

1 800 FLOWERS COM INC  
Form 10-Q  
February 04, 2011

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended December 26, 2010

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.

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

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

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

27,129,491

(Number of shares of Class A common stock outstanding as of January 31, 2010)

36,858,465

(Number of shares of Class B common stock outstanding as of January 31, 2010)

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## 1-800-FLOWERS.COM, Inc.

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## 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<br>26, 2010 | June 27,<br>2010 |
|---|----------------------|------------------|
|   | (unaudited)          |                  |
| Assets  |                      |                  |
| Current assets:   |                      |                  |
| Cash and equivalents  | \$17,708             | \$27,843         |
| Receivables, net  | 40,168               | 13,943           |
| Inventories   | 50,389               | 45,121           |
| Deferred tax assets   | 5,711                | 5,109            |
| Prepaid and other   | 7,313                | 5,662            |
| Total current assets  | 121,289              | 97,678           |
| Property, plant and equipment, net  | 49,776               | 51,324           |
| Goodwill  | 41,211               | 41,211           |
| Other intangibles, net  | 40,111               | 41,042           |
| Deferred tax assets   | 13,159               | 19,265           |
| Other assets  | 5,262                | 5,566            |
| Total assets  | \$270,808            | \$256,086        |
| Liabilities and stockholders' equity  |                      |                  |
| Current liabilities:  |                      |                  |
| Accounts payable and accrued expenses   | \$71,509             | \$59,914         |
| Current maturities of long-term debt and obligations under capital leases                                       | 16,326               | 14,801           |
| Total current liabilities   | 87,835               | 74,715           |
| Long-term debt and obligations capital leases   | 37,220               | 45,707           |
| Other liabilities   | 2,961                | 3,038            |
| Total liabilities   | 128,016              | 123,460          |
| 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 32,649,798 and 32,492,266 shares issued at | 326                  | 325              |

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|  |            |            |
|--|------------|------------|
| December 26, 2010 and June 27, 2010, respectively  |            |            |
| Class B common stock, \$.01 par value, 200,000,000 shares authorized 42,138,465 shares issued at December 26, 2010 and June 27, 2010 | 421        | 421        |
| Additional paid-in capital   | 287,271    | 285,515    |
| Retained deficit   | (112,071 ) | (120,477 ) |
| Accumulated other comprehensive loss, net of tax   | (233 )     | (334 )     |
| Treasury stock, at cost – 5,520,307 and 5,465,046 Class A shares at December 26, 2010 and June 27, 2010, respectively                |            |            |
| and 5,280,000 Class B shares   | (39,922 )  | (32,824 )  |
| Total stockholders' equity   | 142,792    | 132,626    |
| Total liabilities and stockholders' equity   | \$270,808  | \$256,086  |

See accompanying Notes to Consolidated Financial Statements.

