

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

1 800 FLOWERS COM INC
Form 10-Q
February 06, 2009

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 28, 2008

or

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

Commission File No. 0-26841

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

DELAWARE

(State of
incorporation)

11-3117311

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

One Old Country Road, Carle Place, New York 11514

(Address of principal executive offices) (Zip code)

(516) 237-6000

(Registrant's telephone number, including area code)

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

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

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

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

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

26,851,977

(Number of shares of Class A common stock outstanding as of January 28, 2008)

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

36,858,465

(Number of shares of Class B common stock outstanding as of January 28, 2008)

1-800-FLOWERS.COM, Inc.

TABLE OF CONTENTS

| INDEX | | Page |
|------------|--|------|
| | | ---- |
| Part I. | Financial Information | |
| Item 1. | Consolidated Financial Statements: | |
| | Consolidated Balance Sheets - December 28, 2008 (Unaudited) and June 29, 2008 | 1 |
| | Consolidated Statements of Operations (Unaudited) - Three and Six Months Ended December 28, 2008 and December 30, 2007 | 2 |
| | Consolidated Statements of Cash Flows (Unaudited) - Six Months Ended December 28, 2008 and December 30, 2007 | 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)

| | December 28, 2008 |
|--|----------------------|
| | (unaudited) |
| Assets | |
| Current assets: | |
| Cash and equivalents | \$51,104 |
| Receivables, net | 42,860 |
| Inventories | 79,957 |
| Deferred tax assets | 7,913 |
| Prepaid and other | 9,264 |
| Total current assets | 191,098 |
| Property, plant and equipment at cost, net | 75,157 |
| Goodwill | 105,424 |
| Other intangibles, net | 64,618 |
| Other assets | 6,143 |
| Total assets | \$442,440 |
| Liabilities and stockholders' equity | |
| Current liabilities: | |
| Accounts payable and accrued expenses | \$94,150 |
| Current maturities of long-term debt and obligations under capital leases | 24,794 |
| Total current liabilities | 118,994 |
| Long-term debt and obligations under capital leases | 93,875 |
| Deferred income taxes | 5,403 |
| Other liabilities | 3,256 |
| Total liabilities | 221,478 |
| 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, 31,665,154 and 31,368,241 shares issued at December 28, 2008 and June 29, 2008 respectively | 317 |
| Class B common stock, \$.01 par value, 200,000,000 shares authorized, 42,138,465 shares issued at December 28, 2008 and June 29, 2008 | 421 |
| Additional paid-in capital | 280,006 |
| Retained deficit | (28,254) |
| Treasury stock, at cost, 4,813,177 and 4,724,326 Class A shares at December 28, 2008 and June 29, 2008 respectively, and 5,280,000 Class B Shares at December 28, 2008 and June 29, 2008 | (31,528) |
| Total stockholders' equity | 220,962 |

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

Total liabilities and stockholders' equity

\$442,440
=====

See accompanying Notes to Consolidated Financial Statements.

1

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

| | Three Months Ended | |
|--|----------------------|----------------------|
| | December 28, 2008 | December 30, 2007 |
| Net revenues | \$329,328 | \$334,202 |
| Cost of revenues | 191,036 | 181,146 |
| Gross profit | 138,292 | 153,056 |
| Operating expenses: | | |
| Marketing and sales | 88,370 | 93,594 |
| Technology and development | 5,169 | 5,419 |
| General and administrative | 12,136 | 15,448 |
| Depreciation and amortization | 5,797 | 4,967 |
| Goodwill and intangible impairment | 20,036 | - |
| Total operating expenses | 131,508 | 119,428 |
| Operating income (loss) | 6,784 | 33,628 |
| Other income (expense): | | |
| Interest income | 76 | 295 |
| Interest expense | (2,507) | (1,737) |
| Other | 18 | 12 |
| Total other income (expense), net | (2,413) | (1,430) |
| Income (loss) before income taxes | 4,371 | 32,198 |
| Income tax expense | 9,482 | 12,942 |
| Net (loss) income | (\$5,111) | \$19,256 |
| Net (loss) income per common share: | | |
| Basic | (\$0.08) | \$0.31 |
| Diluted | (\$0.08) | \$0.29 |
| Weighted average shares used in the calculation of net (loss) income per common share | | |
| Basic | 63,631 | 63,020 |

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

Diluted

63,631

66,050

See accompanying Notes to Consolidated Financial Statements.

2

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

| | Six Mo December 28 2008 |
|---|-------------------------------|
| Operating activities: | |
| Net (loss) income | (\$10,415) |
| Reconciliation of net (loss) income to net cash provided by operations: | |
| Depreciation and amortization | 11,485 |
| Deferred income taxes | (60) |
| Bad debt expense | 1,115 |
| Stock-based compensation | 177 |
| Goodwill and intangible asset impairment | 20,036 |
| Other non-cash items | - |
| Changes in operating items: | |
| Receivables | (28,580) |
| Inventories | (9,255) |
| Prepaid and other | (507) |
| Accounts payable and accrued expenses | 29,153 |
| Other assets | 195 |
| Other liabilities | 294 |
| Net cash provided by operating activities | 13,638 |
| Investing activities: | |
| Acquisitions, net of cash acquired | (9,297) |
| Dispositions | 25 |
| Capital expenditures | (13,616) |
| Other | 110 |
| Net cash used in investing activities | (22,778) |
| Financing activities: | |
| Acquisition of treasury stock | (379) |
| Debt issuance cost | (2,148) |
| Proceeds from exercise of employee stock options | 114 |
| Proceeds from bank borrowings | 120,000 |
| Repayment of bank borrowings and capital leases | (69,467) |
| Net cash provided by (used in) financing activities | 48,120 |

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

| | |
|------------------------------------|----------|
| Net change in cash and equivalents | 38,980 |
| Cash and equivalents: | |
| Beginning of period | 12,124 |
| End of period | \$51,104 |

See accompanying Notes to Consolidated Financial Statements.

