

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

1 800 FLOWERS COM INC  
Form 10-Q  
May 08, 2009

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 29, 2009

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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes ( ) No ( )

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

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

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

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

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

26,606,411

-----

(Number of shares of Class A common stock outstanding as of May 1, 2009)

36,858,465

-----

(Number of shares of Class B common stock outstanding as of May 1, 2009)

1-800-FLOWERS.COM, Inc.

### TABLE OF CONTENTS

		INDEX	Page
			----
Part I.	Financial Information		
Item 1.	Consolidated Financial Statements:		
	Consolidated Balance Sheets - March 29, 2009 (Unaudited) and June 29, 2008		1
	Consolidated Statements of Operations (Unaudited) - Three and Nine Months Ended March 29, 2009 and March 30, 2008		2
	Consolidated Statements of Cash Flows (Unaudited) - Nine Months Ended March 29, 2009 and March 30, 2008		3
	Notes to Consolidated Financial Statements (Unaudited)		4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations		15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk		27
Item 4.	Controls and Procedures		27
Part II.	Other Information		
Item 1.	Legal Proceedings		28
Item 1A.	Risk Factors		28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds		28
Item 3.	Defaults upon Senior Securities		29
Item 4.	Submission of Matters to a Vote of Security Holders		29
Item 5.	Other Information		29
Item 6.	Exhibits		29
Signatures			30

# 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)

	March 29, 2009
(unaudited)	
Assets	
Current assets:	
Cash and equivalents	\$31,734
Receivables, net	17,054
Inventories	80,541
Deferred income taxes	8,098
Prepaid and other	9,780
Total current assets	147,207
Property, plant and equipment at cost, net	73,544
Goodwill	41,188
Other intangibles, net	53,879
Deferred tax assets	10,442
Other assets	5,876
Total assets	\$332,136
Liabilities and stockholders' equity	
Current liabilities:	
Accounts payable and accrued expenses	\$55,047
Current maturities of long-term debt and obligations under capital leases	42,295
Total current liabilities	97,342
Long-term debt and obligations under capital leases	76,138
Deferred tax liabilities	-
Other liabilities	3,217
Total liabilities	176,697
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, 31,727,654 and 31,368,241 shares issued at March 29, 2009 and June 29, 2008, respectively	317
Class B common stock, \$.01 par value, 200,000,000 shares authorized, 42,138,465 shares issued at March 29, 2009 and June 29, 2008	421
Additional paid-in capital	280,676
Retained deficit	(94,029)
Treasury stock, at cost, 5,121,243 and 4,724,326 Class A shares at March 29, 2009 and June 29, 2008, respectively and 5,280,000 Class B shares at March 29, 2009 and June 29, 2008	(31,946)
Total stockholders' equity	155,439

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

Total liabilities and stockholders' equity

\$332,136  
=====

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 29, 2009	March 30, 2008
Net revenues	\$172,971	\$219,567
Cost of revenues	103,395	130,062
Gross profit	69,576	89,505
Operating expenses:		
Marketing and sales	52,469	60,587
Technology and development	5,679	5,515
General and administrative	12,972	13,151
Depreciation and amortization	6,144	5,011
Goodwill and intangible impairment	76,460	-
Total operating expenses	152,724	84,264
Operating (loss) income	(84,148)	5,241
Other income (expense):		
Interest income	56	363
Interest expense	(1,103)	(1,073)
Other	58	25
Total other income (expense), net	(989)	(685)
Income (loss) before income taxes	(85,137)	4,556
Income tax (benefit) expense	(19,362)	1,266
Net (loss) income	(\$65,775)	\$3,290
Net (loss) income per common share:		
Basic	(\$1.03)	\$0.05
Diluted	(\$1.03)	\$0.05
Weighted average shares used in the calculation of net (loss) income per common share		
Basic	63,646	63,261
Diluted	63,646	65,413

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)

	Nine Mo
	March 29, 2009
Operating activities:	
Net (loss) income	(\$76,190)
Reconciliation of net (loss) income to net cash provided by operations:	
Depreciation and amortization	17,629
Deferred income taxes	(16,089)
Bad debt expense	1,378
Stock-based compensation	755
Goodwill and intangible asset impairment	96,496
Other non-cash items	(243)
Changes in operating items:	
Receivables	(3,346)
Inventories	(8,836)
Prepaid and other	(930)
Accounts payable and accrued expenses	(10,029)
Other assets	(91)
Other liabilities	255
Net cash provided by operating activities	759
Investing activities:	
Acquisitions, net of cash acquired	(11,049)
Dispositions	25
Capital expenditures, (non-cash expenditures of: \$5,954-2009)	(11,731)
Other	203
Net cash used in investing activities	(22,552)
Financing activities:	
Acquisition of treasury stock	(797)
Debt issuance cost	(2,256)
Proceeds from exercise of employee stock options	113
Proceeds from bank borrowings	120,000
Repayment of bank borrowings and capital leases	(75,657)
Net cash provided by (used in) financing activities	41,403
Net change in cash and equivalents	19,610
Cash and equivalents:	
Beginning of period	12,124
End of period	\$31,734

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

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 29, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending June 28, 2009.

The balance sheet information at June 29, 2008 has been derived from the audited financial statements at that date.

The information in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2008.

##### Use of Estimates

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

##### Comprehensive Income (Losses)

For the three and nine months ended March 29, 2009 and March 30, 2008, the Company's comprehensive net (loss) income were equal to the respective net (loss) income for each of the periods presented.

##### Fair Value Measurements

Effective June 30, 2008, the Company adopted Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" ("SFAS 157") for certain financial assets and liabilities. This standard establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS 157 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The statement requires that assets and liabilities carried at fair

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

value be classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets and liabilities, quoted prices for identically similar assets or liabilities in markets that are not active and models for which all significant inputs are observable either directly or indirectly.
- Level 3: Unobservable inputs reflecting the reporting entity's own assumptions or external inputs for inactive markets.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. While the Company has previously invested in certain assets that would be classified as level 1, as of March 29, 2009, the Company does not hold any "level 1", cash equivalents that are measured at fair value on a recurring basis, nor does the Company have any assets or liabilities that are based on "level 2" or "level 3" inputs.

### Recent Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 (Revised), "Business Combinations" ("SFAS No. 141R") and SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements ("SFAS 160"). SFAS No. 141R and SFAS 160 revise the method of accounting for a number of aspects of business combinations

4

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

and non-controlling interests, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests), and post acquisition exit activities of acquired businesses. SFAS 141R and SFAS 160 will be effective for the Company during the fiscal year beginning June 29, 2009. The Company cannot anticipate whether the adoption of SFAS No. 141R will have a material impact on its results of operations and financial condition as the impact is solely dependent on the terms of any business combination entered into by the Company after June 29, 2009.

