

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

1 800 FLOWERS COM INC
Form 10-Q
February 05, 2010

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

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 27, 2009

or

___ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___ to ___

Commission File No. 0-26841

1-800-FLOWERS.COM, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(State of
incorporation)

11-3117311

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

One Old Country Road, Carle Place, New York 11514

(Address of principal executive offices) (Zip code)

(516) 237-6000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

26,655,662

(Number of shares of Class A common stock outstanding as of February 1, 2010)

36,858,465

(Number of shares of Class B common stock outstanding as of February 1, 2010)

1-800-FLOWERS.COM, Inc.

TABLE OF CONTENTS

	INDEX	Page

Part I.	Financial Information	
Item 1.	Consolidated Financial Statements:	
	Consolidated Balance Sheets - December 27, 2009 (Unaudited) and June 28, 2009	1
	Consolidated Statements of Operations (Unaudited) - Three and Six Months Ended December 27, 2009 and December 28, 2008	2
	Consolidated Statements of Cash Flows (Unaudited) - Six Months Ended December 27, 2009 and December 28, 2008	3
	Notes to Consolidated Financial Statements (Unaudited)	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	29
Item 4.	Controls and Procedures	30
Part II.	Other Information	
Item 1.	Legal Proceedings	31
Item 1A.	Risk Factors	31
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3.	Defaults upon Senior Securities	31
Item 4.	Submission of Matters to a Vote of Security Holders	31
Item 5.	Other Information	32
Item 6.	Exhibits	32

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 27 2009	
		(unaudited)
Assets		
Current assets:		
Cash and equivalents	\$46,389	
Receivables, net	35,467	
Inventories	43,641	
Deferred tax assets	8,415	
Prepaid and other	6,810	
Current assets of discontinued operations	12,325	

Total current assets	153,047	
Property, plant and equipment, net	52,027	
Goodwill	41,211	
Other intangibles, net	41,358	
Deferred tax assets	11,898	
Other assets	5,496	
Non-current assets of discontinued operations	6,840	

Total assets	\$311,877	=====
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$73,276	
Current maturities of long-term debt and capital leases	24,086	
Current liabilities of discontinued operations	9,545	

Total current liabilities	106,907	
Long-term debt and capital leases	57,717	
Other liabilities	2,552	
Non-current liabilities of discontinued operations	1,288	

Total liabilities	168,464	
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 31,895,062 and 31,730,404 shares issued at December 27, 2009 and June 28, 2009, respectively	319	
Class B common stock, \$.01 par value, 200,000,000 shares authorized; 42,138,465 shares issued at December 27, 2009 and June 28, 2009	421	
Additional paid-in capital	283,461	
Retained deficit	(108,228)	
Accumulated other comprehensive loss, net of tax	(276)	

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

Treasury stock, at cost - 5,226,443 and 5,122,225 Class A shares at December 27, 2009 and June 28, 2009, respectively and 5,280,000 Class B shares

(32,284)

Total stockholders' equity

143,413

Total liabilities and stockholders' equity

\$311,877

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 27, 2009	December 28, 2008
Net revenues	\$238,454	\$251,571
Cost of revenues	138,791	150,858
Gross profit	99,663	100,713
Operating expenses:		
Marketing and sales	51,976	54,560
Technology and development	4,525	4,781
General and administrative	14,673	10,929
Depreciation and amortization	5,343	5,094
Total operating expenses	76,517	75,364
Operating income	23,146	25,349
Other income (expense):		
Interest income	11	73
Interest expense	(1,985)	(2,507)
Other	13	14
Total other income (expense), net	(1,961)	(2,420)
Income from continuing operations before income taxes	21,185	22,929
Income tax expense from continuing operations	8,452	8,973
Income from continuing operations	12,733	13,956
Operating income (loss) from discontinued operations (including loss on disposal of \$3.3 million during the three and six months ended December 27, 2009 and impairment charges of \$20.0 million during the three and six months ended December 28, 2008)	3,795	18,559
Income tax expense (benefit) from discontinued operations	1,225	508
Income (loss) from discontinued operations	2,570	(19,067)
Net income (loss)	\$15,303	(\$5,111)

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

Basic and diluted net income (loss) per common share:		
From continuing operations	\$0.20	\$0.22
From discontinued operations	0.04	(0.30)
Net Income (loss) per common share	\$0.24	(\$0.08)
Weighted average shares used in the calculation		
of net income (loss) per common share		
Basic	63,555	63,631
Diluted	64,070	64,180

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 27, 2009
Operating activities:	
Net income (loss)	\$8,028
Reconciliation of net income (loss) to net cash provided by operating activities:	
Operating activities of discontinued operations	12,668
Depreciation and amortization	10,289
Deferred taxes	4,251
Loss on disposal of assets and other	3,289
Stock-based compensation	2,216
Bad debt expense	984
Other non-cash items	180
Impairment from discontinued operations	-
Changes in operating items, excluding the effects of acquisitions:	
Receivables	(25,116)
Inventories	2,213
Prepaid and other	(2,230)
Accounts payable and accrued expenses	19,816
Other assets	(115)
Other liabilities	12
Net cash provided by operating activities	36,485
Investing activities:	
Acquisitions, net of cash acquired	-
Proceeds from sale of business	-
Capital expenditures	(6,070)
Purchase of investment	(598)
Other, net	(1,091)
Investing activities of discontinued operations	(509)

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

Net cash used in investing activities	(8,268)
Financing activities:	
Acquisition of treasury stock	(338)
Proceeds from employee stock options	-
Proceeds from bank borrowings	49,000
Repayment of notes payable and bank borrowings	(59,175)
Debt issuance cost	-
Repayment of capital lease obligations	(877)
Financing activities of discontinued operations	-

Net cash (used in) provided by financing activities	(11,390)

Net change in cash and equivalents	16,827
Cash and equivalents:	
Beginning of period	29,562

End of period	\$46,389
	=====

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 27, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending June 27, 2010.

The balance sheet information at June 28, 2009 has been derived from the audited financial statements at that date, but does not include all information or notes necessary for a complete presentation.

Accordingly, 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 28, 2009.

References in this Quarterly Report on Form 10-Q to "authoritative guidance" are to the Accounting Standards Codification issued by the Financial Accounting Standards Board ("FASB") in June 2009.

Subsequent events have been evaluated through the filing date (February 5, 2010)

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

of these unaudited consolidated financial statements.

Use of Estimates

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

Comprehensive Income (Loss)

For the three and six months ended December 27, 2009 and December 28, 2008, the Company's comprehensive income were as follows:

	Three Months Ended	
	December 27, 2009	December 28, 2008
		(in thousands)
Net income (loss)	\$15,303	(\$5,111)
Change in fair value of cash flow hedge, net of tax	3	-
Comprehensive income (loss)	\$15,306	(\$5,111)
	=====	=====

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

Recent Accounting Pronouncements

In June 2009, the FASB issued authoritative guidance to establish the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The Codification, which changes the referencing of financial standards, supersedes current authoritative guidance and is effective for the Company's interim reporting beginning June 29, 2009. The Codification is not intended to change or alter existing GAAP and is not expected to result in a change in accounting practice for the Company.

In April 2009, the FASB issued authoritative guidance for business combinations that amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance requires such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, entities would typically account for the acquired contingencies in accordance with authoritative guidance for contingencies. The guidance became effective for the

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

Company's business combinations for which the acquisition date is on or after June 29, 2009. The Company did not complete any business combinations during the three and six months ended December 27, 2009, and the effect on future periods will depend on the nature and significance of business combinations subject to this guidance.