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

|  | Three Months Ended |           | Six Months Ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | December           | December  | December         | December  |
|  | 26, 2010           | 27, 2009  | 26, 2010         | 27, 2009  |
| Net revenues   | \$235,402          | \$238,454 | \$339,923        | \$346,770 |
| Cost of revenues   | 136,570            | 138,791   | 197,510          | 203,353   |
| Gross profit   | 98,832             | 99,663    | 142,413          | 143,417   |
| Operating expenses:  |                    |           |                  |           |
| Marketing and sales  | 50,848             | 51,976    | 80,766           | 81,452    |
| Technology and development   | 4,786              | 4,525     | 9,667            | 9,081     |
| General and administrative   | 12,831             | 14,673    | 24,711           | 27,207    |
| Depreciation and amortization  | 5,286              | 5,343     | 10,421           | 10,289    |
| Total operating expenses   | 73,751             | 76,517    | 125,565          | 128,029   |
| Operating income   | 25,081             | 23,146    | 16,848           | 15,388    |
| Other income (expense):  |                    |           |                  |           |
| Interest income  | 10                 | 11        | 39               | 25        |
| Interest expense   | (1,310 )           | (1,985 )  | (2,509 )         | (3,531 )  |
| Other  | 2                  | 13        | 3                | 15        |
| Total other income (expense), net  | (1,298 )           | (1,961 )  | (2,467 )         | (3,491 )  |
| Income from continuing operations before income taxes                          | 23,783             | 21,185    | 14,381           | 11,897    |
| Income tax expense from continuing operations                                  | 10,253             | 8,452     | 5,975            | 4,830     |
| Income from continuing operations  | 13,530             | 12,733    | 8,406            | 7,067     |
| Income from discontinued operations before income taxes                        | -                  | 3,795     | -                | 1,157     |
| Income tax expense from discontinued operations                                | -                  | 1,225     | -                | 196       |
| Income from discontinued operations  | -                  | 2,570     | -                | 961       |
| Net income   | \$13,530           | \$15,303  | \$8,406          | \$8,028   |
| Basic and diluted net income per common share:                                 |                    |           |                  |           |
| From continuing operations   | \$0.21             | \$0.20    | \$0.13           | \$0.11    |
| From discontinued operations   | -                  | 0.04      | -                | 0.02      |
| Net income per common share  | \$0.21             | \$0.24    | \$0.13           | \$0.13    |
| Weighted average shares used in the calculation of net income per common share |                    |           |                  |           |
| Basic  | 63,966             | 63,555    | 63,930           | 63,514    |
| Diluted  | 64,801             | 64,070    | 64,692           | 63,969    |

See accompanying Notes to Consolidated Financial Statements.





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

|  | Six Months Ended     |                      |
|--|----------------------|----------------------|
|  | December<br>26, 2010 | December<br>27, 2009 |
| Operating activities:  |                      |                      |
| Net income   | \$8,406              | \$8,028              |
| Reconciliation of net income to net cash provided by operating activities: |                      |                      |
| Operating activities of discontinued operations                            | -                    | 12,668               |
| Depreciation and amortization  | 10,421               | 10,118               |
| Amortization of deferred financing costs                                   | 246                  | 171                  |
| Deferred taxes   | 5,475                | 4,251                |
| Loss on disposal of assets   | -                    | 3,289                |
| Bad debt expense   | 974                  | 984                  |
| Stock-based compensation   | 1,757                | 2,216                |
| Other non-cash items   | -                    | 180                  |
| Changes in operating items, excluding the effects of acquisitions:         |                      |                      |
| Receivables  | (27,199 )            | (25,116 )            |
| Inventories  | (5,268 )             | 2,213                |
| Prepaid and other  | (1,651 )             | (2,230 )             |
| Accounts payable and accrued expenses                                      | 11,595               | 19,816               |
| Other assets   | (259 )               | (115 )               |
| Other liabilities  | 52                   | 12                   |
| Net cash provided by operating activities                                  | 4,549                | 36,485               |
| Investing activities:  |                      |                      |
| Capital expenditures   | (7,680 )             | (6,070 )             |
| Purchase of investment   | -                    | (598 )               |
| Other, net   | 73                   | (1,091 )             |
| Investing activities of discontinued operations                            | -                    | (509 )               |
| Net cash used in investing activities                                      | (7,607 )             | (8,268 )             |
| Financing activities:  |                      |                      |
| Acquisition of treasury stock  | (98 )                | (338 )               |
| Proceeds from bank borrowings  | 40,000               | 49,000               |
| Repayment of notes payable and bank borrowings                             | (46,000 )            | (59,175 )            |
| Debt issuance costs  | (17 )                | -                    |
| Repayment of capital lease obligations                                     | (962 )               | (877 )               |
| Net cash used in financing activities                                      | (7,077 )             | (11,390 )            |
| Net change in cash and equivalents   | (10,135 )            | 16,827               |

Cash and equivalents:

Beginning of period

27,843

29,562

End of period

\$17,708

\$46,389

See accompanying Notes to Consolidated Financial Statements.

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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 26, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending July 3, 2011.