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

### Reclassifications

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

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

Note 2 - Net (Loss) Income Per Common Share

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

	Three Months Ended	
	March 29, 2009	March 30, 2008
		(in thousands, except per share amounts)
Numerator:		
Net (loss) income	(\$65,775)	\$3,290
Denominator:		
Weighted average shares outstanding	63,646	63,261
Effect of dilutive securities:		
Employee stock options (1)	-	1,449
Employee restricted stock awards	-	703
	-	2,152
Adjusted weighted-average shares and assumed conversions	63,646	65,413
Net (loss) income per common share:		
Basic	(\$1.03)	\$0.05
Diluted	(\$1.03)	\$0.05

Note (1): The effect of options to purchase 6.9 million and 1.4 million shares for the three months ended March 29, 2009 and March 28, 2008, respectively, and 7.9 million and 1.9 million shares for the nine months ended March 29, 2009 and March 28, 2008, respectively, were excluded from the calculation of net (loss) income per share on a diluted basis as their effect is anti-dilutive.

5

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

Note 3 - Stock-Based Compensation

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 11 to the consolidated financial statements included in the Company's 2008 Annual Report on Form 10-K, that provides for the grant to eligible employees, consultants and directors of stock options, share appreciation rights (SARs), restricted shares, restricted share units, performance shares, performance units, dividend equivalents, and other stock-based awards.

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



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

	Three Months Ended		Nine Months Ended	
	March 29, 2009	March 30, 2008	March 29, 2009	March 2008
	(in thousands)			
Stock options	\$297	\$307	\$1,026	\$1,
Restricted stock awards	281	727	(271)	2,
Total	578	1,034	755	3,
Deferred income tax benefit	(185)	(352)	(121)	(1,
Stock-based compensation expense, net	\$393	\$682	\$634	\$1,

During fiscal 2007, the Company implemented a long-term incentive equity award plan ("LTIP"), which provides for the grant of performance based shares, earned based upon actual three-year cumulative performance, as defined, measured against pre-established targets. During the three month period ended December 28, 2008, the Company reversed all non-vested RSA's previously accrued under its LTIP program, amounting to \$1.8 million, as minimum performance targets are not expected to be achieved.

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

	Three Months Ended		Nine Months Ended	
	March 29, 2009	March 30, 2008	March 29, 2009	March 2008
	(in thousands)			
Marketing and sales	\$230	\$288	\$112	\$1,
Technology and development	116	133	409	
General and administrative	232	613	234	1,
Total	\$578	\$1,034	\$755	\$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 29, 2009	March 30, 2008	March 29, 2009	March 2008
Weighted average fair value of options granted	\$1.25	\$3.10	\$2.21	\$4.4
Expected volatility	51.0%	40.0%	44.6%	44.8

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

Expected life	6.4 yrs	5.3 yrs	6.4 yrs	5.3
Risk-free interest rate	1.90%	2.98%	2.55%	4.1
Expected dividend yield	0.0%	0.0%	0.0%	0.0

6

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

The following table summarizes stock option activity during the nine months ended March 29, 2009:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at June 29, 2008	7,872,344	\$8.47	
Granted	436,000	\$4.77	
Exercised	(24,843)	\$4.60	
Forfeited	(345,386)	\$8.67	
Outstanding at March 29, 2009	7,938,115	\$8.29	3.6 years
Options vested or expected to vest at March 29, 2009	7,813,221	\$8.32	3.5 years
Exercisable at March 29, 2009	6,834,139	\$8.54	2.9 years

As of March 29, 2009, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$2.2 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 awards during the nine months ended March 29, 2009:

Weighted

	Shares	Average Grant Date Fair Value
Non-vested at June 29, 2008	1,275,153	\$7.58
Granted	891,466	3.75
Vested	(284,570)	3.55
Forfeited	(794,159)	7.41
Non-vested at March 29, 2009	1,087,890	\$5.62

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

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of March 29, 2009, there was \$3.1 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.0 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.

7

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

#### Acquisition of Napco Marketing Corp.

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

The Company is in the process of finalizing its allocation of the purchase price to individual assets acquired and liabilities assumed as a result of the acquisition of Napco. This will result in potential adjustments to the carrying value of Napco's recorded assets and liabilities. The preliminary allocation of the purchase price included in the current period balance sheet is based on the best estimates of management and is subject to revision based on final determination of asset fair values and useful lives.

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

Napco  
Purchase  
Price  
Allocation  
-----

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

(in thousands)

Current assets	\$5,119
Property, plant and equipment	5,085
Intangible assets	818
Goodwill	-
Other	74
	-----
Total assets acquired	11,096
	-----
Current liabilities	162
	-----
Total liabilities assumed	162
	-----
Net assets acquired	\$10,934
	=====

Acquisition of Geerlings & Wade

On March 25, 2009, the Company acquired selected assets of Geerlings & Wade, Inc., a retailer of wine and related products. The purchase price of approximately \$2.6 million includes the acquisition of inventory, and certain other assets, as well as the assumption of certain related liabilities. The acquisition was financed utilizing available cash on hand. The Company expects to generate annual revenue of approximately \$3.0 million associated with the acquired assets.

Acquisition of DesignPac Gifts LLC

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

8

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

In order to fund the increase in working capital requirements associated with DesignPac, on August 28, 2008, the Company entered into a \$293.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank N.A., as administrative agent, and a group of lenders (the "2008 Credit Facility"). The 2008 Credit Facility provided for borrowings of up to \$293.0 million, including: (i) a \$165.0 million revolving credit commitment, (ii) \$60.0 million of new term loan debt, and (iii) \$68.0 million of existing term loan debt associated with the Company's previous credit facility.

The following table summarizes the allocation of purchase price to the estimated

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

fair values of assets acquired and liabilities assumed at the date of the acquisition of DesignPac:

	DesignPac Purchase Price Allocation
----- (in thousands)	
Current assets	\$1,287
Property, plant and equipment	1,172
Intangible assets	18,908
Goodwill	12,085
Other	82
	-----
Total assets acquired	33,534
	-----
Current liabilities	184
	-----
Total liabilities assumed	184
	-----
Net assets acquired	\$33,350
	=====

Of the \$18.9 million of acquired intangible assets related to the DesignPac acquisition, \$6.4 million was assigned to trademarks that are not subject to amortization, while the remaining acquired intangibles of \$12.5 million were allocated primarily to customer related intangibles which are being amortized over the assets' estimated useful life of 10 years. Approximately \$12.1 million of goodwill is deductible for tax purposes. As described further in Note 6, during the three months ended March 29, 2009, the Company recorded an impairment charge of \$76.5 million for the write-down of goodwill and intangibles associated with its Gourmet Food and Gift Basket category.

### Pro forma Results of Operation

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

	Three Months Ended	
	March 29, 2009	March 30, 2008
-----		
Net revenues	\$173,962	\$226,440
Income (loss) from operations	(83,950)	4,088
Net (loss) income	(\$65,653)	\$2,365
Basic net (loss) income per common share	(\$1.03)	\$0.04
Diluted net (loss) income per common share	(\$1.03)	\$0.04

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

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:

	March 2009
Finished goods	\$56,3
Work-in-Process	19,0
Raw materials	5,2
	\$80,5
	=====

### Note 6 - Goodwill and Intangible Assets

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

	1-800- Flowers.com Consumer Floral	BloomNet Wire Service	Gourmet Food and Gifts Baskets
			(in thousands)
Balance at June 29, 2008	\$6,166	\$-	\$99,737
Acquisition of DesignPac			52
Acquisition of Geerlings & Wade			1,414
Goodwill impairment			(65,644)
Other	(390)		(147)
	\$5,776	\$-	\$35,412
Balance at March 29, 2009	=====	=====	=====

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. The carrying value of the Company's goodwill was allocated to its reporting units pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets." In accordance with SFAS No. 142, goodwill and other indefinite lived intangibles are subject to an assessment for impairment, which must be performed annually, or more frequently if events or circumstances indicate that goodwill or other indefinite lived intangibles might be impaired. Goodwill impairment

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

testing involves a two-step process. Step 1 compares the fair value of the Company's reporting units to their carrying values. If the fair value of the reporting unit exceeds its carrying value, no further analysis is necessary. If the carrying amount of the reporting unit exceeds its fair value, Step 2 must be completed to quantify the amount of impairment. Step 2 calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit, from the fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss, equal to the difference, is recognized.

