine months ended March 30, 2008 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 \$4.7 million for the nine months ended March 30, 2008 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 various conditions to borrowing, and affirmative and negative financial covenants. As of March 30, 2008, the Company had no borrowings outstanding under the revolving credit facility.

On April 30, 2008, the Company acquired all of the outstanding common stock of DesignPac Gifts LLC (DesignPac), a designer, assembler and distributor of gourmet gift baskets, gourmet food towers and gift sets, including a broad range of branded and private label components, based in Melrose Park, IL. The acquisition, for approximately \$36.3 million in cash (subject to adjustment for working capital), was financed utilizing a combination of available cash generated from operations and through borrowings against the Company's revolving credit facility. Although the Company expects that such borrowings will be repaid prior to the Company's fiscal year-end, the Company expects that it will increase its revolving credit facility by the second quarter of fiscal 2009, in order to fund the associated increase in working capital requirements. 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 March 30, 2008, the Company had repurchased 1,660,786 shares of common stock for \$12.3 million, excluding the repurchase of 3,010,740 shares of common stock from an affiliate on December 28, 2006. 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 January 20, 2008.

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

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

conditions. The repurchase program will be financed utilizing available cash.

At March 30, 2008 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	\$81,395	\$16,076	\$34,193	\$31
Capital lease obligations	72	25	25	
Operating lease obligations	61,494	3,729	16,437	13
Sublease obligations	4,920	1,020	2,720	
Other Cash Obligations	13,000	750	3,375	4
Purchase commitments (*)	25,390	25,390	-	
<b>Total</b>	<b>\$186,271</b>	<b>\$46,990</b>	<b>\$56,750</b>	<b>\$50</b>

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

20

### Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial position and results of operations are based upon the consolidated financial statements of 1-800-FLOWERS.COM, Inc., which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, inventory and long-lived assets, including goodwill and other intangible assets related to acquisitions. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be 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.

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

### 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.

### 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

21

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

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

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

### Recent Accounting Pronouncements

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.

In December 2007, the FASB issued Statement No. 141 (Revised), Business Combinations (Statement 141R) and Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements (Statement No. 160). Statements No. 141R and No. 160 revise the method of accounting for a number of aspects of business combinations and non-controlling interests, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests), and post acquisition exit activities of acquired businesses. Statement Nos. 141R and 160 will be effective for the Company during its fiscal year beginning July 29, 2009.

### 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 "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;

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

- o to manage expenses associated with sales and marketing and necessary general and administrative and technology investments;

22

- 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 "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

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 controls over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the three months ended March 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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 alleged willful violation of the statute, as well as, attorneys' fees, costs, punitive damages and a permanent injunction. We are currently examining information relating to the allegation 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.

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 nine months of fiscal 2008, which includes the period July 1, 2007 through March 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)

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

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	-	\$-	-
12/31/07 - 1/27/08	-	\$-	-
1/28/08 - 2/24/08	60.0	\$7.60	60.0
2/25/08 - 3/30/08	70.0	\$8.32	70.0
	-----	-----	-----
Total	133.6	\$8.08	133.6
	=====	=====	=====

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

24

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 January 20, 2008.

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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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.



25

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 9, 2008

-----

/s/ James F. McCann

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

Date: May 9, 2008

-----

/s/ William E. Shea

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