The balance sheet information at June 27, 2010 has been derived from the audited financial statements at that date, but doesn’t 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 27, 2010.

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.

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 26, 2010 and December 27, 2009, the Company’s comprehensive income was as follows:

|   | Three Months Ended |          | Six Months Ended |          |
|---|--------------------|----------|------------------|----------|
|   | December           | December | December         | December |
|   | 26,                | 27,      | 26,              | 27,      |
|   | 2010               | 2009     | 2010             | 2009     |
|   | (in thousands)     |          |                  |          |
| Net income  | \$13,530           | \$15,303 | \$8,406          | \$8,028  |
| Change in fair value of cash flow hedge, net of tax | 84                 | 3        | 101              | (276)    |
| Comprehensive income                                | \$13,614           | \$15,306 | \$8,507          | \$7,752  |

Recent Accounting Pronouncements

No new accounting pronouncement issued or effective during the fiscal year have had or are expected to have a material impact on the Company's financial position, results of operations or cash flows.

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

### Reclassifications

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

### Note 2 – Net Income Per Common Share

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

|  | Three Months Ended                    |                      | Six Months Ended        |                         |
|--|---------------------------------------|----------------------|-------------------------|-------------------------|
|  | December<br>26,<br>2010               | December<br>27, 2009 | December<br>26,<br>2010 | December<br>27,<br>2009 |
|  | (in thousands, except per share data) |                      |                         |                         |
| Numerator:   |                                       |                      |                         |                         |
| Income from continuing operations  | \$13,530                              | \$12,733             | \$8,406                 | \$7,067                 |
| Denominator:   |                                       |                      |                         |                         |
| Weighted average shares outstanding                                      | 63,966                                | 63,555               | 63,930                  | 63,514                  |
| Effect of dilutive securities:   |                                       |                      |                         |                         |
| Employee stock options (1)   | -                                     | 6                    | -                       | 3                       |
| Employee restricted stock awards   | 835                                   | 509                  | 762                     | 452                     |
|  | 835                                   | 515                  | 762                     | 455                     |
| Adjusted weighted-average shares and assumed conversions                 | 64,801                                | 64,070               | 64,692                  | 63,969                  |
| Basic and diluted net income from continuing operations per common share | \$0.21                                | \$0.20               | \$0.13                  | \$0.11                  |

Basic net income 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 7.4 million and 7.1 million shares during the three and six months ended December 26, 2010 and 8.5 million and 8.4 million shares during the three and six months ended December 27, 2009, 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 12 to the consolidated financial statements included in the Company's 2010 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.

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

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

|                                       | Three Months Ended   |                      | Six Months Ended     |                      |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                       | December<br>26, 2010 | December<br>27, 2009 | December<br>26, 2010 | December<br>27, 2009 |
|                                       | (in thousands)       |                      |                      |                      |
| Stock options                         | \$296                | \$551                | \$585                | \$1,046              |
| Restricted stock awards               | 806                  | 612                  | 1,172                | 1,170                |
| Total                                 | 1,102                | 1,163                | 1,757                | 2,216                |
| Deferred income tax benefit           | 388                  | 380                  | 604                  | 702                  |
| Stock-based compensation expense, net | \$714                | \$783                | \$1,153              | \$1,514              |

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

|                            | Three Months Ended   |                      | Six Months Ended     |                      |
|----------------------------|----------------------|----------------------|----------------------|----------------------|
|                            | December<br>26, 2010 | December<br>27, 2009 | December<br>26, 2010 | December<br>27, 2009 |
|                            | (in thousands)       |                      |                      |                      |
| Marketing and sales        | \$430                | \$465                | \$692                | \$923                |
| Technology and development | 205                  | 233                  | 336                  | 462                  |
| General and administrative | 467                  | 465                  | 729                  | 831                  |
| Total                      | \$1,102              | \$1,163              | \$1,757              | \$2,216              |