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

During the three months ended December 28, 2008, the Home and Children's Gift segment experienced significant declines in revenue and operating performance when compared to prior years and their strategic outlook. The Company believes that this weak performance was attributable to reduced consumer spending due to the overall weakness in the economy, and in particular, as a result of the continued decline in demand for home decor products. As a result of these factors, as well as the Company's plans to resize this category based on the expectation of continued weakness in the home decor retail sector, and a significant reduction in the Company's market capitalization, upon completion of the impairment analysis described above, the goodwill and intangibles related to this reporting unit was deemed to be fully impaired. Therefore, during the three months ended December 28, 2008, the Company recorded a goodwill and intangible impairment charge of \$20.0 million related to this business segment, of which \$18.3 million was goodwill.

As a result of a further erosion of revenues within certain brands, the overall operating income and cash flows of the Gourmet Food and Gift Basket segment and a reduction in the outlook of the performance of this segment based upon the expectation of a continuation of the current economic downturn, coupled with a decline of the Company's market capitalization and contraction of public company multiples, during the three months ended March 29, 2009, the Company recorded a goodwill and intangible impairment charge of \$76.5 million related to this business segment, of which \$65.6 million was goodwill.

Fair value was determined by using a combination of a market-based and an income based approach, weighting both approaches equally. Under the market-based approach, the Company utilized information regarding the Company as well as publicly available industry information to determine earnings and revenue multiples that are used to value the Company's reporting units. Under the income based approach, the Company determined fair value based upon estimated future cash flows of the reporting unit, discounted by an estimated weighted-average cost of capital, which reflected the overall level of inherent risk of the reporting unit and the rate of return that an outside investor would expect to earn. The Company reconciled the value of its reporting units to its current market capitalization (based upon the Company's stock price) to determine that its assumptions were consistent with that of an outside investor.

11

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

March 29, 2009			
Amortization	Gross Carrying	Accumulated	Gross Carrying

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

	Period	Amount	Amortization	Net	Amount
(in thousands)					
Intangible assets with determinable lives					
Investment in licenses	14 - 16 years	\$5,314	\$4,715	\$599	\$4,927
Customer lists	3 - 10 years	24,674	7,929	16,745	25,570
Other	5 - 8 years	2,488	978	1,510	2,488
		32,476	13,622	18,854	32,985
Trademarks with indefinite lives	-	35,025	-	35,025	46,053
Total identifiable intangible assets		\$67,501	\$13,623	\$53,879	\$79,038

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable.

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

As part of the aforementioned impairment analysis performed for the Home and Children's Gift and Gourmet Food and Gift Basket segments, the Company recorded impairment charges of \$1.8 million and \$10.8 million, respectively, related to the trade names and customer lists, which were determined to be impaired due to changes in the business environment and adverse economic conditions currently being experienced due to decreased consumer spending.

Estimated future amortization expense is as follows: remainder of fiscal 2009 - \$0.8 million, fiscal 2010 - \$3.3 million, fiscal 2011 - \$3.1million, fiscal 2012 - \$2.3 million, fiscal 2013 - \$2.1 million and thereafter - \$7.3 million.

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:



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

Term loan	\$112,4
Revolving line of credit	
Commercial note	
Obligations under capital leases	5,9
	118,4
Less current maturities of long-term debt and obligations under capital leases	42,2
	\$76,1

In order to fund the increase in working capital requirements associated with DesignPac, on August 28, 2008, the Company entered into a \$293.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank N.A., as administrative agent, and a group of lenders (the "2008 Credit Facility"). The 2008 Credit Facility provided for borrowings of up to \$293.0 million, including: (i) a \$165.0 million revolving credit commitment, (ii) \$60.0 million of new term loan debt, and (iii) \$68.0 million of existing term loan debt associated with the Company's previous credit facility.

On April 14, 2009, subsequent to quarter end, the Company entered into an amendment to the 2008 Credit Facility (the "Amended 2008 Credit Facility"). The Amended 2008 Credit Facility includes a prepayment of \$20.0 million (included in current maturities above), reducing the Company's outstanding term loans under the facility to \$92.4 million upon closing. In addition, the amendment reduces the Company's revolving credit line from \$165.0 million to a seasonally adjusted line ranging from \$75.0 to \$125.0 million. The Amended 2008 Credit Facility, effective March 29, 2009, also revises certain financial and non-financial covenants, including maintenance of certain financial ratios and eliminates the consolidated net worth covenant that had been included in the previous agreement. Outstanding amounts under the Amended 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's term loans and revolving credit facility will range from 3.00% to 4.50% for LIBOR loans and 2.00% to 3.50% for ABR loans with pricing based upon the Company's leverage ratio. The repayment terms of the existing term loans were reduced, on a pro-rata basis, for the \$20.0 million prepayment. The obligations of the Company and its subsidiaries under the Amended 2008 Credit Facility are secured by liens on all personal property of the Company and its subsidiaries.

As a result of the modifications of its credit agreements, during the quarter ended June 28, 2009, the Company will write off financing costs associated with the term debt related to both the 2008 Credit Facility and the Amended 2008 Credit Facility, in the amount of approximately \$3.0 million.

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

During March 2009, the Company obtained a \$5.0 million equipment lease line of credit with a bank and a \$5.0 million equipment lease line of credit with a vendor. Interest under these lines, which both mature in April 2012, range from 2.99% to 7.48%. Borrowings under the bank line are collateralized by the underlying equipment purchased, while the equipment lease line with the vendor is unsecured. In March 2009, the Company financed \$6.0 million of equipment purchases through such lease lines. The borrowings are payable in 36 monthly installments of principal and interest commencing in April 2009.