In April 2009, the FASB issued authoritative guidance to increase the frequency of fair value disclosures of financial instruments, thereby enhancing consistency in financial reporting. The guidance relates to fair value disclosures for any financial instruments that are not currently reflected on a company's balance sheet at fair value. Prior to the effective date of this guidance, fair values for these assets and liabilities have only been disclosed once a year. The guidance now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The Company adopted the disclosure requirements under this guidance with an effective date of June 29, 2009. The implementation did not have a material impact on the Company's financial position, results of operations or cash flows as it is disclosure-only in nature.

In April 2008, the FASB issued authoritative guidance for general intangibles other than goodwill, amending factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This guidance is effective for the Company for intangible assets acquired on or after June 29, 2009. The adoption did not have a material impact on the Company's results of operations, financial position or cash flows.

Reclassifications

Certain balances in the prior fiscal years have been reclassified to conform with the presentation in the current fiscal year. As a result of the Company's decision to dispose of its Home & Children's Gifts businesses, this segment has been accounted for as a discontinued operation and the prior periods have been reclassified to conform to the current period presentation. During the second quarter of fiscal 2010, the Company launched its 1-800-Baskets brand. Products within this business are now being managed within the Gourmet Food & Gift Baskets segment, resulting in a change to our reportable segment structure. Gift basket products, formerly included in the Consumer Floral reportable segment are now included in the Gourmet Food & Gift Baskets segment. These changes have been reflected in the Company's segment reporting for all periods presented.

5

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

Note 2 - Net Income (Loss) Per Common Share

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

Three Months Ended	
December 27, 2009	December 28, 2008

(in thousands except

Numerator:

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

Net income (loss)	\$15,303	(\$5,111)
	=====	=====
Denominator:		
Weighted average shares outstanding	63,555	63,631
Effect of dilutive securities:		
Employee stock options (1)	6	251
Employee restricted stock awards	509	298
	-----	-----
	515	549
	-----	-----
Adjusted weighted-average shares and assumed conversions	64,070	64,180
	=====	=====
Net income (loss) per common share (basic)	\$0.24	(\$0.08)
	=====	=====
Net income (loss) per common share (diluted)	\$0.24	(\$0.08)
	=====	=====

Basic net loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive common equivalent shares (consisting of employee stock options and unvested restricted stock awards) outstanding during the period.

- (1) The effect of options to purchase 8.4 million and 8.5 million during the three and six months ended December 27, 2009 and 7.0 million and 6.2 million shares during the three and six months ended December 28, 2008, respectively, were excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.

Note 3 - Stock-Based Compensation

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 11 to the consolidated financial statements included in the Company's 2009 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 27, 2009	December 28, 2008	December 28, 2007
	-----	-----	-----
	(in thousands)		
Stock options	\$551	\$369	
Restricted stock awards	612	(1,411)	
	-----	-----	-----
Total	1,163	(1,042)	
Deferred income tax benefit	380	453	
	-----	-----	-----
Stock-based compensation expense, net	\$783	(\$589)	
	=====	=====	=====

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

6

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

During the three months ended December 28, 2008, as a result of the Company's performance due to the weakness in the retail economy, the Company reversed previously accrued long-term incentive equity awards as the goals that were established in order to vest the awards were determined to be no longer achievable.

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

	Three Months Ended		
	December 27, 2009	December 28, 2008	December 28, 2007
			(in thousands)
Marketing and sales	\$465	(\$649)	
Technology and development	233	118	
General and administrative	465	(511)	
Total	\$1,163	(\$1,042)	

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 27, 2009	December 28, 2008	December 28, 2007
			(in thousands)
Weighted average fair value of options granted	\$1.89	\$1.72	
Expected volatility	63.0%	43.0%	
Expected life	5.6 yrs	6.4 yrs	
Risk-free interest rate	2.41%	2.75%	
Expected dividend yield	0.0%	0.0%	

The following table summarizes stock option activity during the three and six months ended December 27, 2009:

	Options	Weighted Average Exercise Price	Weighted Average Remainin Contractu Term
Outstanding at June 28, 2009	8,916,672	\$7.52	
Granted	235,000	\$3.07	
Exercised	-	-	
Forfeited	(922,693)	\$16.08	

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

Outstanding at December 27, 2009	8,228,978	\$6.43	3.8 years
Options vested or expected to vest at December 27, 2009	8,007,889	\$6.51	3.7 years
Exercisable at December 27, 2009	6,147,511	\$7.23	2.8 years

As of December 27, 2009, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$2.8 million and the weighted average period over which these awards are expected to be recognized was 2.5 years.

7

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

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 (Restricted Stock Awards). The following table summarizes the activity of non-vested restricted stock awards during the three and six months ended December 27, 2009:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at June 28, 2009	1,700,912	\$4.62
Granted	321,122	\$4.48
Vested	(164,658)	\$5.88
Forfeited	(18,681)	\$6.88
Non-vested at December 27, 2009	1,838,695	\$4.46

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of December 27, 2009, there was \$4.4 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.0 years.

Note 4 - Acquisitions

The Company accounts for its business combinations using the purchase method of accounting. Under the purchase method of accounting for business combinations, the aggregate purchase price for the acquired business is allocated to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. Operating results of the acquired entities are reflected in the Company's consolidated financial statements from date of acquisition.

Acquisition of 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 \$9.4 million included the acquisition of a fulfillment center located in Jacksonville, FL, inventory, and certain other assets, as well as the assumption of certain

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

related liabilities, including their seasonal line of credit of approximately \$4.0 million. The acquisition was financed utilizing a combination of available cash on hand and through borrowings under the Company's revolving credit facility. The purchase price includes an up-front cash payment of \$9.3 million, net of cash acquired, and the expected portion of "earn-out" incentives, which amounted to a maximum of \$1.6 million through the years ending July 2, 2012, upon achievement of specified performance targets. As of December 27, 2009, the Company does not expect that any of the specified performance targets will be achieved.

8

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

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

	(in thousands)
Current assets	\$5,119
Property, plant and equipment	3,929
Intangible assets	397
Other	74

Total assets acquired	9,519

Current liabilities	162

Total liabilities assumed	162

Net assets acquired	\$9,357
	=====

Acquisition of Geerlings & Wade

On March 25, 2009, the Company acquired selected assets of Geerlings & Wade, Inc., a retailer of wine and related products. The purchase price of approximately \$2.6 million included the acquisition of inventory, and certain other assets (approximately \$1.4 million of goodwill is deductible for tax purposes), as well as the assumption of certain related liabilities. The acquisition was financed utilizing available cash on hand.

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 Geerlings & Wade:

Geerlings &

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

	Wade Purchase Price Allocation

	(in thousands)
Current assets	\$990
Intangible assets	253
Goodwill	1,440

Total assets acquired	2,683

Current liabilities	77

Total liabilities assumed	77

Net assets acquired	\$2,606
	=====

9

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

Pro forma Results of Operation

The following unaudited pro forma consolidated financial information has been prepared as if the acquisitions of Napco and Geerlings & Wade had taken place at the beginning of fiscal year 2009. The following unaudited pro forma information is not necessarily indicative of the results of operations in future periods or results that would have been achieved had the acquisitions taken place at the beginning of the periods presented.