3

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

Note 1 - Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by 1-800-FLOWERS.COM, Inc. and subsidiaries (the "Company") in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended December 28, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending June 28, 2009.

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

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

Use of Estimates

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

Comprehensive Income (Losses)

For the three and six months ended December 28, 2008 and December 30, 2007, the Company's comprehensive net income (losses) were equal to the respective net income (losses) for each of the periods presented.

Fair Value Measurements

Effective June 30, 2008, the Company adopted Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" ("SFAS 157") for certain financial

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

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 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 indentially similar assets or liabilities in markets that are not active and models for which all significant inputs are observable either directly or indirectly.

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

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. As of December 30, 2008, the Company holds approximately \$2.2 million of "level 1" cash equivalents that are measured at fair value on a recurring basis. The Company does not have any assets or liabilities that are based on "level 2" or "level 3" inputs.

Recent Accounting Pronouncements

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

4

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

(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

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

fiscal years. Early adoption is prohibited. The Company is currently evaluating the impact, if any, that this FSP will have on its results of operations, financial position or cash flows.

Reclassifications

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

Note 2 - Net (Loss) Income Per Common Share

Basic net loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed using the weighted average number of common shares outstanding during the period, and excludes the effect of dilutive potential common shares (consisting of employee stock options and unvested restricted stock awards) for the three and six months ended December 28, 2008, as their inclusion would be antidilutive.

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

| | Three Months Ended | |
|--|----------------------|----------------------|
| | December 28, 2008 | December 30, 2007 |
| | (in thousands, e | |
| Numerator: | | |
| Net (loss) income | (\$5,111) | \$19,256 |
| | | |
| Denominator: | | |
| Weighted average shares outstanding | 63,631 | 63,020 |
| Effect of dilutive securities: | | |
| Employee stock options | - | 2,238 |
| Employee restricted stock awards | - | 792 |
| | | |
| | - | 3,030 |
| | | |
| Adjusted weighted-average shares and assumed conversions | 63,631 | 66,050 |
| | | |
| Net (loss) income per common share: | | |
| Basic | (\$0.08) | \$0.31 |
| | | |
| Diluted | (\$0.08) | \$0.29 |
| | | |

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

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

Company's 2008 Annual Report on Form 10-K, that provides for the grant to eligible employees, consultants and directors of stock options, share appreciation rights (SARs), restricted shares, restricted share units, performance shares, performance units, dividend equivalents, and other stock-based awards.

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

| | Three Months Ended | |
|---------------------------------------|----------------------|----------------------|
| | December 28, 2008 | December 30, 2007 |
| | | (in thousands) |
| Stock options | \$369 | \$270 |
| Restricted stock awards | (1,411) | 566 |
| | (1,042) | 836 |
| Total | (1,042) | 836 |
| Deferred income tax benefit | (453) | 509 |
| | (\$589) | \$327 |
| Stock-based compensation expense, net | (\$589) | \$327 |

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 | |
|----------------------------|----------------------|----------------------|
| | December 28, 2008 | December 30, 2007 |
| | | (in thousands) |
| Marketing and sales | (\$649) | \$242 |
| Technology and development | 118 | 99 |
| General and administrative | (511) | 495 |
| | (\$1,042) | \$836 |
| Total | (\$1,042) | \$836 |

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 | |
|--------------------------------|----------------------|----------------------|
| | December 28, 2008 | December 30, 2007 |
| Weighted average fair value of | | |

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

| | | |
|-------------------------|---------|---------|
| options granted | \$1.72 | \$4.33 |
| Expected volatility | 43.0% | 42.6% |
| Expected life | 6.4 yrs | 5.3 yrs |
| Risk-free interest rate | 2.75% | 4.20% |
| Expected dividend yield | 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 six months ended December 28, 2008:

| | Options | Weighted Average Exercise Price | | Weighted Average Remaining Contractual Term |
|---|-----------|--|--|---|
| | | | | |
| Outstanding at June 29, 2008 | 7,872,344 | \$8.47 | | |
| Granted | 286,000 | \$5.88 | | |
| Exercised | (24,843) | \$4.60 | | |
| Forfeited | (186,552) | \$8.86 | | |
| | 7,946,949 | \$8.38 | | 3.7 years |
| | | | | |
| Options vested or expected to vest at December 28, 2008 | 7,788,274 | \$8.40 | | 3.6 years |
| Exercisable at December 28, 2008 | 6,884,523 | \$8.54 | | 3.1 years |

As of December 28, 2008, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$2.5 million and the weighted average period over which these awards are expected to be recognized was 2.7 years.