## 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. During the three and nine months ended March 29, 2009, the Company recorded an income tax benefit of \$19.4 million and \$13.3 million, respectively, compared to expense of \$1.3 million and \$10.4 million during the three and nine months ended March 30, 2008. The Company's effective tax rates for the three and nine months ended March 29, 2009 were 22.7% and 14.9%, respectively, compared to 27.7% and 38.3% during the comparative three and nine months ended March 30, 2008. The effective rates reflect the impact of the non-deductible portions of the goodwill and other intangible impairment charges of \$76.5 million and \$96.5 million, recorded during the three and nine months ended March 29, 2009, respectively. Excluding these charges, the effective rates during the three and nine months ended March 29, 2009 would have been 40.5% and 37.8%, respectively. The adjusted effective rate during the three months ended March 29, 2009, and the effective rate during the three months ended March 30, 2008 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by various tax credits.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The tax years that remain subject to examination are fiscal 2005 through fiscal 2008, with the exception of certain states where the statute remains open from fiscal 2004, due to non-conformity with the federal statute of limitations for assessment. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

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

## Note 9 - Restructuring

During the quarter ended March 29, 2009, the Company recorded a pre-tax restructuring charge of approximately \$1.5 million (\$0.9 million, net of taxes) related to severance associated with the elimination of employee positions. These job eliminations were part of the Company's cost reduction initiatives designed to scale the Company's operating expenses to a level appropriate with its reduced level of sales volume. These costs are included within the following line items of the Company's consolidated statement of operations: cost of revenues (\$0.2 million), marketing and sales (\$1.1 million), technology and development (\$0.1 million) and general and administrative (\$0.1 million). Of the \$1.5 million of severance costs, \$1.0 million was paid during the three months ended March 29, 2009, \$0.5 million remains accrued at the end of the quarter.

## Note 10 - 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;

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

14

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), goodwill and intangible impairment, and income taxes. Assets and liabilities are reviewed at the consolidated level by management and not accounted for by category.

	Three Months Ended		Nine
	March 29, 2009	March 30, 2008	March 2 2009
Net revenues			
	(in thousands)		
Net revenues:			
1-800-Flowers.com Consumer Floral	\$105,326	\$140,018	\$285,9
BloomNet Wire Service	16,957	15,410	47,8
Gourmet Food & Gift Baskets	33,266	39,675	212,3
Home & Children's Gifts	18,492	24,565	118,8
Corporate (*)	174	371	9
Intercompany eliminations	(1,244)	(1,472)	(5,5
Total net revenues	\$172,971	\$219,567	\$660,3

	Three Months Ended		Nine
	March 29, 2009	March 30, 2008	March 2 2009
Operating Income			
	(in thousands)		
Category Contribution Margin:			
1-800-Flowers.com Consumer Floral	\$7,753	\$17,221	\$27,3
BloomNet Wire Service	5,542	5,561	14,8
Gourmet Food & Gift Baskets	918	3,281	26,1
Home & Children's Gifts	(2,074)	(3,239)	(1,5
Category Contribution Margin Subtotal	12,139	22,824	66,7
Corporate (*)	(13,683)	(12,572)	(37,6
Depreciation and amortization	(6,144)	(5,011)	(17,6
Goodwill and Intangible impairment	(76,460)	-	(96,4
Operating income (loss)	\$ (84,148)	\$5,241	\$ (85,0

(\*) Corporate expenses consist of the Company's enterprise shared service cost centers, and include, among others, Information Technology, Human

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

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 11 - Commitments and Contingencies

#### Legal Proceedings

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

15

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

### Forward Looking Statements

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) is intended to provide an understanding of our financial condition, change in financial condition, cash flow, liquidity and results of operations. The following MD&A discussion should be read in conjunction with the consolidated financial statements and notes to those statements that appear elsewhere in this Form 10-Q and in the Company's Annual Report on Form 10-K. The following discussion contains forward-looking statements that reflect the Company's plans, estimates and beliefs. The Company's actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to any differences include, but are not limited to, those discussed under the caption "Forward-Looking Information" and under Part II Item 1A -- "Risk Factors".

### Overview

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

The 1-800-FLOWERS.COM, Inc. "Gift Shop" also includes gourmet gifts such as

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

popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or www.thepopcornfactory.com); cookies and baked gifts from Cheryl&Co.(R) (1-800-443-8124 or www.cherylandco.com); premium chocolates and confections from Fannie May(R) Confections Brands (www.fanniemay.com and www.harrylondon.com); wine gifts from Ambrosia(R) (www.ambrosia.com) and Geerlings & Wade (www.Geerwade.com); gift baskets from 1-800-BASKETS.COM(R) (www.1800baskets.com) and DesignPacTM Gifts (www.designpac.com); Celebrations(R) (www.celebrations.com), a new premier online destination for fabulous party ideas and planning tips; as well as 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).

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

### Category Information

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

	Three Months Ended			March 29, 2009
	March 29, 2009	March 30, 2008	% Change	
	(in thousands)			
Net revenues:				
1-800-Flowers.com Consumer Floral	\$105,326	\$141,018	(25.3)%	\$285,909
BloomNet Wire Service	16,957	15,410	10.0%	47,823
Gourmet Food & Gift Baskets	33,266	39,675	(16.2)%	212,305
Home & Children's Gifts	18,492	24,565	(24.7)%	118,844
Corporate (*)	174	371	(53.1)%	975
Intercompany eliminations	(1,244)	(1,472)	15.5%	(5,524)
Total net revenues	\$172,971	\$219,567	(21.2)%	\$660,332

16

	Three Months Ended			March 29, 2009
	March 29, 2009	March 30, 2008	% Change	
	(in thousands)			
Gross profit:				
1-800-Flowers.com Consumer Floral	\$37,291	\$53,520	(30.3)%	\$104,913
	35.4%	38.0%		36.1%
BloomNet Wire Service	9,382	8,419	11.4%	26,483

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

	55.3%	54.6%		55.
Gourmet Food & Gift Baskets	15,171 45.6%	18,221 45.9%	(16.7)%	83,49 39.
Home & Children's Gifts	7,865 42.5%	9,544 38.9%	(17.6)%	55,07 46.
Corporate (*)	(86) (49.4)%	79 21.3%	(208.9)%	23 24.
Intercompany eliminations	(47)	(278)		(52)
Total gross profit	\$69,576 40.2%	\$89,505 40.8%	(22.3)%	\$269,69 40.

Three Months Ended				
	March 29, 2009	March 30, 2008	% Change	March 29 2009
Adjusted EBITDA (**)				
(in thousands)				
Category Contribution Margin:				
1-800-Flowers.com Consumer Floral	\$7,753	\$17,221	(55.0)%	\$27,34
BloomNet Wire Service	5,542	5,561	(0.3)%	14,80
Gourmet Food & Gift Baskets	918	3,281	(72.0)%	26,13
Home & Children's Gifts	(2,074)	(3,239)	36.0%	(1,52)
Category Contribution Margin Subtotal	12,139	22,824	(46.8)%	66,75
Corporate (*)	(13,683)	(12,572)	(8.8)%	(37,69)
Adjusted EBITDA	\$ (1,544)	\$10,252	(115.0)%	\$29,06

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

(\*\*) Performance is measured based on category contribution margin or category Adjusted 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, goodwill and intangible impairment, 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

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

the interest coverage ratio and consolidated leverage ratio. EBITDA is also used by the Company to evaluate and price potential acquisition candidates. EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. Some of these limitations are: (a) EBITDA does not reflect changes in, or cash requirements for, the Company's working capital needs; (b) EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Company's debts; and (c) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA does not reflect any cash requirements for such capital expenditures. Because of these limitations, EBITDA should only be used on a supplemental basis combined with GAAP results when evaluating the Company's performance.