The weighted average fair value of stock options on the date of grant, and the assumptions used to estimate the fair value of the stock options using the Black-Scholes option valuation model granted during the respective periods were as follows:

|  | Three Months Ended      |                         | Six Months Ended        |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
|  | December<br>26,<br>2010 | December<br>27,<br>2009 | December<br>26,<br>2010 | December<br>27,<br>2009 |
| Weighted average fair value of options granted | \$1.19                  | \$1.89                  | \$1.19                  | \$1.75                  |
| Expected volatility                            | 68.0%                   | 63.0%                   | 68.0%                   | 62.0%                   |
| Expected life                                  | 7.6 yrs                 | 5.6 yrs                 | 7.6 yrs                 | 5.6 yrs                 |
| Risk-free interest rate                        | 1.27%                   | 2.41%                   | 1.27%                   | 2.45%                   |
| Expected dividend yield                        | 0.0%                    | 0.0%                    | 0.0%                    | 0.0%                    |

The following table summarizes stock option activity during the three and six months ended December 26, 2010:

Weighted                  Weighted

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|  | Options     | Average<br>Exercise<br>Price | Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value<br>(000s) |
|--|-------------|------------------------------|---|---|
| Outstanding at June 27, 2010                               | 6,890,089   | \$ 6.50                      |   |   |
| Granted  | 1,267,000   | \$ 1.79                      |   |   |
| Exercised  | -           | -                            |   |   |
| Forfeited  | (1,184,233) | \$ 3.96                      |   |   |
| Outstanding at December 26, 2010                           | 6,972,856   | \$ 6.07                      | 4.7 years                                   | \$ 1,257                                  |
| Options vested or expected to vest at December 26,<br>2010 | 6,559,752   | \$ 6.33                      | 4.4 years                                   | \$ 924                                    |
| Exercisable at December 26, 2010                           | 4,605,587   | \$ 7.85                      | 2.9 years                                   | \$ 22                                     |



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

As of December 26, 2010, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$2.3 million and the weighted average period over which these awards are expected to be recognized was 4.7 years.

The Company grants shares of common stock to its employees that are subject to restrictions on transfer and risk of forfeiture until fulfillment of applicable service conditions (Restricted Stock Awards). The following table summarizes the activity of non-vested restricted stock awards during the three and six months ended December 26, 2010:

|                                 | Shares     | Weighted<br>Average<br>Grant Date<br>Fair Value |
|---------------------------------|------------|---|
| Non-vested at June 27, 2010     | 1,661,811  | \$ 4.35   |
| Granted                         | 2,593,464  | \$ 1.80   |
| Vested                          | (157,532 ) | \$ 8.05   |
| Forfeited                       | (157,305 ) | \$ 4.29   |
| Non-vested at December 26, 2010 | 3,940,938  | \$ 2.52   |

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of December 26, 2010, there was \$6.2 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.6 years.

#### Note 4 – Inventory

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

|                 | December<br>26, 2010 | June 27,<br>2010 |
|-----------------|----------------------|------------------|
|                 | (in thousands)       |                  |
| Finished goods  | \$25,535             | \$23,611         |
| Work-in-Process | 15,320               | 13,390           |
| Raw materials   | 9,534                | 8,120            |
|                 | \$50,389             | \$45,121         |

#### Note 5 – Goodwill and Intangible Assets

The carrying amount of goodwill is as follows:

|                              | 1-800-Flowers.com<br>Consumer<br>Floral | BloomNet<br>Wire<br>Service | Gourmet<br>Food and<br>Gift<br>Baskets<br>( i n<br>thousands) | Total    |
|------------------------------|---|-----------------------------|---|----------|
| Balance at June 27, 2010     | \$ 5,728                                | \$-                         | \$35,483  | \$41,211 |
| Other                        | -                                       | -                           | -   | -        |
| Balance at December 26, 2010 | \$ 5,728                                | \$-                         | \$35,483  | \$41,211 |

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

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. Goodwill and other indefinite lived intangibles are subject to an assessment for impairment, which must be performed annually, or more frequently if events or circumstances indicate that goodwill or other indefinite lived intangibles might be impaired. Goodwill impairment testing involves a two-step process. Step 1 compares the fair value of the Company's reporting units to their carrying values. If the fair value of the reporting unit exceeds its carrying value, no further analysis is necessary. If the carrying amount of the reporting unit exceeds its fair value, Step 2 must be completed to quantify the amount of impairment, if any. Step 2 calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit, from the fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss, equal to the difference, is recognized.