The Company grants shares of common stock to its employees that are subject to restrictions on transfer and risk of forfeiture until fulfillment of applicable service conditions and, in certain cases, holding periods (Restricted Stock Awards). The following table summarizes the activity of non-vested restricted stock awards during the six months ended December 28, 2008:

| | Shares | Weighted Average Grant Date Fair Value |
|-----------------------------|-----------|---|
| | | |
| Non-vested at June 29, 2008 | 1,275,153 | \$7.58 |
| Granted | 884,966 | \$3.76 |
| Vested | (272,070) | \$6.47 |
| Forfeited | (762,558) | \$6.31 |
| | | |

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

Non-vested at December 28, 2008

1,125,491
=====

\$5.71

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of December 28, 2008, there was \$3.5 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.2 years.

Note 4 - Acquisitions

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

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 as described below, was subsequently amended by the Company's 2008 Credit Facility. The purchase price includes an up-front cash payment of \$9.3 million, net of cash acquired, and potential "earn-out" incentives, which amount to a maximum of \$1.6 million through the years ending July 2, 2012, upon achievement of specified performance targets.

The Company is in the process of finalizing its allocation of the purchase price 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 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 | 5,897 |
| Intangible assets | - |
| Goodwill | - |
| Other | 74 |
| | ----- |
| Total assets acquired | 11,090 |
| | ----- |
| Current liabilities | 162 |
| | ----- |
| Total liabilities assumed | 162 |
| | ----- |
| Net assets acquired | \$10,928 |
| | ===== |

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

The Company is in the process of finalizing its allocation of the purchase price to individual assets acquired and liabilities assumed as a result of the acquisition of DesignPac. This will result in potential adjustments to the carrying value of DesignPac's recorded assets and liabilities, the establishment

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

of certain additional intangible assets, revisions of useful lives of intangible assets, some of which will have indefinite lives not subject to amortization, and the determination of any residual amount that will be allocated to goodwill. The preliminary allocation of the purchase price included in the current period balance sheet is based on the best estimates of management and is subject to revision based on final determination of asset fair values and useful lives.

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

| | DesignPac Purchase Price Allocation |
|-------------------------------|--|
| ----- | |
| (in thousands) | |
| Current assets | \$1,287 |
| Property, plant and equipment | 1,172 |
| Intangible assets | 18,908 |
| Goodwill | 12,131 |
| Other | 87 |
| | ----- |
| Total assets acquired | 33,585 |
| | ----- |
| Current liabilities | 184 |
| | ----- |
| Total liabilities assumed | 184 |
| | ----- |
| Net assets acquired | \$33,401 |
| | ===== |

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

Pro forma Results of Operation

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

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

| | Three Months Ended | | Six |
|--|-----------------------|----------------------|--------------------|
| | December 28, 2008 | December 30, 2007 | December 2 2008 |
| | (in thousands, except | | per share |
| Net Revenues | \$329,328 | \$376,841 | \$488,390 |
| Income (loss) from operations | \$6,784 | \$41,448 | (\$19,213) |
| Net (loss) income | (\$5,111) | \$23,761 | (\$10,332) |
| Basic net (loss) income per common share | (\$0.08) | \$0.38 | (\$0.16) |
| Diluted net (loss) income per common share | (\$0.08) | \$0.36 | (\$0.16) |

Note 5 - Inventory

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

| | December 2008 |
|-----------------|------------------|
| Finished goods | \$55,5 |
| Work-in-Process | 5,6 |
| Raw materials | 18,7 |
| | \$79,9 |

Note 6 - Goodwill and Intangible Assets

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

| | 1-800-Flowers.com Consumer Floral | BloomNet Wire Service | Gourmet Food and Gift Baskets |
|------------------------------|---|--------------------------|-------------------------------------|
| | (in thousands) | | |
| Balance at June 29, 2008 | \$6,166 | \$- | \$99,737 |
| Acquisition of DesignPac | | | 52 |
| Goodwill impairment | | | |
| Other | (384) | | (147) |
| Balance at December 28, 2008 | \$5,782 | \$- | \$99,642 |

Goodwill represents the excess of the purchase price over the fair value of the

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

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 testing involves a two-step process. Step 1 compares the fair value of the

10

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

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.

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 related to this reporting unit was deemed to be fully impaired. Therefore, during the three months ended December 28, 2008, the Company recorded an impairment charge of \$18.3 million, reducing the carrying value of goodwill to \$105.4 million.

Fair value was determined using an income based approach, whereby the Company 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 overall market capitalization to determine that its assumptions were consistent with that of an outside investor.

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

| December 28, 2008 | | | | |
|------------------------|-----------------------------|-----------------------------|-----|-----------------------------|
| Amortization Period | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount |
| (in thousands) | | | | |

Intangible assets with
 determinable lives

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

| | | | | | |
|--------------------------------------|---------------|----------|----------|----------|----------|
| Investment in licenses | 14 - 16 years | \$5,314 | \$4,607 | \$707 | \$4,927 |
| Customer lists | 3 - 10 years | 24,910 | 7,156 | 17,754 | 25,570 |
| Other | 5 - 8 years | 2,488 | 873 | 1,615 | 2,488 |
| | | ----- | ----- | ----- | ----- |
| | | 32,712 | 12,636 | 20,076 | 32,985 |
| Trademarks with indefinite lives | - | 44,542 | - | 44,542 | 46,053 |
| | | ----- | ----- | ----- | ----- |
| Total identifiable intangible assets | | \$77,254 | \$12,636 | \$64,618 | \$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.