17

### Reconciliation of Net (Loss) Income to Adjusted EBITDA:

	Three Months Ended		Nine
	March 29, 2009	March 30, 2008	March 2009
(in thousands)			
Net (loss) income	(\$65,775)	\$3,290	(\$76
Add:			
Interest expense	1,103	1,073	4
Depreciation and amortization	6,144	5,011	17
Income tax expense	(19,362)	1,266	(13
Goodwill and intangible impairment	76,460	-	96
Less:			
Interest income	56	363	
Other expense (income)	58	25	
Adjusted EBITDA	(\$1,544)	\$10,252	\$29
	=====	=====	=====

### Results of Operations

#### Net Revenues

	Three Months Ended			Ni
	March 29, 2009	March 30, 2008	% Change	March 29, 2009
(in thousands)				
Net revenues:				
E-Commerce	\$131,946	\$177,476	(25.7)%	\$469,818
Other	41,025	42,091	(2.5)%	190,514
Total net revenues	\$172,971	\$219,567	(21.2)%	\$660,332
	=====	=====		=====

During the three and nine months ended March 29, 2009, revenues declined by 21.2% and 5.6% in comparison to the respective prior year periods, resulting

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

from continued weakness in the retail economy, and, to a lesser extent, the shift in the Easter holiday, which fell in the third quarter during the prior fiscal year and accounted for approximately \$7.0 million in net revenue, as well as the date placement of Valentines Day, which fell on a Saturday this year, rather than a weekday, which is historically much better for the Company's online business. The decline was partially offset by growth in the Company's BloomNet Wire Service category, which increased during the three and nine months ended March 29, 2009 by 10.0% and 25.7% over the respective prior year periods due to the acquisition of Napco, a wholesaler of floral hardgoods, in July 2008. Organic revenue, excluding the revenue associated with the acquisitions of DesignPac, Napco, and Geerlings & Wade, declined approximately 23.2% and 15.5% respectively, during the three and nine months ended March 29, 2009. Geerlings & Wade, acquired on March 25, 2009, contributed an insignificant amount of revenues during the quarter.

The Company fulfilled approximately 2,096,000 and 7,413,000 orders through its E-commerce sales channels (online and telephonic sales) during the three and nine months ended March 29, 2009, respectively, decreasing by 23.5% and 15.7%, over the respective prior year periods, reflecting the continued decline in consumer spending, as well as the shift in the timing of the Easter Holiday. The Company's E-commerce average order values during the three and nine months ended March 29, 2009, of \$62.96 and \$63.38, decreased 2.8% and 1.5% in comparison to the respective prior year periods.

Other revenues for the three months ended March 29, 2009, decreased over the prior year as a result of lower retail store sales, which were negatively impacted by the overall weakness of the economy, whereas other revenues for the nine months ended March 29, 2009 increased in comparison to the same period of the prior year as a result of the Company's recent acquisitions of Napco and DesignPac.

The 1-800-Flowers.com Consumer Floral category includes the operations of the 1-800-Flowers brand which derives revenue from the sale of consumer floral products through its E-Commerce sales channels (telephonic and online sales) and company-owned and operated retail floral stores, as well as royalties from its franchise operations. Net revenues during the three and nine months ended March 29, 2009 decreased 25.3% and 16.6%, respectively, over the prior year periods

18

due to lower order volume as a result of continued decline in demand throughout the consumer sector, caused by as a result of the weak economy, combined with the shift in the Easter Holiday, and Valentines Day falling on a Saturday this year compared to Thursday of the prior year. 1-800-Flowers e-commerce business has historically performed better when Valentine's Day falls on a weekday, rather than a weekend.

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 29, 2009 increased 10.0% and 25.7%, respectively, over the prior year periods, primarily as a result of the incremental revenue generated by the acquisition of Napco in July 2008, and continued growth within the category as a result of market share improvements, as well as expanded service offerings and pricing initiatives, which offset declines in wholesale product sales.

The Gourmet Food & Gift Baskets category includes the revenues of Cheryl & Co., Fannie May (including Harry London), Popcorn Factory, The Winetasting Network (including Geerlings & Wade) and DesignPac brands. Revenue is derived from the sale of cookies, baked gifts, premium chocolates and confections, gourmet popcorn, wine gifts and gift baskets through its E-commerce sales channels



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

(telephonic and online sales) and company-owned and operated retail stores under the Cheryl & Co. and Fannie May brands, as well as wholesale operations. During the three months ended March 29, 2009, net revenue decreased 16.2% compared to the prior year period, reflecting overall weakness in the retail environment and the shift of the Easter holiday into the fourth quarter. Net revenue during the nine months ended March 29, 2009, increased by 22.4% over the prior year period as a result of incremental wholesales revenue generated by DesignPac, acquired in April 2008, but was partially offset by decreased net revenue from the category's E-Commerce and retail stores channels as a result of reduced consumer spending and the shift of the Easter holiday.

The Home & Children's Gifts category includes revenues from Plow & Hearth, Wind & Weather, HearthSong and Magic Cabin brands. Revenue is derived from the sale of home decor and children's gifts through its E-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Plow & Hearth brand. During the three and nine months ended March 29, 2009, net revenue decreased by 24.7% and 19.3%, respectively, over the prior year periods primarily as a result of lower order volume from its E-commerce sales channel, due to a combination of significantly reduced consumer spending, particularly in the home decor product category, and a planned reduction in catalog circulation designed to improve category contribution. Further contributing to the revenue decline were lower retail store sales, compared to the same period of the prior year, due to a decline in customer traffic. As a result of this weak performance, the Company has implemented a plan to downsize the operations of its Home & Children's Gift category, including a reduction in catalog marketing, resizing the business to align its infrastructure with the expectation of continued weakness in the home decor retail sector.

The Company expects economic conditions for consumers will continue to be very challenging. Based on this outlook, and combined with its results for the nine months ended March 29, 2009, the Company anticipates that revenues for the full fiscal year 2009 will be down approximately 5-to-10 percent compared with the prior year. In order to mitigate the impact of the revenue decline, the Company plans to continue its operating expense reduction programs which, from fiscal 2006 through fiscal 2008, reduced its operating expense ratio by 290 basis points.

### Gross Profit

	Three Months Ended			Ni
	March 29, 2009	March 30, 2008	% Change	March 29, 2009
	(in thousands)			
Gross profit	\$69,576	\$89,505	(22.3)%	\$269,691
Gross margin %	40.2%	40.8%		40.8%

Gross profit decreased during the three and nine months ended March 29, 2009, primarily as a result of the decline in revenues described above, offset in part by the incremental gross profit generated by the DesignPac and Napco acquisitions. Gross margin percentage during the three and nine months ended March 29, 2009, decreased by 60 and 240 basis points, respectively, primarily reflecting a combination of product mix associated with revenues from the Company's most recent acquisitions, which are primarily wholesale businesses, as well as increased promotional activity to improve sales.

The 1-800-Flowers.com Consumer Floral category gross profit and gross profit margin percentage decreased during the three and nine months ended March 29,

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

2009 by 30.3% and 260 basis points, and 20.8% and 200 basis points, over the

19

respective prior year periods, as a result of decreased sales volume and promotional pricing, which characterized the retail sector, including the Valentine's Day holiday.