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

|   | Amortization<br>Period | December 26, 2010           |                             |           | June 27, 2010               |                             |           |
|---|------------------------|-----------------------------|-----------------------------|-----------|-----------------------------|-----------------------------|-----------|
|   |                        | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net       | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net       |
| (in thousands)                                  |                        |                             |                             |           |                             |                             |           |
| Intangible assets<br>with<br>determinable lives |                        |                             |                             |           |                             |                             |           |
| Investment in<br>licenses                       | 14 -<br>16<br>years    | \$ 5,314                    | \$ 5,314                    | \$ -      | \$ 5,314                    | \$ 5,314                    | \$ -      |
| Customer lists                                  | 3 - 10<br>years        | 15,695                      | 7,747                       | 7,948     | 15,695                      | 6,758                       | 8,937     |
| Other   | 5 - 8<br>years         | 2,388                       | 1,555                       | 833       | 2,388                       | 1,351                       | 1,037     |
|   |                        | 23,397                      | 14,616                      | 8,781     | 23,397                      | 13,423                      | 9,974     |
| Trademarks with<br>indefinite lives             | -                      | 31,330                      | -                           | 31,330    | 31,068                      | -                           | 31,068    |
| Total identifiable<br>intangible assets         |                        | \$ 54,727                   | \$ 14,616                   | \$ 40,111 | \$ 54,465                   | \$ 13,423                   | \$ 41,042 |

Future estimated amortization expense is as follows: remainder of fiscal 2011 - \$1.1 million, fiscal 2012 - \$1.6 million, fiscal 2013 - \$1.5 million, fiscal 2014 - \$1.2 million, fiscal 2015 - \$1.2 million, and thereafter - \$2.2 million.

Note 6 – Long-Term Debt

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

|  | December<br>26, 2010 | June 27,<br>2010 |
|--|----------------------|------------------|
|  | (in thousands)       |                  |
| Term loan (1)  | \$51,000             | \$57,000         |
| Revolving line of credit (1)   | -                    | -                |
| Obligations under capital leases (2)   | 2,546                | 3,508            |
|  | 53,546               | 60,508           |
| Less current maturities of long-term debt and obligations under capital leases | 16,326               | 14,801           |
|  | \$37,220             | \$45,707         |

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

(1) On April 14, 2009, the Company amended its 2008 Credit Facility with JPMorgan Chase Bank N.A., as administrative agent, and a group of lenders (the "Amended 2008 Credit Facility"). The Amended 2008 Credit Facility provided for term loan debt of \$92.4 million and a seasonally adjusted revolving credit line ranging from \$75.0 to \$125.0 million. The Amended 2008 Credit Facility, effective March 28, 2009, also revised certain financial and non-financial covenants.

On April 16, 2010, the Company entered into a Second Amended and Restated Credit Agreement (the "2010 Credit Facility"). The 2010 Credit Facility included a prepayment of approximately \$12.1 million, comprised primarily of the proceeds from the sale of the Home & Children's Gifts segment in January 2010, and thereby reducing the Company's outstanding term loan under the facility to \$60 million upon closing. The term loan, which matures on March 30, 2014, is payable in sixteen quarterly installments of principal and interest beginning in June 2010, with escalating principal payments at the rate of 20% in year one, 25% in years two and three and 30% in year four.