As part of the aforementioned impairment analysis performed for the Home and Children's Gift segment, the Company recorded an impairment charge of \$1.8 million, 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 - \$1.9 million, fiscal 2010 - \$3.8 million, fiscal 2011 - \$3.1 million, fiscal 2012 - \$2.0, fiscal 2013 - \$2.0 and thereafter - \$7.3 million.

11

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

Note 7 - Long-Term Debt

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

| | |
|--|------------------|
| | December 2008 |
| | ----- |
| | (i) |
| Term loan | \$118,6 |
| Revolving line of credit | |
| Commercial note | |
| Obligations under capital leases | |
| | ----- |
| | 118,6 |
| Less current maturities of long-term debt and obligations under capital leases | 24,7 |
| | ----- |
| | \$93,8 |
| | ===== |

In order to fund the increase in working capital requirements associated with DesignPac, and to provide for additional operational flexibility, on August 28,

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

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

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

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 six months ended December 28, 2008, the Company recorded income tax expense of \$9.5 million and \$6.0 million, respectively, compared to \$12.9 million and \$9.2 million during the three and six months ended December 30, 2007. The Company's effective tax rates for the three and six months ended December 28, 2008 were 216.9% and 137.7%, respectively, compared to 40.2% and 40.5% during the comparative three and six months ended December 30, 2007. The effective rates during the three and six months ended December 28, 2008 reflect the impact of non-deductible goodwill and other intangible impairment charges aggregating approximately \$20 million. Excluding these charges, the effective rates during the three and six months ended December 28, 2008 would have been 39.4% and 39.3%, respectively. The adjusted effective rate during the three months ended December 28, 2008, and the effective rate during the three months ended December 30, 2007 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by various tax credits.

12

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

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

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

| | | | |
|------------------------------------|----------|----------|---------|
| Depreciation and amortization | (5,797) | (4,967) | (11,48) |
| Goodwill and Intangible impairment | (20,036) | - | (20,03) |
| | ----- | ----- | ----- |
| Operating income (loss) | \$6,784 | \$33,628 | (\$91) |
| | ===== | ===== | ===== |

13

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

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

Note 10 - Commitments and Contingencies

Legal Proceedings

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

14

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

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), is one of the top 50 online retailers by Internet Retailer, as well as 2008 Laureate Honoree by the Computerworld Honors Program and the recipient of ICMI's 2006 Global Call Center of the Year Award. 1-800-FLOWERS.COM offers the best of both worlds: exquisite arrangements created by some of the nation's top floral artists and hand-delivered the same day, and spectacular flowers shipped overnight "Fresh From Our Growerssm." As always, 100% satisfaction and freshness are guaranteed. The Company's BloomNet(R) international floral wire service (www.mybloomnet.net) provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably.

The 1-800-FLOWERS.COM, Inc. "Gift Shop" also includes gourmet gifts such as popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or www.thepopcornfactory.com); cookies and baked gifts from Cheryl&Co.(R) (1-800-443-8124 or www.cherylandco.com); premium chocolates and confections from Fannie May Confections Brands(R) (www.fanniemay.com and www.harrylondon.com); gourmet foods from Greatfood.com(R) (www.greatfood.com); wine gifts from Ambrosia(R) (www.ambrosia.com); gift baskets from 1-800-BASKETS.COM(R) (www.1800baskets.com) and DesignPac Gifts(TM) (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 "EBITDA" (earnings before interest, taxes, depreciation and amortization, and goodwill and intangible impairment) from each of the Company's business categories.

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

| | Three Months Ended | | | December 2008 |
|-----------------------------------|--------------------|-------------------|----------|---------------|
| | December 28, 2008 | December 30, 2007 | % Change | |
| | (in thousands) | | | |
| Net revenues: | | | | |
| 1-800-Flowers.com Consumer Floral | \$97,082 | \$114,017 | (14.9)% | \$180,58 |
| BloomNet Wire Service | 15,151 | 12,732 | 19.0% | 30,86 |
| Gourmet Food & Gift Baskets | 141,855 | 110,605 | 28.3% | 179,03 |
| Home & Children's Gifts | 77,757 | 98,013 | (20.7)% | 100,35 |
| Corporate (*) | 597 | 585 | 2.1% | 80 |
| Intercompany eliminations | (3,114) | (1,750) | (77.9)% | (4,28 |
| Total net revenues | \$329,328 | \$334,202 | (1.5)% | \$487,36 |

15

| | Three Months Ended | | | December 2008 |
|-----------------------------------|--------------------|--------------------|----------|-------------------|
| | December 28, 2008 | December 30, 2007 | % Change | |
| | (in thousands) | | | |
| Gross Profit: | | | | |
| 1-800-Flowers.com Consumer Floral | \$35,918 37.0% | \$44,870 39.4% | (20.0)% | \$67,627 37.4 |
| BloomNet Wire Service | 8,766 57.9% | 7,273 57.1% | 20.5% | 17,106 55.4 |
| Gourmet Food & Gift Baskets | 56,315 39.7% | 54,298 49.1% | 3.7% | 68,328 38.2 |
| Home & Children's Gifts | 37,579 48.3% | 46,591 47.5% | (19.3)% | 47,205 47.0 |
| Corporate (*) | 168 28.1% | 256 43.8% | (34.1)% | 325 40.6 |
| Intercompany eliminations | (454) | (232) | | (476 |
| Total gross profit | \$138,292 42.0% | \$153,056 45.8% | (9.6)% | \$200,115 41.1 |

| | Three Months Ended | | | December 2008 |
|-----------------------------------|--------------------|-------------------|----------|---------------|
| | December 28, 2008 | December 30, 2007 | % Change | |
| | (in thousands) | | | |
| EBITDA (**) | | | | |
| Category Contribution Margin: | | | | |
| 1-800-Flowers.com Consumer Floral | \$8,851 | 13,561 | (34.7)% | \$19,593 |