The BloomNet Wire Service category gross profit increased during the three and nine months ended March 29, 2009, by 11.4% and 24.4%, respectively, compared to the prior year periods, as a result of the aforementioned revenue contribution from the Napco acquisition in July 2008, as well as increased revenue resulting from expanded service offerings and pricing initiatives. Gross profit margins during the three months ended March 29, 2009, increased by 70 basis points in comparison to the prior year as a result of product mix, whereas gross profit margins decreased by 60 basis points during the nine months ended March 29, 2009, reflecting the impact of the wholesale margins associated with the Napco product line during its heavy selling period which falls within the Company's first fiscal quarter.

The Gourmet Food & Gift Baskets category gross margin percentages during the three months ended March 29, 2009 were consistent with the prior year, however, gross profit decreased by 16.7% as a result of the decline in sales volume, due in part to the shift in the Easter holiday, as well as the soft consumer demand associated with the weakened economy. During the nine months ended March 29, 2009, gross profit increased by 1.8% over the prior year period as a result of the incremental gross profit generated by DesignPac, acquired in April 2008, which also had the effect of decreasing the gross margin percentage as DesignPac products carry lower wholesale margins. Further negatively impacting the decreased gross profit margins during the nine months ended March 29, 2009 was the increased promotional activity during the key holiday periods within the category's E-Commerce and retail store sales channels, in comparison to the prior year.

The Home & Children's Gifts category gross profit during the three and nine months ended March 29, 2009, decreased by 17.6% and 17.0%, respectively, over the prior year periods as a result of the aforementioned revenue declines, offset in part by a higher gross margin percentage, which increased 360 basis points to 42.5% and 130 basis points to 46.3%, respectively, benefiting from enhanced product sourcing and shipping initiatives.

During the remainder of fiscal year 2009, the Company expects its gross margin percentage will remain relatively unchanged in comparison to the prior year as a shift in product mix, and anticipated gross margin improvements in most of its existing businesses through a combination of product sourcing, fulfillment improvements, fuel cost reductions and pricing initiatives, will offset the reduced margin percentage in the 1-800-Flowers Consumer Floral Category caused by ongoing promotional activity.

### Marketing and Sales Expense

	Three Months Ended			Ni
	March 29, 2009	March 30, 2008	% Change	March 29, 2009
	(in thousands)			
Marketing and sales	\$52,469	\$60,587	(13.4)%	\$183,487

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

Percentage of net revenues 30.3% 27.6% 27.8%

During the three and nine months ended March 29, 2009, marketing and sales expenses decreased 13.4% and 6.8% respectively, but increased to 30.3% from 27.6% of net revenue. The overall decrease in expense reflects the Company's ongoing cost reduction programs, including accelerated efforts to reduce these costs in the face of continuing revenue declines. However, the lower revenues during the quarter, combined with severance associated with the Company's cost reduction programs recorded within marketing and selling of \$1.1 million, unfavorably impacted the Company's leverage during the quarter. During the nine months ended March 29, 2009, marketing and sales expenses declined to 27.8% from 28.2% of net revenues, as a result of brand mix, including the impact of DesignPac, which has low operating costs relative to its revenue and the Company's expense reduction initiatives. These programs, which began in 2006, were designed to improve operating leverage across the Company's brands, reducing the Company's operating expense ratio by 290 basis points through fiscal 2008, and have been expanded and accelerated to mitigate the revenue reductions that have been associated with the current economic decline. Within marketing and sales, the Company has undertaken programs that have reduced or reallocated media, portal spending, and customer prospecting through catalogs, which were not expected to generate sufficient returns in this challenging economic environment. In addition, initiatives such as catalog printing and co-mailing, e-mail pricing reductions and further virtualization of our consumer service platform to reduce fixed facility and labor, have enabled the Company to improve its cost structure.

20

During the three and nine months ended March 29, 2009, the Company added approximately 651,000 and 2,137,000 new E-commerce customers, respectively. Of the 1,678,000 and 4,685,000 total customers who placed E-commerce orders during the three and nine months ended March 29, 2009, respectively, approximately 61.2% and 54.4%, respectively, were repeat customers, compared to 59.4% and 51.3% 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 the remainder of fiscal 2009, the Company expects that marketing and sales expense will continue to decrease in comparison to the prior year, but increase slightly as a percentage of net revenues due to the anticipated continued decline in sales. This decline is expected to be mitigated by the aforementioned expense reduction initiatives, as well as reductions in variable labor commensurate with lower order volumes.

### Technology and Development Expense

	Three Months Ended			Ni
	March 29, 2009	March 30, 2008	% Change	March 29, 2009
	(in thousands)			
Technology and development	\$5,679	\$5,515	3.0%	\$16,518
Percentage of net revenues	3.3%	2.5%		2.5%

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

During the three and nine months ended March 29, 2009, technology and development expense increased by 3.0% and 2.2% over the respective prior year periods, as a result of severance associated with the Company's cost reduction programs of \$0.1 million, as well as the incremental technology and integration costs associated with the acquisitions of DesignPac and Napco.

During the three and nine months ended March 29, 2009, the Company expended \$9.3 million and \$30.4 million on technology and development, of which \$3.6 million and \$13.9 million has been capitalized.

The Company believes that continued investment in technology and development is critical to attaining its strategic objectives, and as a result of the Company's revised revenue expectations for the remainder of the year, the Company expects that its spending for the remainder of fiscal 2009 will increase slightly, as a percentage of net revenues, in comparison to the prior year.

### General and Administrative Expense

	Three Months Ended			Ni
	March 29, 2009	March 30, 2008	% Change	March 29, 2009
	(in thousands)			
General and administrative	\$12,972	\$13,151	(1.4%)	\$40,624
Percentage of net revenues	7.5%	6.0%		6.2%

General and administrative expense decreased by 1.4% and 7.3% during the three and nine months ended March 29, 2009, respectively, as the prior year periods reflect the achievement of certain cash and equity performance based bonus targets, which are not expected to be earned in fiscal 2009 (refer to Note 3 for further information on equity based compensation), as well as cost reduction initiatives, offset in part by the incremental expenses of DesignPac and Napco.

Although the Company has accelerated its cost reduction initiatives, as a result of the Company's revised revenue expectations, and the incremental expenses associated with DesignPac and Napco, the Company expects that its general and administrative expenses for the remainder of fiscal 2009 will increase as a percentage of net revenues in comparison to the prior year.

21

### Depreciation and Amortization Expense

	Three Months Ended			Ni
	March 29, 2009	March 30, 2008	% Change	March 29, 2009
	(in thousands)			
Depreciation and amortization	\$6,144	\$5,011	22.6%	\$17,629
Percentage of net revenues	3.6%	2.3%		2.7%

Depreciation and amortization expense increased by 22.6% and 18.7% during the three and nine months ended March 29, 2009, in comparison to the prior year periods, as a result of capital additions for technology platform improvements and the incremental amortization related to the intangibles established as a

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

result of the acquisition of DesignPac in April 2008.

The Company believes that continued investment in its infrastructure, primarily in the areas of technology and development, including the improvement of the technology platforms, are critical to attaining its strategic objectives. Although the Company has begun reducing its capital expenditure plan for the remainder of fiscal 2009, as a result of the Company's revised revenue expectations and the increase in amortization expense associated with intangibles established as a result of recent acquisitions, the Company expects that depreciation and amortization for the remainder of fiscal 2009 will increase slightly as a percentage of net revenues in comparison to the prior year.