In addition, the 2010 Credit Facility extended the Company's revolving credit line through April 16, 2014, and reduced available borrowings from a seasonally adjusted limit which ranged from \$75.0 million to \$125.0 million to a seasonally adjusted limit ranging from \$40.0 to \$75.0 million. The 2010 Credit Facility, effective for covenant calculations as of March 28, 2010, also revised certain financial and non-financial covenants, including maintenance of certain financial ratios. The obligations of the Company and its subsidiaries under the 2010 Credit Facility are secured by liens on all personal property of the Company and its domestic subsidiaries.

Outstanding amounts under the 2010 Credit Facility will bear interest at the Company's option of 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 3.75% for LIBOR loans and 2.00% to 2.75% for ABR loans with pricing based upon the Company's leverage ratio.

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 this swap 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.

(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.

Note 7-Fair Value Measurements

The Company's non-financial assets, such as definite-lived intangible assets, and property, plant and equipment, are recorded at cost and are assessed for impairment when impairment indicators are present. Goodwill and indefinite lived intangibles are tested for impairment annually, or more frequently if impairment indicators are present, as required under the accounting standards.

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

Cash and cash equivalents, receivables, 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 Company believes that the carrying amount of its debt approximates fair value as no trading market exists.

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. The fair value is based on forward looking interest rate curves:

|                        | Total as of<br>December 26,<br>2010 | Fair Value Measurements<br>Assets (Liabilities) |                           |         |
|------------------------|-------------------------------------|---|---------------------------|---------|
|                        |                                     | Level 1   | Level 2<br>(in thousands) | Level 3 |
| Interest rate swap (1) | (\$428)                             | -   | (\$428)                   | -       |

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

Note 8 – Income Taxes

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. This estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The Company's effective tax rates from continuing operations for the three and six months ended December 26, 2010 was 43.1% and 41.5%, respectively, compared to 39.9% and 40.6% in the prior year periods. The effective rates for fiscal 2011 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes and other permanent non-deductible items.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Internal Revenue Service has completed its examination of the Company's federal income tax returns through fiscal 2009. Certain state returns remain subject to examination where the statute remains open from fiscal 2004. 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. The Company does not have any material accrued interest or penalties associated with any unrecognized tax benefits, nor was any material interest expense recognized during the year.



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

Note 9 – Business Segments

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

- 1-800-Flowers.com Consumer Floral;
  - BloomNet Wire Service; and
  - 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 “Discontinued Operations” 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.

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 footnote (\*\*)) below), which are operated under a centralized management platform, providing services throughout the organization, nor does it include depreciation and amortization, other income, income taxes, stock-based compensation and litigation costs, all of which are included within corporate overhead. Assets and liabilities are reviewed at the consolidated level by management and not accounted for by category.

|                                       | Three Months Ended      |                      | Six Months Ended        |                      |
|---------------------------------------|-------------------------|----------------------|-------------------------|----------------------|
|                                       | December<br>26,<br>2010 | December<br>27, 2009 | December<br>26,<br>2010 | December<br>27, 2009 |
| Net revenues                          |                         |                      |                         |                      |
|                                       |                         |                      | (in thousands)          |                      |
| Net revenues:                         |                         |                      |                         |                      |
| 1-800-Flowers.com Consumer Floral (*) | \$82,574                | \$85,890             | \$145,177               | \$153,924            |
| BloomNet Wire Service                 | 16,219                  | 14,753               | 31,178                  | 28,538               |
| Gourmet Food & Gift Baskets (*)       | 136,668                 | 138,207              | 163,577                 | 164,914              |
| Corporate (**)                        | 339                     | 126                  | 554                     | 252                  |
| Intercompany eliminations             | (398 )                  | (522 )               | (563 )                  | (858 )               |
| Total net revenues                    | \$235,402               | \$238,454            | \$339,923               | \$346,770            |
|                                       |                         |                      |                         |                      |
|                                       | Three Months Ended      |                      | Six Months Ended        |                      |
|                                       | December<br>26,<br>2010 | December<br>27, 2009 | December<br>26,<br>2010 | December<br>27, 2009 |
| Operating Income                      |                         |                      |                         |                      |
|                                       |                         |                      | (in thousands)          |                      |