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

| | | | | |
|---------------------------------------|----------|----------|---------|----------|
| BloomNet Wire Service | 4,839 | 4,458 | 8.5% | 9,258 |
| Gourmet Food & Gift Baskets | 26,107 | 24,912 | 4.8% | 25,216 |
| Home & Children's Gifts | 2,758 | 8,747 | (68.5)% | 552 |
| | ----- | ----- | | ----- |
| Category Contribution Margin Subtotal | 42,555 | 51,678 | (17.7)% | 54,619 |
| Corporate (*) | (9,938) | (13,083) | (24.0)% | (24,013) |
| | ----- | ----- | | ----- |
| EBITDA | \$32,617 | \$38,595 | (15.5)% | \$30,606 |
| | ===== | ===== | | ===== |

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

(**) Performance is measured based on category contribution margin or category EBITDA, reflecting only the direct controllable revenue and operating expenses of the categories. As such, management's measure of profitability for these categories does not include the effect of corporate overhead, described above, nor does it include depreciation and amortization, 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 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.

16

Reconciliation of Net (loss) Income to EBITDA:

| Three Months Ended | |
|----------------------|----------------------|
| December 28, 2008 | December 30, 2007 |
| ----- | ----- |

(in thou

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

| | | |
|------------------------------------|-----------|----------|
| Net (loss) income | (\$5,111) | \$19,256 |
| Add: | | |
| Interest expense | 2,507 | 1,737 |
| Depreciation and amortization | 5,797 | 4,967 |
| Income tax expense | 9,482 | 12,942 |
| Goodwill and intangible impairment | 20,036 | - |
| Less: | | |
| Interest income | 76 | 295 |
| Other expense (income) | 18 | 12 |
| | ----- | ----- |
| EBITDA | \$32,617 | \$38,595 |
| | ===== | ===== |

Results of Operations

Net Revenues

| | Three Months Ended | | | Six Months Ended | |
|--------------------|----------------------|----------------------|----------|----------------------|------------------|
| | December 28, 2008 | December 30, 2007 | % Change | December 28, 2008 | December 2007 |
| | ----- | | | | |
| | (in thousands) | | | | |
| Net revenues: | | | | | |
| E-Commerce | \$230,123 | \$274,168 | (16.1)% | \$337,872 | \$388,6 |
| Other | 99,205 | 60,034 | 65.2% | 149,489 | 91,3 |
| | ----- | ----- | | ----- | ----- |
| Total net revenues | \$329,328 | \$334,202 | (1.5)% | \$487,361 | \$480,0 |
| | ===== | ===== | | ===== | ===== |

During the three months ended December 28, 2008, revenue declined by 1.5% in comparison to the prior year period, resulting from significantly reduced consumer spending during the key holiday period due to the overall weakness in the economy, which impacted the Company's Home & Children's Gift and Consumer Floral businesses particularly hard. The decline was offset in part by growth in the Company's BloomNet Wire Service category, which increased 19.0% over the prior year period due, in part, to the acquisition of Napco Marketing Corp. (Napco), a wholesaler of floral hardgoods, in July 2008, and the Gourmet Food & Gift Baskets category, which increased 28.3% over the prior year period due to the acquisition of DesignPac Gifts LLC (DesignPac), a wholesaler of gift baskets, in April 2008.

During the six months ended December 28, 2008, the Company's revenues increased by 1.5% over the prior year period as a result of: (i) growth within the BloomNet Wire Service category, which increased 36.4% over the prior year period due, in part, to the acquisition of Napco, a wholesaler of floral hardgoods, in July 2008, and (ii) Gourmet Food & Gift Baskets category, which increased 33.8% over the prior year period, due to the acquisition of DesignPac, a wholesaler of gift baskets, in April 2008. Organic revenue, including post acquisition growth of DesignPac and Napco, and adjusted for the transition of Company-owned retail stores to franchise operations, declined approximately 14.1% and 10.7% during the three and six months ended December 28, 2008, reflecting the challenging economic environment and its impact on consumer spending.

The Company fulfilled approximately 3,762,000 and 5,317,000 orders through its E-commerce sales channels (online and telephonic sales) during the three and six

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

months ended December 28, 2008, respectively, a decrease of 14.6% and 12.2%, over the respective prior year periods, reflecting a decline in consumer spending during the key holiday period. The Company's E-commerce average order values during the three and six months ended December 28, 2008, of \$61.16 and \$63.54, decreased 1.8% and 1.0 % in comparison to the respective prior year

17

periods. Other revenues, for the three and six months ended December 28, 2008, increased in comparison to the same periods of the prior year, as a result of the Company's recent acquisitions of Napco and DesignPac, and through the growth of BloomNet.

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 six months ended December 28, 2008 decreased 14.9% and 10.5%, respectively, over the prior year periods, due to lower order volume as a result of the decline in demand throughout the consumer sector, combined with the continued transition of Company owned retail stores to franchise operations, and a decline in average order value in comparison to the prior year periods.