	Three Months Ended	
	December 27, 2009	December 28, 2008

	(in thousands, except per share amounts)	
Net revenues from continuing operations	\$238,454	\$253,033
Operating income from continuing operations	23,146	25,644
Income from continuing operations	12,733	14,210
Income per common share from continuing operations		
Basic	\$0.20	\$0.22
Diluted	\$0.20	\$0.22

Note 5 - Inventory

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

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 2009

	(in thousands)
Finished goods	\$21,9
Work-in-process	15,5
Raw materials	6,1

	\$43,6
	=====

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	Gourm Food Gift Ba
	-----	-----	-----
	(in thousands)		
Balance at June 28, 2009	\$5,728	\$-	\$35,4
Acquisition adjustment	-	-	-
	-----	-----	-----
Balance at December 27, 2009	\$5,728	\$-	\$35,4
	=====	=====	=====

10

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

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

		December 27, 2009			
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount
		-----	-----	-----	-----
		(in thousands)			
Intangible assets with determinable lives					
Investment in licenses	14 - 16 years	\$5,314	\$5,062	\$252	\$5,314
Customer lists	3 - 10 years	15,695	5,722	9,973	15,695
Other	5 - 8 years	2,388	1,156	1,232	2,388
		-----	-----	-----	-----
		23,397	11,940	11,457	23,397

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

Trademarks with indefinite lives	-	29,901	-	29,901	29,881
		-----	-----	-----	-----
Total identifiable intangible assets		\$53,298	\$11,940	\$41,358	\$53,278
		=====	=====	=====	=====

Future estimated amortization expense is as follows: remainder of fiscal 2010 - \$1.8 million, fiscal 2011 - \$2.2 million, fiscal 2012 - \$1.6 million, and fiscal 2013 - \$1.4 million, and thereafter - \$4.5 million.

Note 7 - Long-Term Debt

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

	December 2009

	(
Term loan (1)	\$77,1
Revolving line of credit (1)	
Obligations under capital leases (2)	4,6

	81,8
Less current maturities of long-term debt and obligations under capital leases	24,0

	\$57,7
	=====

- (1) In order to fund the increase in working capital requirements associated with DesignPac which was acquired on April 30, 2008, on August 28, 2008, the Company entered into a \$293.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank N.A., as administrative agent, and a group of lenders (the "2008 Credit Facility"). The 2008 Credit Facility provided for borrowings of up to \$293.0 million, including: (i) a \$165.0 million revolving credit commitment, (ii) \$60.0 million of new term loan debt, and (iii) \$68.0 million of existing term loan debt associated with the Company's previous credit facility.

On April 14, 2009, the Company entered into an amendment to the 2008 Credit Facility (the "Amended 2008 Credit Facility"). The Amended 2008 Credit Facility included a prepayment of \$20.0 million, reducing the Company's outstanding term loans under the facility to \$92.4 million

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

upon closing. In addition, the amendment reduced the Company's revolving credit line from \$165.0 million to a seasonally adjusted line ranging from \$75.0 to \$125.0 million. The Amended 2008 Credit Facility, effective March 29, 2009, also revises certain financial and non-financial covenants, including maintenance of certain financial ratios and eliminates the consolidated net worth covenant that had been included in the previous agreement.

Outstanding amounts under the Amended 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's term loans and revolving credit facility will range from 3.00% to 4.50% for LIBOR loans and 2.00% to 3.50% for ABR loans with pricing based upon the Company's leverage ratio. The repayment terms of the existing term loans were reduced, on a pro-rata basis, for the \$20.0 million prepayment. The obligations of the Company and its subsidiaries under the Amended 2008 Credit Facility are secured by liens on all personal property of the Company and its subsidiaries.

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

The Company does not enter into derivative transactions for trading purposes, but rather to hedge its exposure to interest rate fluctuations. The Company manages its floating rate debt using interest rate swaps in order to reduce its exposure to the impact of changing interest rates on its consolidated results of operations and future cash outflows for interest.

In July 2009, the Company entered into a \$45.0 million notional amount swap agreement that exchanges a variable interest rate (LIBOR) for a 1.92% fixed rate of interest over the term of the agreement. This swap matures on July 25, 2012. The Company has designated this swap as a cash flow hedge of the interest rate risk attributable to forecasted variable interest (LIBOR) payments. The effective portion of the after tax fair value gains or losses on these swaps is included as a component of accumulated other comprehensive loss. The ineffective portion, if any, is recorded within interest expense in the consolidated statement of operations.

Note 8-Fair Value Measurements

Effective June 30, 2008, the Company adopted authoritative guidance for fair value measurement and disclosure provisions of fair value measurements of financial and nonfinancial assets and liabilities that were already subject to fair value measurements under current accounting rules. This guidance also required expanded disclosures related to fair value measurements.

On June 29, 2009, the Company adopted the newly issued accounting standard for fair value measurements of all non-financial assets and liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis. The Company's non-financial assets, such as goodwill, intangible assets, and property, plant and equipment, are recorded at cost and are assessed for impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. Goodwill and indefinite lived intangibles are also tested for impairment annually, as required under the accounting standards.

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

Cash and cash equivalents, trade accounts receivable, income tax receivable, trade accounts payable and accrued expenses are reflected in the consolidated balance sheets at carrying value, which approximates fair value due to the short-term nature of these instruments.

The authoritative guidance for fair value measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the guidance are described below:

- Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
- Level 3 Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company's interest rate swap, which is included in other liabilities in the consolidated balance sheet:

		Fair Value Measurements	
		Assets (Liabilities)	
	Total as of December 27, 2009	Level 1	Level 2
Interest rate swap (1)	\$ (448)	-	(in thousands) \$ (448)

(1) Included in other long-term liabilities on the consolidated balance sheet.

The following presents the balances and net changes in the accumulated other comprehensive loss related to this interest rate swap, net of income taxes.

Interest Rate
 Swap

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

(in thousand)

Balance at the beginning of the period	\$ -
Amount reclassified to interest expense, net of tax benefit of \$63	89
Net change in fair value of interest rate swap, net of tax benefit of \$235	(365)

Balance at end of period	\$ (276)

13

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

Note 9 - Income Taxes

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. This estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The Company's effective tax rates from continuing operations for the three and six months ended December 27, 2009 was 39.9% and 40.6%, respectively, compared to 39.1% in the prior year periods. These effective rates differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by various tax credits.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is currently under examination by the Internal Revenue Service for its fiscal 2007 tax year, however fiscal 2006 through fiscal 2008 remain subject to examination, with the exception of certain states where the statute remains open from fiscal 2004, due to non-conformity with the federal statute of limitations for assessment. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

Note 10 - Business Segments

The Company's management reviews the results of the Company's operations by the following three business categories:

- o 1-800-Flowers.com Consumer Floral;
- o BloomNet Wire Service; and
- o Gourmet Food and Gift Baskets

During the fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets categories. On January 25, 2010, the Company completed the sale of these businesses; refer to the footnote "Subsequent Event" below for a further discussion. Consequently, the Company has classified the results of operations of its Home & Children's Gifts segment, which includes Home Decor and Children's Gifts from Plow & Hearth(R), Wind & Weather(R), HearthSong(R) and Magic

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

Cabin(R), as discontinued operations for all periods presented.

Category performance is measured based on contribution margin, which includes only the direct controllable revenue and operating expenses of the categories. As such, management's measure of profitability for these categories does not include the effect of corporate overhead (see (*) below), which are operated under a centralized management platform, providing services throughout the organization, nor does it include stock-based compensation, depreciation and amortization, goodwill and intangible impairment, other income (net), and income taxes. Assets and liabilities are reviewed at the consolidated level by management and not accounted for by category.