### Goodwill and Other Intangibles Impairment

During the second quarter of fiscal 2009 the Company assessed the recent performance of its Home & Children's Gift category businesses and its plans to resize this category based on the expectations of continued weakness in the home decor retail sector. The Plow & Hearth, Wind & Weather, HearthSong and Magic Cabin brands experienced lower revenue growth than anticipated with deteriorating operating margins. This shortfall was primarily attributable to decreased consumer spending as a result of the challenging economic environment. As a result of this analysis, impairment charges related to goodwill and other intangibles totaling \$20.0 million were recorded. (Refer to Note 6 for further details).

As a result of a continued decline of the Company's market capitalization, and contraction of public company multiples, as well as further erosion of revenues within certain brands and the overall operating income and cash flows of the Gourmet Food and Gift Basket segment, coupled with a reduction in the outlook of the performance of this segment based upon the expectation of a continuation of the current economic downturn, during the three months ended March 29, 2009, the Company recorded an impairment charge of \$76.5 million for the write-down of goodwill and intangibles related to this business segment. (Refer to Note 6 for further details).

### Other Income (Expense)

	Three Months Ended		Nine Months Ended	
	March 29, 2009	March 30, 2008	March 29, 2009	March 30, 2008
	(in thousands)			
Interest income	\$56	\$363	\$228	\$836
Interest expense	(1,103)	(1,073)	(4,769)	(4,355)
Other	58	25	85	55
	(\$989)	(\$685)	(\$4,456)	(\$3,464)
	=====	=====	=====	=====

Other income (expense) consists primarily of interest income earned on the Company's investments and available cash balances, offset by interest expense, primarily attributable to the Company's long-term debt and revolving line of credit.

Net borrowing costs increased during the three and nine months ended March 29, 2009, in comparison to the prior year periods, primarily as a result of incremental borrowings and related financing costs associated with the Company's

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

2008 Credit Facility (as defined below).

In order to fund the increase in working capital requirements associated with DesignPac, on August 28, 2008, the Company entered into a \$293.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank N.A., as administrative

22

agent, and a group of lenders (the "2008 Credit Facility"). The 2008 Credit Facility provided for borrowings of up to \$293.0 million, including: (i) a \$165.0 million revolving credit commitment, (ii) \$60.0 million of new term loan debt, and (iii) \$68.0 million of existing term loan debt associated with the Company's previous credit facility.

On April 14, 2009, subsequent to quarter end, the Company entered into an amendment to the 2008 Credit Facility (the "Amended 2008 Credit Facility"). The Amended 2008 Credit Facility includes a prepayment of \$20.0 million, reducing the Company's outstanding term loans under the facility to \$92.4 million upon closing. In addition, the amendment reduces the Company's revolving credit line from \$165.0 million to a seasonally adjusted line ranging from \$75.0 to \$125.0 million. The Amended 2008 Credit Facility, effective March 29, 2009, also revises certain financial and non-financial covenants, including maintenance of certain financial ratios and eliminates the consolidated net worth covenant that had been included in the previous agreement. Outstanding amounts under the Amended 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's term loans and revolving credit facility will range from 3.00% to 4.50% for LIBOR loans and 2.00% to 3.50% for ABR loans with pricing based upon the Company's leverage ratio. The repayment terms of the existing term loans were reduced, on a pro-rata basis, for the \$20.0 million prepayment. The obligations of the Company and its subsidiaries under the Amended 2008 Credit Facility are secured by liens on all personal property of the Company and its subsidiaries.

As a result of the modifications of its credit agreements, during the quarter ended June 28, 2009, the Company will write off financing costs associated with the term debt related to both the 2008 Credit Facility and the Amended 2008 Credit Facility, in the amount of approximately \$3.0 million.

During March 2009, the Company obtained a \$5.0 million equipment lease line of credit with a bank and a \$5.0 million equipment lease line with a vendor. Interest under these lines, which both mature in April 2012, range from 2.99% to 7.48%. Borrowings under the bank line are collateralized by the underlying equipment purchased, while the equipment lease line of credit with the vendor is unsecured. In March 2009, the Company financed \$6.0 million of equipment purchases through such lease lines. The borrowings are payable in 36 monthly installments of principal and interest commencing in April 2009.

### Income Taxes

During the three and nine months ended March 29, 2009, the Company recorded an income tax benefit of \$19.4 million and \$13.3 million, respectively, compared to expense of \$1.3 million and \$10.4 million during the three and nine months ended March 30, 2008. The Company's effective tax rates for the three and nine months ended March 29, 2009 were 22.7% and 14.9%, respectively, compared to 27.7% and 38.3% during the comparative three and nine months ended March 30, 2008. The effective rates reflect the impact of the non-deductible portions of the goodwill and other intangible impairment charges of \$76.5 million and \$96.5 million, recorded during the three and nine months ended March 29, 2009, respectively. Excluding these charges, the effective rates during the three and nine months ended March 29, 2009 would have been 40.5% and 37.8%, respectively.

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

The adjusted effective rate during the three and nine months ended March 29, 2009, and the effective rate during 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 various tax credits.

### Liquidity and Capital Resources

At March 29, 2009, the Company had working capital of \$49.9 million, including cash and equivalents of \$31.7 million, compared to working capital of \$33.4 million, including cash and equivalents of \$12.1 million, at June 29, 2008.

Net cash provided by operating activities of \$0.8 million for the nine months ended March 29, 2009 was primarily attributable operating income, after adjusting for non-cash charges related to goodwill and other intangible charges (approximately \$96.5 million), and depreciation and amortization, offset by an increase in deferred taxes as a result of the non-cash charges related to goodwill and other intangibles, as well as seasonal changes in working capital including lower accounts payable and accrued expenses related to timing of vendor purchases, and increases in receivables, as well as increases in inventory due to acquired businesses and the movement of the Easter holiday into the Company's fiscal fourth quarter.

Net cash used in investing activities of \$22.6 million for the nine months ended March 29, 2009 was attributable to capital expenditures, primarily related to the Company's technology and distribution infrastructure, and the acquisition of

23

Napco in July 2008 and Geerlings & Wade in March 2009. Napco's purchase price of approximately \$10.9 million, included an up-front cash payment of \$9.3 million, net of cash acquired, and potential "earn-out" incentives, which amount to a maximum of \$1.6 million through the years ending July 2, 2012, upon achievement of specified performance targets.

Net cash provided by financing activities of \$41.4 million for the nine months ended March 29, 2009 was primarily from bank borrowings related to the Company's 2008 Credit Facility, net of the repayment of bank borrowings on outstanding debt and long-term capital lease obligations, as well as debt issuance costs.

In order to fund the increase in working capital requirements associated with DesignPac, on August 28, 2008, the Company entered into a \$293.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank N.A., as administrative agent, and a group of lenders (the "2008 Credit Facility"). The 2008 Credit Facility provided for borrowings of up to \$293.0 million, including: (i) a \$165.0 million revolving credit commitment, (ii) \$60.0 million of new term loan debt, and (iii) \$68.0 million of existing term loan debt associated with the Company's previous credit facility.