The BloomNet Wire Service category includes revenues from membership fees as well as other product and service offerings to florists. Net revenues during the three and six months ended December 28, 2008 increased 19.0% and 36.4%, respectively, over the prior year period, 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 product and service offerings and pricing initiatives.

The Gourmet Food & Gift Baskets category includes the revenues of Cheryl & Co., Fannie May, Popcorn Factory, The Winetasting Network and DesignPac brands. Revenue is derived from the sale of cookies, baked gifts, premium chocolates and confections, gourmet popcorn, wine gifts and gift baskets through its E-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Cheryl & Co. and Fannie May brands, as well as wholesale operations. Net revenue during the three and six months ended December 28, 2008 increased by 28.3% and 33.8%, respectively, over the prior year periods as a result of incremental wholesales revenue generated by DesignPac, acquired in April 2008, offset in part by decreased net revenue from the category's E-Commerce and retail stores channels as a result of reduced consumer spending during the key holiday period.

The Home & Children's Gifts category includes revenues from Plow & Hearth, Wind & Weather, HearthSong and Magic Cabin brands. Revenue is derived from the sale of home decor and children's gifts through its E-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Plow & Hearth brand. Net revenue during the three and six months ended December 28, 2008 decreased by 20.7% and 18.2%, respectively, over the prior year periods as a result of: (i) 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, (ii) as well as lower retail store sales due to a decline in customer traffic during the holiday. As a result of this weak performance, the Company is implementing 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.

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

The Company expects economic conditions for consumers to continue to be very challenging. Based on this outlook, and combined with its first half results, the Company now 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 | | | Si |
|----------------|----------------------|----------------------|----------|----------------------|
| | December 28, 2008 | December 30, 2007 | % Change | December 28, 2008 |
| | (in thousands) | | | |
| Gross profit | \$138,292 | \$153,056 | (9.6)% | \$200,115 |
| Gross margin % | 42.0% | 45.8% | | 41.1% |

Gross profit decreased during the three and six months ended December 28, 2008, 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 six months ended December 28, 2008, decreased by 380 and 330 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 during the holiday period to improve sales.

18

The 1-800-Flowers.com Consumer Floral category gross profit and gross profit margin percentage decreased during the three and six months ended December 28, 2008 by 20.0% and 240 basis points, and 14.4% and 180 basis points, respectively, over the prior year periods, as a result of decreased sales volume and promotional pricing, which characterized the retail sector during this past holiday period.

The BloomNet Wire Service category gross profit increased during the three and six months ended December 28, 2008, by 20.5% and 32.8%, respectively, as compared to the prior year periods, as a result of the aforementioned revenue from the Napco acquisition in July 2008, as well as increased revenue resulting from market share gains and expanded products and service offerings and pricing initiatives. Gross profit margins during the three months ended December 28, 2008, increased by 80 basis points in comparison to the prior year as a result of product mix, whereas gross profit margins decreased by 150 basis points during the six months ended December 28, 2008, 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 Basket category gross profit increased during the three and six months ended December 28, 2008, by 3.7% and 7.1%, respectively, over the prior year periods, primarily as a result of the incremental gross profit generated by DesignPac, acquired in April 2008, which also had the effect of decreasing gross margin percentage as DesignPac products carry lower wholesale margins. Further negatively impacting the decreased gross profit margins during the three and six months ended December 28, 2008 was the increased promotional activity during the key holiday shopping period within the category's E-Commerce

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

and retail store sales channels, in comparison to the prior year periods.

The Home & Children's Gifts category gross profit during the three and six months ended December 28, 2008, decreased by 19.3% and 16.9%, 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 80 basis points to 48.3% and 70 basis points to 47.0%, respectively, benefiting from enhanced product sourcing.

During the remainder of fiscal year 2009, the Company expects its gross margin percentage will improve slightly in comparison to the prior year from 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, partially offset by reduced margin percentage contribution from DesignPac, which carries a lower wholesale gross margin, but a strong overall contribution margin due to its efficient high volume packaging and distribution operations.

Marketing and Sales Expense

| | Three Months Ended | | | December 28, |
|----------------------------|----------------------|----------------------|----------------|--------------|
| | December 28, 2008 | December 30, 2007 | % Change | 2008 |
| | | | | |
| | | | (in thousands) | |
| Marketing and sales | \$88,370 | \$93,594 | (5.6)% | \$131,018 |
| Percentage of net revenues | 26.8% | 28.0% | | 26.9% |

During the three and six months ended December 28, 2008, marketing and sales expenses decreased 5.6% and 3.9% respectively, and declined to 26.8% and 26.9% of net revenues, from 28.0% and 28.4% 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 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.

19

During the three and six months ended December 28, 2008, the Company added approximately 1,030,000 and 1,490,000 new E-commerce customers. Of the 2,402,000 and 3,442,000 total customers who placed E-commerce orders during the three and six months ended December 28, 2008, approximately 57.1% and 56.7% were repeat customers, compared to 54.4% and 53.9% 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

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

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, which include a 10% reduction in the Company's salaried, full-time labor force, implemented at the beginning of January 2009, as well as reductions in variable labor commensurate with lower order volumes.