	Three Months Ended		Six
	December 27, 2009	December 28, 2008	December 2009
Net revenues			
(in thousands)			
Net revenues:			
1-800-Flowers.com Consumer Floral	\$85,890	\$90,113	\$155,89
BloomNet Wire Service	14,753	15,143	28,53
Gourmet Food & Gift Baskets	138,207	147,787	162,94
Corporate (*)	126	597	25
Intercompany eliminations	(522)	(2,069)	(86
Total net revenues	\$238,454	\$251,571	\$346,77

14

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

	Three Months Ended		
	December 27, 2009	December 28, 2008	De
Operating Income			
(in thousands)			
Category Contribution Margin:			
1-800-Flowers.com Consumer Floral	\$7,578	\$7,975	
Bloomnet Wire Service	4,691	4,753	
Gourmet Food & Gift Baskets	28,616	26,743	
Category Contribution Margin Subtotal	40,885	39,471	
Corporate (*)	(12,396)	(9,028)	
Depreciation and amortization	(5,343)	(5,094)	
Operating income (loss)	\$23,146	\$25,349	

(*) 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

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

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

Note 11. Discontinued Operations

During the fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets categories. On January 25, 2010, the Company completed the sale of these businesses; refer to the footnote "Subsequent Event" below for a further discussion. Consequently, the Company has classified the results of operations of its Home & Children's Gifts segment as discontinued operations for all periods presented.

Results for discontinued operations are as follows:

	Three Months Ended		Six
	December 27, 2009	December 28, 2008	December 27, 2009
	(in thousands)		
Net revenues from discontinued operations	\$64,334	\$77,757	\$81,6
Operating income (loss) from discontinued operations (including loss on disposal of \$3.3 million during the three and six months ended December 27, 2009 and impairment charges of \$20.0 million during the three and six months ended December 28, 2008)	3,795	18,559	1,1
Income tax expense (benefit) from discontinued operations	1,225	508	1
Income (loss) from discontinued operations	2,570	(19,067)	9

15

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

Assets and liabilities of discontinued operations are as follows:

December 27,
2009

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

(in thousands)

Assets of discontinued operations	
Receivables, net	\$2,118
Inventories	7,930
Prepaid and other	2,277

Current assets of discontinued operations	12,325
Property, plant and equipment, net	6,079
Other intangibles, net	666
Other assets	95

Non-current assets of discontinued operations	6,840

Total assets of discontinued operations	\$19,165
	=====
Liabilities of discontinued operations	
Accounts payable and accrued expenses	\$9,545

Current liabilities of discontinued operations	9,545
Non-current liabilities of discontinued operations	1,288

Total liabilities of discontinued operations	\$10,833
	=====

Note 12 - Commitments and Contingencies

Legal Proceedings

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

On December 21, 2007, Plaintiff, Thomas Molnar, on behalf of himself and a putative class, filed suit against the Company claiming false advertising, unfair business practices, and unjust enrichment seeking unspecified monetary damages. The Company has admitted no wrongdoing with respect to this matter, but has chosen to enter into a settlement agreement with the parties to this matter in order to avoid protracted litigation. The presiding trial Judge has given preliminary approval to the settlement, and the Company has sent out the applicable notices to the class members. As a result, the Company has accrued for the estimated cost of the settlement of approximately \$0.9 million within its general and administrative expenses during the three months ended December 27, 2009.

Note 13 - Subsequent Event

Sale of Home & Children's Gifts Business

On January 25, 2010, the Company completed the sale of the assets and certain related liabilities of its Home & Children's Gifts business to PH International, LLC. Included in the sale were the Plow & Hearth, Problem Solvers, Wind & Weather, HearthSong and Magic Cabin brands, as well as the administrative and distribution center in Madison, VA, and a distribution center in Vandalia, OH. The sales price of the assets was \$17.0 million, subject to adjustments for changes in working capital. During the three months ended December 27, 2009, the Company recorded a loss of \$3.3 million, including transaction, severance and transition obligations, which is in addition to the \$14.7 million write-down that the Company recorded during the three months ended June 28, 2009.

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 or referred to 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 Factors That May Affect Future Results" 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(R) (1-800-356-9377 or www.1800flowers.com) 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. As always, 100% satisfaction is guaranteed. 1-800-FLOWERS.COM has earned the 2009 Gold Award in the Online Flower Delivery category from Top Ten REVIEWS; was listed as a TOP TEN MOBILE RETAILER by Internet Retailer magazine in 2009; and was recognized by Computerworld magazine as a Premier 100 IT Leader for 2010. 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(R) confections brands (www.fanniemay.com and www.harrylondon.com); wine gifts from Ambrosia(R) (www.ambrosia.com) and Geerlings&Wadesm (www.geerwade.com); gift baskets from 1-800-BASKETS.COM(R) (www.1800baskets.com) as well as Celebrations(R) (www.celebrations.com), a new premier online destination for fabulous party ideas and planning tips. 1-800-FLOWERS.COM, Inc. is involved in a broad range of corporate social responsibility initiatives including continuous expansion and enhancement of its environmentally-friendly "green" programs, various philanthropic and charitable efforts and special private-sector skills training programs for military veterans.

During the fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets categories. On January 25, 2010, the Company completed the sale of these businesses; refer to Note 13 to the Consolidated Financial Statements "Subsequent Event" for a further discussion. Consequently, the Company has classified the results of operations of its Home & Children's Gifts segment, which includes Home Decor and Children's Gifts from Plow & Hearth(R) (1-800-627-1712 or www.plowandhearth.com), Wind & Weather(R) (www.windandweather.com), HearthSong(R) (www.hearthsong.com) and Magic Cabin(R) (www.magiccabin.com), as discontinued operations for all periods presented.

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

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

ticker symbol: FLWS.

17

Category Information

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. (As noted previously, the Company's Home & Children's Gifts segment has been classified as discontinued operations and therefore excluded from category information below).

	Three Months Ended			December 28, 2009
	December 27, 2009	December 28, 2008	% Change	
	(in thousands)			
Net revenues from continuing operations:				
1-800-Flowers.com Consumer Floral	\$85,890	\$90,113	(4.7%)	\$155,890
BloomNet Wire Service	14,753	15,143	(2.6%)	28,896
Gourmet Food & Gift Baskets	138,207	147,787	(6.5%)	162,094
Corporate (*)	126	597	(78.9%)	723
Intercompany eliminations	(522)	(2,069)	74.8%	1,547
Total net revenues from continuing operations	\$238,454	\$251,571	(5.2%)	\$346,150

	Three Months Ended			December 28, 2009
	December 27, 2009	December 28, 2008	% Change	
	(in thousands)			
Gross Profit:				
1-800-Flowers.com Consumer Floral	\$32,856	\$33,416	(1.7%)	\$58,712
	38.3%	37.1%		37.1%
BloomNet Wire Service	8,569	8,766	(2.2%)	16,515
	58.1%	57.9%		58.1%
Gourmet Food & Gift Baskets	58,132	58,816	(1.2%)	67,908
	42.1%	39.8%		41.8%
Corporate (*)	106	168	(36.9%)	2,091
	84.1%	28.1%		79.1%
Intercompany eliminations	-	(453)		453
Total gross profit	\$99,663	\$100,713	(1.0%)	\$143,489
	41.8%	40.0%		41.8%

Three Months Ended

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

	December 27, 2009	December 28, 2008	% Change	December 2009
				(in thousands)
EBITDA (**) from continuing operations:				
1-800-Flowers.com Consumer Floral	\$7,578	\$7,975	(5.0%)	\$15,2
BloomNet Wire Service	4,691	4,753	(1.3%)	8,7
Gourmet Food & Gift Baskets	28,616	26,743	7.0%	25,4
Category Contribution Margin Subtotal	40,885	39,471	3.6%	49,4
Corporate (*)	(12,396)	(9,028)	(37.3%)	(23,7
EBITDA from continuing operations	\$28,489	\$30,443	(6.4%)	\$25,6