On April 14, 2009, subsequent to quarter end, the Company entered into an amendment to the 2008 Credit Facility (the "Amended 2008 Credit Facility"). The Amended 2008 Credit Facility includes a prepayment of \$20.0 million (included in current maturities above), reducing the Company's outstanding term loans under the facility to \$92.4 million upon closing. In addition, the amendment reduces the Company's revolving credit line from \$165.0 million to a seasonally adjusted line ranging from \$75.0 to \$125.0 million. The Amended 2008 Credit Facility, effective March 29, 2009, also revises certain financial and non-financial covenants, including maintenance of certain financial ratios and eliminates the consolidated net worth covenant that had been included in the previous agreement. Outstanding amounts under the Amended 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's term loans and revolving credit facility will range from 3.00% to

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

4.50% for LIBOR loans and 2.00% to 3.50% for ABR loans with pricing based upon the Company's leverage ratio. The repayment terms of the existing term loans were reduced, on a pro-rata basis, for the \$20.0 million prepayment. The obligations of the Company and its subsidiaries under the Amended 2008 Credit Facility are secured by liens on all personal property of the Company and its subsidiaries.

As a result of the modifications of its credit agreements, during the quarter ended June 28, 2009, the Company will write off financing costs associated with the term debt related to both the 2008 Credit Facility and the Amended 2008 Credit Facility, in the amount of approximately \$3.0 million.

At March 29, 2009, the Company had no outstanding amounts under its revolving credit facility.

During March 2009, the Company obtained a \$5.0 million equipment lease line of credit with a bank and a \$5.0 million equipment lease line of credit with a vendor. Interest under these lines, which mature in April 2012, range from 2.99% to 7.48%. Borrowings under the bank line are collateralized by the underlying equipment purchased, while the equipment lease line with the vendor is unsecured. In March 2009, the Company financed \$6.0 million of equipment purchases through such lease lines. The borrowings are payable in 36 monthly installments of principal and interest commencing in April 2009.

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. The Company repurchased \$0.4 million and \$0.8 million of common stock during the three and nine months ended March 29, 2009, respectively. As of March 29, 2009, \$13.2 million remains authorized but unused.

24

At March 29, 2009, the Company's contractual obligations consist of:

	Payments due by period			
	Total	Less than 1 year	(in thousands) 1 - 2 years	3 - 5 y
Long-term debt, including interest	\$126,552	\$30,291	\$69,487	\$26,774
Capital lease obligations, including interest	6,461	2,124	4,249	-
Operating lease obligations	69,741	11,696	23,281	36,764
Sublease obligations	6,693	2,191	2,732	-
Marketing Agreement	12,254	2,254	10,000	-
Purchase commitments (*)	16,237	16,237	-	-
<b>Total</b>	<b>\$237,938</b>	<b>\$64,793</b>	<b>\$109,749</b>	<b>\$66,738</b>

(\*) Purchase commitments consist primarily of inventory, equipment purchase



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

orders and online marketing agreements made in the ordinary course of business.

### Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial position and results of operations are based upon the consolidated financial statements of 1-800-FLOWERS.COM, Inc., which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, inventory and long-lived assets, including goodwill and other intangible assets related to acquisitions. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in preparation of its consolidated financial statements.

### Revenue Recognition

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

### Accounts Receivable

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

### Inventory

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

25

### 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 (as was

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

the case this year), 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. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and other assumptions, including revenue growth and operating margins, discount rates and future market conditions, among others. 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 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 is subjective and complex, and therefore, a change in the assumptions utilized could impact the calculation of the fair value of the Company's stock options.

### Income Taxes

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

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

### Recent Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 (Revised), "Business

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

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

26

Company cannot anticipate whether the adoption of SFAS No. 141R will have a material impact on its results of operations and financial conditions as the impact is solely dependent on the terms of any business combination entered into by the Company after June 29, 2009.

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

### 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;
  - o to reduce costs and enhance its profit margins;
  - o to manage the increased seasonality of its business;
  - o to effectively integrate and grow acquired companies;
  - o to cost effectively acquire and retain customers;
  - o to compete against existing and new competitors;
  - o to manage expenses associated with sales and marketing and necessary general and administrative and technology investments;
  - o to cost efficiently manage inventories; and
  - o leverage its operating infrastructure;

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

- o general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products; and
- o competition from existing and potential new competitors.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements. We caution readers not to place undue reliance on forward looking statements, which speak only as of the date of this report.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Forms 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission. Our Annual Report on Form 10-K filing for the fiscal year ended June 29, 2008 listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them in Part I, Item 1A, of that filing under the heading

27

"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 and investment grade corporate and U.S. government securities, as well as from outstanding debt. As of March 29, 2009, the Company's outstanding debt, including current maturities, approximated \$118.4 million, of which \$112.4 million was variable rate debt. Each 25 basis point change in interest rates would have a corresponding effect on our interest expense of approximately \$0.1 million and \$0.2 million during the three months and nine months ended March 29, 2009, respectively. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

### ITEM 4. CONTROLS AND PROCEDURES

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 March 29, 2009 that have materially affected, or are reasonably

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

likely to materially affect, our internal controls over financial reporting.

28

### PART II. - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

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

#### ITEM 1A. RISK FACTORS.

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

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

Consumer spending patterns are difficult to predict and are sensitive to the general economic climate, the consumer's level of disposable income, consumer debt, and overall consumer confidence. The ongoing global financial crisis affecting the banking system and financial markets has resulted in a low level of consumer confidence. During the nine months ended March 29, 2009, the volatility and disruption in the financial markets have reached unprecedented levels. This financial crisis has impacted and may continue to impact our business in a number of ways. Included among these current and potential future negative impacts are reduced demand and lower prices for our products and services. Declines in consumer spending has reduced, during our third fiscal quarter of 2009, and may continue to reduce our revenues, gross margins and earnings. We are currently operating in challenging macroeconomic conditions, which may continue during the remainder of fiscal 2009 and into fiscal 2010.

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

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

The following table sets forth, for the months indicated, the Company's purchase of common stock during the first nine months of fiscal 2009, which includes the period June 30, 2008 through March 29, 2009:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased a Part of Publicly Announced Plans or Programs
----- (in thousands, except average price paid per share) -----			
6/30/08 - 7/27/08	-	\$-	-
7/28/08 - 8/24/08	-	\$-	-
8/25/08 - 9/28/08	-	\$-	-
9/29/08 - 10/26/08	4.5	\$6.87	4.5
10/27/08 - 11/23/08	56.1	\$4.58	56.1
11/24/08 - 12/28/08	28.3	\$3.23	28.3
12/29/08 - 1/25/09	-	\$-	-
1/26/09 - 2/22/09	-	\$-	-
2/23/09 - 3/29/09	308.1	\$1.39	308.1
	-----	-----	-----
Total	397.0	\$2.03	397.0
	=====	=====	=====

On January 21, 2008, the Company's Board of Directors authorized an increase to its stock repurchase plan that, when added to the \$8.7 million remaining on its earlier authorization, increased the amount available for repurchase to \$15.0 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of March 29, 2009, \$13.2 million remains authorized but unused.

29

### 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.

30

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 8, 2009

/s/ James F. McCann

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

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

Date: May 8, 2009  
-----

/s/ William E. Shea  
-----

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