Technology and Development Expense

| | Three Months Ended | | | Si |
|----------------------------|----------------------|----------------------|----------------|----------------------|
| | December 28, 2008 | December 30, 2007 | % Change | December 28, 2008 |
| | | | (in thousands) | |
| Technology and development | \$5,169 | \$5,419 | (4.6)% | \$10,839 |
| Percentage of net revenues | 1.6% | 1.6% | | 2.2% |

During the three months ended December 28, 2008, although consistent as a percentage of net revenue, technology and development expense decreased by 4.6% as a result of the Company's cost saving initiatives, which included labor and consulting costs reductions, as well as contract re-negotiations of maintenance/license agreements. During the six months ended December 28, 2008, although consistent as a percentage of net revenues, technology and development expense increased by 1.7% in comparison to the prior year period, as a result of the incremental technology and integration costs associated with the acquisitions of DesignPac and Napco.

During the three and six months ended December 28, 2008, the Company expended \$9.6 million and \$21 million on technology and development, of which \$4.4 million and \$10.3 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 | | | Si |
|----------------------------|----------------------|----------------------|----------------|----------------------|
| | December 28, 2008 | December 30, 2007 | % Change | December 28, 2008 |
| | | | (in thousands) | |
| General and administrative | \$12,136 | \$15,448 | (21.4%) | \$27,652 |
| Percentage of net revenues | 3.7% | 4.6% | | 5.7% |

General and administrative expense decreased 21.4% and 9.8% during the three and six months ended December 28, 2008, respectively, and by 90 basis points and 70 basis points of net revenues in comparison to the respective prior year periods, 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

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

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

20

administrative expenses for the remainder of fiscal 2009 will increase as a percentage of net revenues in comparison to the prior year.

Depreciation and Amortization Expense

| | Three Months Ended | | | December 28, 2008 |
|-------------------------------|----------------------|----------------------|----------|----------------------|
| | December 28, 2008 | December 30, 2007 | % Change | |
| | (in thousands) | | | |
| Depreciation and amortization | \$5,797 | \$4,967 | 16.7% | \$11,485 |
| Percentage of net revenues | 1.8% | 1.5% | | 2.4% |

Depreciation and amortization expense increased by 16.7% and 16.8% during the three and six months ended December 28, 2008, in comparison to the prior year, as a result of capital additions for technology platform improvements and the incremental amortization related to the intangibles established as a result of the acquisition of DesignPac in April 2008.

The Company believes that continued investment in its infrastructure, primarily in the areas of technology and development, including the improvement of the technology platforms, are critical to attaining its strategic objectives. 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 plan to resize this category based on the expectation 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).

Other Income (Expense)

Three Months Ended

Six Months Ended

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

| | December 28, 2008 | December 30, 2007 | December 28, 2008 | Dece 2 |
|------------------|----------------------|----------------------|----------------------|-----------|
| | (in thousands) | | | |
| Interest income | \$76 | \$295 | \$172 | |
| Interest expense | (2,507) | (1,737) | (3,666) | |
| Other | 18 | 12 | 27 | |
| | ----- | ----- | ----- | ----- |
| | (\$2,413) | (\$1,430) | (\$3,467) | (\$ |
| | ===== | ===== | ===== | ===== |

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 six months ended December 28, 2008, in comparison to the prior year periods, primarily as a result of incremental borrowings and related financing costs associated with the Company's 2008 Credit Facility (as defined below).

On August 28, 2008, the Company entered into a \$293.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2008 Credit Facility"). The 2008 Credit Facility provides for borrowings of up to \$293.0 million, including: (i) a \$165.0 million revolving credit commitment, (ii) \$60.0 million of new term loan debt, and (iii) \$68.0 million of existing term loan debt associated with the

21

Company's 2006 Credit Facility. Outstanding amounts under the 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's existing term loan and revolving credit facility will range from 1.50% to 2.50% for LIBOR loans and 0.50% to 1.50% for base rate loans, and the Company's new term loan will range from 2.00% to 3.00% for LIBOR loans and 1.00% to 2.00% for base rate loans in each case with pricing based upon the Company's leverage ratio. At closing of the 2008 Credit Facility, the Company utilized the proceeds of the new term loan to pay down amounts outstanding under its previous revolving credit facility.

Income Taxes

During the three and six months ended December 28, 2008, the Company recorded income tax expense of \$9.5 million and \$6.0 million, respectively, compared to \$12.9 million and \$9.2 million during the three and six months ended December 30, 2007. The Company's effective tax rates for the three and six months ended December 28, 2008 were 216.9% and 137.7%, respectively, compared to 40.2% and 40.5% during the comparative periods of the prior year. The effective rates during the three and six months ended December 28, 2008, reflect the impact of non-deductible goodwill and other intangible impairment charges of \$20.0 million. Excluding these charges, the effective rates during the three and six months ended December 28, 2008 would have been 39.4% and 39.3%, respectively. The adjusted effective rates during the three and six months ended December 28, 2008 and December 30, 2007, differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by various tax credits.

Liquidity and Capital Resources

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

At December 28, 2008, the Company had working capital of \$72.2 million, including cash and equivalents of \$51.1 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 \$13.6 million for the six months ended December 28, 2008 was primarily attributable to net income, adjusted for non-cash charges related to goodwill and other intangible charges (approximately \$20.0 million), and depreciation and amortization, as well as seasonal changes in working capital including higher accounts payable and accrued expenses associated with inventory purchases related to the previous and upcoming holiday periods, and increases in receivables due to the timing of customer payments related to DesignPac's wholesale business, as well as increases in inventory due to acquired businesses, and timing of purchases for the upcoming holidays.