	Three Months Ended			
	December 27, 2009	December 28, 2008	% Change	December 2009
				(in thousands)
Discontinued Operations:				
Net revenues from discontinued operations	\$64,334	\$77,757	(17.3%)	\$81,6
Gross Profit from discontinued operations	31,158	37,579	(17.1%)	38,7
Operating expense of discontinued operations,				
excluding depreciation and amortization	23,577	35,406	(33.4%)	33,2
Contribution margin from discontinued operations	7,581	2,173	248.9%	5,4

18

(*) 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

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

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

Reconciliation of Net Income from Continuing Operations to EBITDA from continuing operations:

	Three Months Ended		
	December 27, 2009	December 28, 2008	
Operating Income			
			(in thousands)
Net income from continuing operations	\$12,733	\$13,956	
Add:			
Interest expense	1,985	2,507	
Depreciation and amortization	5,343	5,094	
Income tax expense	8,452	8,973	
Less:			
Interest income	11	73	
Other income (expense)	13	14	
EBITDA from continuing operations	\$28,489	\$30,443	

Results of Operations

Net Revenues

	Three Months Ended			Six Mo	
	December 27, 2009	December 28, 2008	% Change	December 27, 2009	Decemb 200
					(in thousands)
Net revenues:					
E-Commerce	\$151,660	\$157,085	(3.5%)	\$226,500	\$2
Other	86,794	94,486	(8.1%)	120,270	1
Total net revenues	\$238,454	\$251,571	(5.2%)	\$346,770	\$3

During the three and six months ended December 27, 2009, revenues declined by 5.2% and 10.4% over the respective prior year periods, resulting from continued weakness in the retail economy which contributed to lower wholesale order volume from DesignPac Gifts, which is included within the Company's Gourmet Food & Gift

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

Baskets business, combined with lower demand within the 1-800-Flowers Consumer Floral business and from weakness in wholesale product sales within the BloomNet WireService business.

The Company fulfilled approximately 2,960,000 and 4,192,000 orders through its E-commerce sales channels (online and telephonic sales) during the three and six months ended December 27, 2009, representing growth of 0.4% and a decline of 3.1%, in comparison to the same periods of the prior year. The Company's E-commerce average order value of \$51.23 and \$54.03 during the three and six months ended December 27, 2009, respectively, decreased by 3.8% and 4.6% over the respective prior year periods, reflecting the consumers' preference for lower price-point product.

Other revenues decreased during the three and six months ended December 27, 2009 primarily as a result of the aforementioned decline related to DesignPac's lower wholesale orders, as well as lower revenue from floral wholesale product sales within the Company's BloomNet Wire Service category.

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 27, 2009 decreased by 4.7% and 10.2% over the respective prior year periods, as a result of lower order volume due to soft consumer demand caused by the weakened economy. Although the Company continued to experience declines within the consumer floral category, trends are improving as revenue within the segment declined 4.7% during the fiscal second quarter, after several consecutive quarters of double-digit declines.

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 27, 2009 decreased by 2.6% and 6.5% over the respective prior year periods, primarily as a result of decreased wholesale product revenues as florists scaled back purchases as a result of the weakness in the retail economy.

The Gourmet Food & Gift Basket category includes the operations of 1-800-Baskets, Cheryl & Co., Fannie May, The Popcorn Factory, The Winetasting Network and DesignPac businesses. 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. During the fiscal second quarter, the Company launched a new co-branded website which featured the 1-800-BASKETS.COM(R) brand, a re-merchandised collection of gourmet gift baskets confected by DesignPac. Prior year revenues from gourmet gift baskets, which were previously included within the 1-800-Flowers.com Consumer Floral category, have been reclassified to conform with current year presentation. Net revenue during the three and six months ended December 27, 2009 decreased by 6.5% and 11.7% over the respective prior year periods, primarily reflecting reduced wholesale orders for DesignPac's wholesale baskets.

The Company expects continued cautious spending by consumers. Based on this outlook and the decline during the first half of fiscal 2010, the Company anticipates that revenues for fiscal year 2010 will be down approximately five to ten percent compared with the prior year.

Gross Profit

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

	Three Months Ended			Six Mo	
	December 27, 2009	December 28, 2008	% Change	December 27, 2009	Decemb 200
	(In thousands)				
Gross profit	\$99,663	\$100,713	(1.0%)	\$143,417	\$1
Gross margin %	41.8%	40.0%		41.4%	

Gross profit consists of net revenues less cost of revenues, which is comprised primarily of florist fulfillment costs (primarily fees paid directly to florists), the cost of floral and non-floral merchandise sold from inventory or through third parties, and associated costs including inbound and outbound shipping charges. Additionally, cost of revenues include labor and facility costs related to direct-to-consumer and wholesale production operations.

Gross profit decreased during the three and six months ended December 27, 2009, due to the decline in revenues described above, while gross margin percentage increased 180 and 190 basis points, respectively as a result of reduced reliance on promotional pricing, and product mix, reflecting the impact of lower wholesale revenues from DesignPac, as well as improved manufacturing and supply chain operating efficiencies.

20

The 1-800-Flowers.com Consumer Floral category gross profit decreased during the three and six months ended December 27, 2009 by 1.7% and 9.8%, respectively, over the prior year periods, as a result of a lower sales volume, while the gross profit margin percentage increased 120 and 20 basis points, respectively, driven primarily by supply chain improvements, pricing mix, and more strategic use of promotional pricing during the fiscal second quarter.

The BloomNet Wire Service category gross profit decreased during the three and six months ended December 27, 2009 by 2.2% and 3.0%, respectively, over the prior year periods, as a result of the aforementioned decline of wholesale product revenue, while gross profit margins increased by 20 and 210 basis points, respectively, reflecting the impact of product mix and pricing initiatives.

The Gourmet Food & Gift Basket category gross profit decreased during the three and six months ended December 27, 2009 by 1.2% and 4.1%, respectively, over the prior year periods, as a result of the aforementioned lower wholesale basket revenue from DesignPac. Gross margin percentage increased by 230 and 330 basis points, respectively, reflecting the reduction in lower margin DesignPac sales volume, as well as improved gross margins resulting from manufacturing efficiencies and reduced promotional pricing across all other businesses within the category.

During the remainder of fiscal 2010, the Company expects its gross margin percentage will improve slightly in comparison to fiscal 2009 as a result of a shift in product mix and anticipated gross margin improvements in most of its businesses resulting from product sourcing, supply chain improvements and manufacturing and operating efficiencies.

Marketing and Sales Expense

	Three Months Ended		Six Mo	
	December 27,	December 28,	December 27,	Decemb

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

	2009	2008	% Change	2009	2008
	-----	-----	-----	-----	-----
	(In thousands)				
Marketing and sales	\$51,976	\$54,560	(4.7%)	\$81,452	\$81,452
Percentage of net revenues	21.8%	21.7%		23.5%	23.5%

Marketing and sales expense consists primarily of advertising and promotional expenditures, catalog costs, online portal and search costs, retail store and fulfillment operations (other than costs included in cost of revenues) and customer service center expenses, as well as the operating expenses of the Company's departments engaged in marketing, selling and merchandising activities.

During the three and six months ended December 27, 2009, marketing and sales expense decreased by 4.7% and 6.0% respectively, as a result of a number of cost-reduction initiatives, including savings in catalog printing and co-mailing costs, planned reductions in customer prospecting, as well as overall reductions in advertising programs as their effectiveness declines during periods of soft consumer demand and the reduction in variable costs associated with the decline in revenue. Marketing and selling expense increased as a percentage of sales during the three and six months ended December 27, 2009, primarily as a result of sales mix caused by the reduction of wholesale basket products by DesignPac which earn lower product margins, but also operate with a low level of marketing and sales expense, and the accrual of performance based compensation expense during the current quarter compared with the reversal of previously accrued performance based compensation expense during the prior year periods.

During the three and six months ended December 27, 2009 the Company added approximately 656,000 and 1,007,000 new E-commerce customers, respectively. Of the 656,000 and 2,447,000 total customers who placed E-commerce orders during the three and six months ended December 27, 2009, approximately 60.4% and 58.9%, respectively, represented repeat customers, compared to 59.7% and 58.0% during the respective prior year periods.

During the remainder of fiscal 2010, the Company expects that marketing and sales expense, while varying from quarter to quarter due to the seasonal nature of the Company's business, will increase slightly in comparison to the prior year, but will remain relatively consistent with prior year as a percentage of net revenues.

21

Technology and Development Expense

	Three Months Ended			Six Months Ended	
	December 27, 2009	December 28, 2008	% Change	December 27, 2009	December 28, 2008
	-----	-----	-----	-----	-----
	(In thousands)				
Technology and development	\$4,525	\$4,781	(5.4%)	\$9,081	\$9,081
Percentage of net revenues	1.9%	1.9%		2.6%	2.6%

Technology and development expense consists primarily of payroll and operating expenses of the Company's information technology group, costs associated with its web sites, including hosting, design, content development and maintenance

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

and support costs related to the Company's order entry, customer service, fulfillment and database systems.

During the three and six months ended December 27, 2009, technology and development expense decreased by 5.4% and 7.8%, respectively, as compared to the prior year periods, as a result of decreased labor/consulting costs due to re-sizing initiatives, as well as a reduction in the number of hosting sites and footprint. During the three and six months ended December 27, 2009, the Company expended \$7.0 million and \$13.3 million, respectively, on technology and development, of which \$2.5 million and \$4.2 million, respectively, has been capitalized.

The Company believes that continued investment in technology and development is critical to attaining its strategic objectives, however, based on reduced hosting and other costs expects that its spending for the remainder of fiscal 2010 will decrease both in terms of dollars spent, and as a percentage of net revenues, in comparison to the prior year.

General and Administrative Expense

	Three Months Ended			Six Mo	
	December 27, 2009	December 28, 2008	% Change	December 27, 2009	Decemb 200
	(In thousands)				
General and administrative	\$14,673	\$10,929	34.3%	\$27,207	\$2
Percentage of net revenues	6.2%	4.3%		7.8%	

General and administrative expense consists of payroll and other expenses in support of the Company's executive, finance and accounting, legal, human resources and other administrative functions, as well as professional fees and other general corporate expenses.

General and administrative expense during the three and six months ended December 27, 2009 increased by 34.3% and 8.9%, respectively, compared to the prior year periods, as a result of several factors including: (i) increased labor cost due to the accrual of performance based compensation expense during the current quarter compared with the reversal of previously accrued performance based compensation expense during the prior year periods, (ii) increased health insurance costs, and (iii) increased professional fees due to a charge of approximately \$0.9 million during the fiscal second quarter to settle a proposed class action litigation, for which the Company has admitted no wrongdoing, but chose to settle to avoid protracted litigation, partially offset by reduced labor and operating costs related to the Company's re-sizing initiatives implemented during fiscal 2009.

The Company expects that its general and administrative expenses for the remainder of fiscal 2010 will be consistent with the prior year and decrease slightly as a percentage of net revenues.

Depreciation and Amortization Expense

	Three Months Ended		Six Mo	
	December 27,	December 28,	December 27,	Decemb

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

	2009	2008	% Change	2009	2008
	-----	-----		-----	-----
	(In thousands)				
Depreciation and amortization	\$5,343	\$5,094	4.9%	\$10,289	\$
Percentage of net revenues	2.2%	2.0%		3.0%	

Depreciation and amortization expense increased by 4.9% and 1.2% during the three and six months ended December 27, 2009, respectively, compared to the prior year periods, as a result of recent capital additions for technology improvements, including the Company's newly launched co-branded 1-800-Baskets website and back-end platforms, offset in part by reduced amortization associated with amortizable intangibles that were written down in the prior year.

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 is committed to reducing its capital expenditures, certain key strategic technology initiatives were implemented during fiscal 2010 and, therefore, the Company, expects that depreciation and amortization for the remainder of fiscal 2010 will increase slightly in comparison to the prior year.

Other Income (Expense)

	Three Months Ended		Six Months Ended	
	December 27, 2009	December 28, 2008	December 27, 2009	December 2008
	-----	-----	-----	-----
	(in thousands)			
Interest income	\$11	\$73	\$25	\$163
Interest expense	(1,985)	(2,507)	(3,531)	(3,666)
Other	13	14	15	18
	-----	-----	-----	-----
	(\$1,961)	(\$2,420)	(\$3,491)	(\$3,485)
	=====	=====	=====	=====

Other income (expense) consists primarily of interest expense and amortization of deferred financing costs, partially offset by income earned on the Company's available cash balances.

Interest expense decreased during the three and six months ended December 27, 2009 compared to the prior year periods, as a result of scheduled paydowns and prepayments (see below) of amounts outstanding under the Company's term loans, as well as reduced working capital borrowings.

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

On April 14, 2009, the Company entered into an amendment to the 2008 Credit

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

Facility (the "Amended 2008 Credit Facility"). The Amended 2008 Credit Facility, effective March 29, 2009, included a prepayment of \$20.0 million, reducing the Company's outstanding term loans under the facility to \$92.4 million upon closing. In addition, the amendment reduced the Company's revolving credit line from \$165.0 million to a seasonally adjusted line ranging from \$75.0 to \$125.0 million. Outstanding amounts under the Amended 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's term loans and revolving credit facility will range from 3.00% to 4.50% for LIBOR loans and 2.00% to 3.50% for ABR loans with pricing based upon the Company's leverage ratio. The repayment terms of the existing term loans were reduced, on a pro-rata basis, for the \$20.0 million prepayment.

During March 2009, the Company obtained a \$5.0 million equipment lease line of credit with a bank and a \$5.0 million equipment lease line of credit with a

23

vendor. Interest under these lines, which both mature in April 2012, range from 2.99% to 7.48%. The borrowings are payable in 36 monthly installments of principal and interest commencing in April 2009.

In July 2009, the Company entered into a \$45.0 million notional amount swap agreement that exchanges a variable interest rate (LIBOR) for a 1.92% fixed rate of interest over the term of the agreement. This swap matures on July 25, 2012. The Company has designated this swap as a cash flow hedge of the interest rate risk attributable to forecasted variable interest (LIBOR) payments. The effective portion of the after tax fair value gains or losses on these swaps is included as a component of accumulated other comprehensive loss.

Income Taxes

During the three and six months ended December 27, 2009 the Company recorded income taxes from continuing operations of \$8.5 million and \$4.8 million, respectively, compared to \$9.0 million and \$7.0 million in the respective prior year periods. The Company's effective tax rates from continuing operations for the three and six months ended December 27, 2009 was 39.9% and 40.6%, respectively, as compared to the 39.1% in the prior year periods. These effective rates differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by various tax credits.

Discontinued Operations

During the fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets categories. On January 25, 2010, the Company completed the sale of these businesses. Consequently, the Company has classified the results of operations of its Home & Children's Gifts segment as discontinued operations for all periods presented.