Net cash used in investing activities of \$22.8 million for the six months ended December 28, 2008 was attributable to capital expenditures, primarily related to the Company's technology and distribution infrastructure, and the acquisition of Napco in July 2008. The purchase price of approximately \$10.9 million, includes an up-front cash payment of \$9.3 million, net of cash acquired, and potential "earn-out" incentives, which amount to a maximum of \$1.6 million through the years ending July 2, 2012, upon achievement of specified performance targets.

Net cash provided by financing activities of \$48.1 million for the six months ended December 28, 2008 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, and to provide operating flexibility, on August 28, 2008, the Company entered into a \$293.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2008 Credit Facility"). The 2008 Credit Facility provides for borrowings of up to \$293.0 million, including: (i) a \$165.0 million revolving credit commitment, (ii) \$60.0 million of new term loan debt, and (iii) \$68.0 million of existing term loan debt associated with the Company's previous credit facility. Outstanding amounts under the 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's existing term loan and revolving credit facility will range from 1.50% to 2.50% for LIBOR loans and 0.50% to 1.50% for base rate loans, and the Company's new term loan will range from 2.00% to 3.00% for LIBOR loans and 1.00% to 2.00% for base rate loans in each case with pricing based upon the Company's leverage ratio. At closing of the 2008 Credit Facility, the Company utilized the proceeds of the new term loan to pay down amounts outstanding under its previous revolving credit facility. The repayment terms of the existing term loan remain unchanged, while the new term loan is required to be repaid in equal quarterly installments of \$3.0 million beginning in December 2008, with the final installment payment due on August 28, 2013.

22

At December 28, 2008, the Company had no outstanding amounts under its revolving credit facility.

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

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

of December 28, 2008, \$13.6 million remains authorized but unused.

At December 28, 2008, 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 | \$129,330 | \$28,167 | \$65,239 | \$3 |
| Capital lease obligations | 45 | 6 | 21 | |
| Operating lease obligations | 74,656 | 13,249 | 22,897 | 1 |
| Sublease obligations | 7,293 | 1,340 | 3,387 | |
| Marketing Agreement | 12,489 | 2,489 | 10,000 | |
| Purchase commitments (*) | 20,958 | 20,958 | - | |
| Total | \$244,771 | \$66,209 | \$101,544 | \$5 |

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

Critical Accounting Policies and Estimates

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

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

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.

23

Inventory

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

Goodwill and Other Intangible Assets

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

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

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

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.

24

Recent Accounting Pronouncements

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

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

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

forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as "will," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "forecast" and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance, new products and product categories, the outcome of contingencies, such as legal proceedings, and financial results. Among the factors that could cause actual results to differ materially are the following:

- o the Company's ability:
 - o to achieve revenue and profitability;
 - o to reduce costs and enhance its profit margins;
 - o to manage the increased seasonality of its business;
 - o to effectively integrate and grow acquired companies;
 - o to cost effectively acquire and retain customers;
 - o to compete against existing and new competitors;
 - o to manage expenses associated with sales and marketing and necessary general and administrative and technology investments;
 - o to cost efficiently manage inventories; and
 - o leverage its operating infrastructure;
- o general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products; and
- o competition from existing and potential new competitors.

25

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 "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 December 28, 2008, the Company's outstanding debt, including current maturities, approximated \$118.7 million, of which \$118.6 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 six months ended December 28, 2008, 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 December 28, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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 our first and second fiscal quarters of 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, during our second fiscal quarter of 2009, and may continue to reduce our revenues, gross margins and earnings. We are currently operating in challenging macroeconomic conditions which have continued into the third quarter of fiscal 2009 and we believe may continue during the remainder of fiscal 2009 and into fiscal 2010.

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

The following table sets forth, for the months indicated, the Company's purchase of common stock during the first six months of fiscal 2009, which includes the period June 30, 2008 through December 28, 2008:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs |
|--|-------------------------------------|---------------------------------|--|
| ----- (in thousands, except average price paid per share) | | | |
| 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 | 55.1 | \$4.58 | 55.1 |
| 11/24/08 - 12/28/08 | 28.3 | \$3.23 | 28.3 |
| | ----- | ----- | ----- |
| Total | 88.9 | \$4.27 | 88.9 |
| | ===== | ===== | ===== |

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 December 28, 2008, \$13.6 remains authorized but unused.

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

The Company's Annual Meeting of Stockholders was held on December 3, 2008.

The following nominees were elected as directors, each to serve until the 2011 Annual Meeting or until their respective successors shall have been duly elected and qualified, by the vote set forth below:

| Nominee | For |
|-----------------------|-------------|
| James F. McCann | 380,510,939 |
| Christopher G. McCann | 380,521,629 |

The following Directors, who were not nominees for election at this Annual Meeting, will continue to serve on the Board of Directors of the Company: Lawrence Calcano, James Cannavino, John J. Conefry, Jr., Leonard J. Elmore, Jan L. Murley, and Jeffrey C. Walker.

The proposal to ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending June 28, 2009 was approved by the vote set forth below:

| For | Against |
|-------------|-----------|
| 380,703,500 | 2,046,847 |

There were no broker non-votes for this proposal.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 10 Amendment to Employment Agreement for James F. McCann
- 10 Amendment to Employment Agreement for Christopher G. McCann

29

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

1-800-FLOWERS.COM, Inc.
(Registrant)

Date: February 6, 2009

/s/ James F. McCann

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

Date: February 6, 2009

/s/ William E. Shea

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