Results for discontinued operations are as follows:

	Three Months Ended			December 2, 2009
	December 27, 2009	December 28, 2008	% Change	
	(In thousands)			
Discontinued Operations:				
Net revenues from discontinued operations	\$64,334	\$77,757	(17.3%)	\$81,688

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

Gross Profit from discontinued operations	31,158	37,579	(17.1%)	38,706
Operating expenses of discontinued operations, excluding depreciation and amortization	23,577	35,406	(33.4%)	33,244
Contribution margin from discontinued operations	7,581	2,173	248.9%	5,462

The Home & Children's Gifts category includes revenues from Plow & Hearth, Wind & Weather, HearthSong and Magic Cabin brands. Revenue is derived from the sale of home decor and children's gifts through its E-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Plow & Hearth brand.

During the three and six months ended December 27, 2009 net revenues from discontinued operations decreased by 17.3% and 18.6% respectively as a result of lower E-commerce sales volume, due to a combination of reduced consumer spending, particularly in the home decor product category, and a planned reduction in catalog circulation. Further contributing to the revenue decline were lower retail store sales, compared to the same period of the prior year, due to a store closure and decline in customer traffic.

Gross profit from discontinued operations during the three and six months ended December 27, 2009 decreased by 17.1% and 18.0%, respectively as a result of the aforementioned revenue declines. Gross margin percentage during the three and six months ended December 27, 2009 improved 10 and 40 basis points, respectively, in comparison to the same period of the prior year as a result of enhanced product sourcing and shipping initiatives.

Despite the aforementioned decline in revenues, during the three and six months ended December 27, 2009 contribution margin from discontinued operations improved significantly as compared to the respective prior year periods, driven by the above mentioned gross margin improvements as well as the significant reduction in operating expenses, primarily related to reduced catalog circulation costs and other operating cost reduction initiatives.

24

As a result of the decline in revenues, offset by reduced operating expenses of \$11.8 million and \$14.8 million during the three and six months ended December 27, 2009, respectively, contribution margin from discontinued operations improved \$5.4 million, to \$7.6 million and \$6.3 million, to \$5.4 million, in comparison to the same periods of the prior year.

On January 25, 2010, the Company completed the sale of the assets and certain related liabilities of its Home & Children's Gifts business to PH International, LLC. The sales price of the assets was \$17.0 million, subject to adjustments for changes in working capital. Based upon the carrying value of the assets held for sale, the Company recorded a loss of \$3.3 million during the three months ended December 27, 2009, including transaction, severance and transition obligations, which is in addition to the \$14.7 million write-down that the Company recorded during the three months ended June 28, 2009.

Liquidity and Capital Resources

At December 27, 2009, the Company had working capital of \$46.1 million, including cash and equivalents of \$46.4 million, compared to working capital of \$43.7 million, including cash and equivalents of \$29.6 million, at June 28, 2009.

Net cash provided by operating activities of \$36.5 million for the six months ended December 27, 2009 was primarily related to net income, adjusted for non-cash charges for depreciation and amortization and deferred income taxes,

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

operating activities of discontinued operations (\$12.7 million), as well as seasonal changes in working capital from continuing operations, including a decrease in inventory and increases in accounts payables and accrued expenses related to the previous and upcoming holiday season, offset by an increase in accounts receivable related to the timing of customers' payments related to the holiday season.

Net cash used in investing activities of \$8.3 million for the six months ended December 27, 2009 was primarily attributable to capital expenditures, primarily related to the Company's technology infrastructure.

Net cash used in financing activities of \$11.4 million for the six months ended December 27, 2009 was primarily for the repayment of bank borrowings on outstanding debt and long-term capital lease obligations. All borrowings under the Company's revolving credit facility were repaid by the end of the fiscal second quarter.

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

On April 14, 2009, the Company entered into an amendment to the 2008 Credit Facility (the "Amended 2008 Credit Facility"). The Amended 2008 Credit Facility, effective March 29, 2009, included a prepayment of \$20.0 million, reducing the Company's outstanding term loans under the facility to \$92.4 million upon closing. In addition, the amendment reduced the Company's revolving credit line from \$165.0 million to a seasonally adjusted line ranging from \$75.0 to \$125.0 million. Outstanding amounts under the Amended 2008 Credit Facility will bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's term loans and revolving credit facility will range from 3.00% to 4.50% for LIBOR loans and 2.00% to 3.50% for ABR loans with pricing based upon the Company's leverage ratio. The repayment terms of the existing term loans were reduced, on a pro-rata basis, for the \$20.0 million prepayment.

During March 2009, the Company obtained a \$5.0 million equipment lease line of credit with a bank and a \$5.0 million equipment lease line of credit with a vendor. Interest under these lines, which both mature in April 2012, range from 2.99% to 7.48%. The borrowings are payable in 36 monthly installments of principal and interest commencing in April 2009.

On January 21, 2008, the Company's Board of Directors authorized an increase to its stock repurchase plan which, when added to the funds remaining on its earlier authorization, increased the amount available for repurchase to \$15.0 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of December 27, 2009, \$12.8 million remains authorized but unused.

At December 27, 2009, the Company's contractual obligations from continuing operations consist of:

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

	Payments due by period			
	Total	Less than 1 year	(in thousands) 1-2 years	3 - 5 y
Long-term debt, including interest	\$89,914	\$26,567	\$54,089	9
Capital lease obligations, including interest	5,193	2,264	2,923	
Operating lease obligations	47,250	11,441	19,078	13
Sublease obligations	7,526	2,455	3,406	1
Marketing agreement	6,476	2,976	3,500	
Purchase commitments (*)	13,665	13,665	-	
Total	\$170,024	\$59,368	\$82,996	\$24

(*) 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 payments. If the financial condition of the Company's customers or franchisees were to deteriorate, resulting in an impairment of their ability to make

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

payments, additional allowances may be required.

Inventory

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

26

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 during its fiscal fourth quarter, or earlier if indicators of potential impairment exist, to evaluate goodwill. Goodwill is reviewed for impairment utilizing a two-step process. The first step requires us to compare the fair value of each reporting unit to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is greater than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of the goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

The impairment test process requires valuation of the respective reporting unit, which we estimate using a discounted five year forecasted cash flow with a year-five residual value based upon a comparative market Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) multiple. The assumptions about future cash flows and growth rates are based on each reporting unit's long-term forecast and are subject to review and approval by senior management. The market EBITDA multiple is based on market transactions in the reporting unit's industry. The discount rate is based on our weighted average cost of capital, which the Company believes approximates the rate from a market participant's perspective. The estimated fair value could be impacted by changes in interest rates, growth rates, costs, pricing, capital expenditures and market conditions.

Impairment testing during fiscal 2009 indicated the fair value of our Home & Children's Gifts and Gourmet Food & Gift Basket reporting units was less than their respective carrying values, and after performing step two, the Company recorded impairment charges in both reporting units. Although our businesses continue to be impacted by the economic downturn, the Company's market capitalization remains above its book value and evaluations of our reporting units indicated that it was unlikely the fair value of any reporting unit fell below its carrying value. Accordingly, we have not performed an interim goodwill impairment test subsequent to the fiscal 2009 annual impairment test.

A prolonged economic downturn resulting in lower EBITDA multiples, lower long-term growth rates and reduced long-term profitability may reduce the fair value of our reporting units. Industry specific events or circumstances that have a negative impact to the valuation assumptions may also reduce the fair

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

value of our reporting units. Should such events occur and it becomes more likely than not that a reporting unit's fair value has fallen below its carrying value, we will perform an interim goodwill impairment test(s), in addition to the annual impairment test. Future impairment tests may result in a goodwill impairment, depending on the outcome of both step one and step two of the impairment review process. A goodwill impairment would be reported as a non-cash charge to earnings.

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

The FASB authoritative guidance requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. The Company determines the fair value of stock options issued by using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model considers a range of assumptions related to volatility, dividend yield, risk-free interest rate and employee exercise behavior. Expected volatilities are based on historical volatility of the Company's stock price. The dividend yield is based on historical experience and future expectations. The risk-free interest rate is derived from the US Treasury yield curve in effect at the time of grant. The Black-Scholes model also incorporates expected forfeiture rates, based on historical behavior. Determining these assumptions are subjective and complex, and therefore, a change in the assumptions utilized could impact the calculation of the fair value of the Company's stock options.

27

Income Taxes

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

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

Recent Accounting Pronouncements

In June 2009, the FASB issued authoritative guidance to establish the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting

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

principles in the United States. The Codification, which changes the referencing of financial standards, supersedes current authoritative guidance and is effective for the Company's interim reporting beginning June 29, 2009. The Codification is not intended to change or alter existing GAAP and is not expected to result in a change in accounting practice for the Company.

In April 2009, the FASB issued authoritative guidance for business combinations that amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance requires such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, entities would typically account for the acquired contingencies in accordance with authoritative guidance for contingencies. The guidance became effective for the Company's business combinations for which the acquisition date is on or after June 29, 2009. The Company did not complete any business combinations during the three and six months ended December 27, 2009, and the effect on future periods will depend on the nature and significance of business combinations subject to this guidance.

In April 2009, the FASB issued authoritative guidance to increase the frequency of fair value disclosures of financial instruments, thereby enhancing consistency in financial reporting. The guidance relates to fair value disclosures for any financial instruments that are not currently reflected on a company's balance sheet at fair value. Prior to the effective date of this guidance, fair values for these assets and liabilities have only been disclosed once a year. The guidance now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The Company adopted the disclosure requirements under this guidance with an effective date of June 29, 2009. The implementation did not have a material impact on the Company's financial position, results of operations or cash flows as it is disclosure-only in nature.

In April 2008, the FASB issued authoritative guidance for general intangibles other than goodwill, amending factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This guidance is effective for the Company for intangible assets acquired on or after June 29, 2009. The adoption did not have a material impact on the Company's 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 statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent the Company's current expectations or beliefs concerning future events and can generally be identified by the use of statements that include words such as "estimate," "project," "believe," "anticipate," "intend," "plan," "foresee," "likely," "will," "goal," "target" or similar words or phrases. These forward-looking statements are subject to

28

risks, uncertainties and other factors, many of which are outside of the Company's control, that could cause actual results to differ materially from the results expressed or implied in the forward-looking statements, including among others:

- o the Company's ability:

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

- o to achieve revenue and profitability;
- o to leverage its operating platform and reduce operating expenses;
- o to grow its 1-800-Baskets.com business;
- o to manage the increased seasonality of its business;
- o to cost effectively acquire and retain customers;
- o to effectively integrate and grow acquired companies;
- o to reduce working capital requirements and capital expenditures;
- 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; and
- o to cost efficiently manage inventories;
- o the outcome of contingencies, including legal proceedings in the normal course of business; and
- o general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products.

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

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Forms 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission. Our Annual Report on Form 10-K filing for the fiscal year ended June 28, 2009 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 27, 2009, the Company's outstanding debt, including current maturities, approximated \$81.8 million.

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

The Company does not enter into derivative transactions for trading purposes, but rather to hedge its exposure to interest rate fluctuations. The Company manages its floating rate debt using interest rate swaps in order to reduce its exposure to the impact of changing interest rates on its consolidated results of operations and future cash outflows for interest.

In July 2009, the Company entered into a \$45.0 million notional amount swap agreement that exchanges a variable interest rate (LIBOR) for a 1.92% fixed rate of interest over the term of the agreement. This swap matures on July 25, 2012. The Company has designated this swap as a cash flow hedge of the interest rate risk attributable to forecasted variable interest (LIBOR) payments. The effective portion of the after tax fair value gains or losses on these swaps is included as a component of accumulated other comprehensive loss. If in the

29

future the interest rate swap agreements were determined to be ineffective or were terminated before the contractual termination dates, or if it became probable that the hedged variable cash flows associated with the variable-rate borrowings would stop, the Company would be required to reclassify into earnings all or a portion of the unrealized losses on cash flow hedges included in accumulated other comprehensive income (loss).

Inclusive of the impact of the Company's interest rate swap agreement, each 50 basis point change in interest rates would have had a corresponding effect on our interest expense of approximately \$0.1 million and \$0.2 million during the three and six months ended December 27, 2009, respectively.

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 27, 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

30

PART II. - OTHER INFORMATION

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

ITEM 1. LEGAL PROCEEDINGS

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

On December 21, 2007, Plaintiff, Thomas Molnar, on behalf of himself and a putative class, filed suit against the Company claiming false advertising, unfair business practices, and unjust enrichment seeking unspecified monetary damages. The Company has admitted no wrongdoing with respect to this matter, but has chosen to enter into a settlement agreement with the parties to this matter in order to avoid protracted litigation. The presiding trial Judge has given preliminary approval to the settlement, and the Company has sent out the applicable notices to the class members. As a result, the Company has accrued for the estimated cost of the settlement of approximately \$0.9 million within its general and administrative expenses during the three months ended December 27, 2009.

ITEM 1A. RISK FACTORS.

There were no material changes to the Company's risk factors as discussed in Item 1A-Risk Factors in the Company's Annual Report on Form 10-K for the year ended June 28, 2009.

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 2010, which includes the period June 29, 2009 through December 27, 2009:

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)			
6/29/09 - 7/26/09	0.9	\$1.83	0.9
7/27/09 - 8/23/09	4.5	\$2.62	4.5
8/24/09 - 9/27/09	-	\$-	-
9/28/09 - 10/25/09	48.1	\$4.15	48.1
10/26/09 - 11/22/09	3.7	\$4.82	3.7
11/23/09 - 12/27/09	47.0	\$2.25	47.0
Total	104.2	\$3.23	104.2

On January 21, 2008, the Company's Board of Directors authorized an increase to its stock repurchase plan which, 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 27, 2009, \$12.8 million remains authorized but unused.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

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

The Company's Annual Meeting of Stockholders was held on December 3, 2009.

31

The following nominees were elected as directors, each to serve until the 2012 Annual Meeting or until their respective successors shall have been duly elected and qualified, by the vote set forth below:

Nominee	For
Jeffrey C. Walker	321,130,473
Lawrence Calcano	329,611,798
James Cannavino	329,479,938

The following Directors, who were not nominees for election at this Annual Meeting, will continue to serve on the Board of Directors of the Company: James F. McCann, Christopher G. McCann, John J. Conefry, Jr., Leonard J. Elmore and Jan L. Murley.

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 27, 2010 was approved by the vote set forth below:

For	Against
329,905,029	2,298,639

The Company's 2003 Long Term Incentive and Share Award Plan as Amended and Restated as of October 22, 2009 was approved by the vote set forth below:

For	Against
320,130,238	8,065,925

The Company's Section 16 Executive Officers Bonus Plan as Amended and Restated as of October 22, 2009 was approved by the vote set forth below:

For	Against
327,934,830	218,559

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

10.22 2003 Long Term Incentive and Share Award Plan (as amended and

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

restated as of October 22, 2009) (incorporated by reference to Definitive Proxy filed on October 23, 2009 (No. 000-26841), Annex A).

10.23 Section 16 Executive Officer's Bonus Plan (as amended and restated as of October 22, 2009) (incorporated by reference to Definitive Proxy filed on October 23, 2009 (No. 000-26841), Annex B).

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.*

* Filed herewith.

32

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 5, 2010

/s/ James F. McCann

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

Date: February 5, 2010

/s/ William E. Shea

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