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|                                       |           |           |           |           |
|---------------------------------------|-----------|-----------|-----------|-----------|
| Category Contribution Margin:         |           |           |           |           |
| 1-800-Flowers.com Consumer Floral (*) | \$8,180   | \$7,578   | \$13,533  | \$14,922  |
| Bloomnet Wire Service                 | 5,363     | 4,691     | 9,662     | 8,796     |
| Gourmet Food & Gift Baskets (*)       | 28,652    | 28,616    | 26,578    | 25,735    |
| Category Contribution Margin Subtotal | 42,195    | 40,885    | 49,773    | 49,453    |
| Corporate (**)                        | (11,828 ) | (12,396 ) | (22,504 ) | (23,776 ) |
| Depreciation and amortization         | (5,286 )  | (5,343 )  | (10,421 ) | (10,289 ) |
| Operating income                      | \$25,081  | \$23,146  | \$16,848  | \$15,388  |

(\*) Certain balances in the prior fiscal year have been reclassified to conform to the presentation in the current fiscal year. 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. 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.

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

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

#### Note 10. 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 the assets and certain related liabilities of its Home & Children's Gifts businesses. 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 Months Ended     |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | December<br>26, 2010 | December<br>27, 2009 | December<br>26, 2010 | December<br>27, 2009 |
|   | (in thousands)       |                      |                      |                      |
| Net revenues from discontinued operations       | \$-                  | \$64,334             | \$-                  | \$81,688             |
| Operating income from discontinued operations   | \$-                  | \$3,795              | \$-                  | \$1,157              |
| Income tax expense from discontinued operations | \$-                  | \$1,225              | \$-                  | \$196                |
| Income from discontinued operations             | \$-                  | \$2,570              | \$-                  | \$961                |

#### Note 11 – 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 November 10, 2010, a purported class action complaint was filed in the United States District Court for the Eastern District of New York naming the Company (along with Trilegiant Corporation, Inc., Affinion, Inc. and Chase Bank USA, N.A.) as defendants in an action purporting to assert claims against the Company alleging violations arising under the Connecticut Unfair Trade Practices Act among other statutes, and for breach of contract and unjust enrichment in connection with certain post-transaction marketing practices in which certain of the

Company's subsidiaries previously engaged in with certain third-party vendors. Plaintiffs seek to have this case certified as a class action and seek restitution and other damages, all in an amount in excess of \$5 million. The Company intends to defend this action vigorously.

In 2009, the United States Senate Committee on Commerce, Science and Transportation commenced an investigation of post-transaction marketing practices and the Company was one of many involved in that investigation. The Company fully complied with all requests from the committee. In addition, the Company received a civil investigative demand from the Attorney General of the State of New York regarding the same activities. The Company fully complied with that investigation, supplied the information sought and voluntarily entered into an Assurance of Discontinuance with the Attorney General's Office in December 2010. As part of the resolution of that matter, the Company paid the sum of \$325,000 to a fund to be used for consumer education, consumer redress and costs and fees of the investigation.

There are no assurances that additional legal actions will not be instituted in connection with the Company's former post-transaction marketing practices involving third party vendors nor can we predict the outcome of any such legal action.

## 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 I, Item 1A, of the Company's Annual Report on Form 10-K under the heading "Risk Factors".

### Overview

1-800-FLOWERS.COM, is the world's leading florist and gift shop. For more than 30 years, 1-800-FLOWERS® (1-800-356-9377 or [www.1800flowers.com](http://www.1800flowers.com)) has been helping deliver smiles for our customers with gifts for every occasion, including fresh flowers and the finest selection of plants, gift baskets, gourmet foods, confections, candles, balloons and plush stuffed animals. As always, our 100% Smile Guarantee backs every gift. 1-800-FLOWERS.COM's Mobile Flower & Gift Center was named winner of the 2010 "Best Mobile App for E-commerce" by DPAC (Digiday's Publishing & Advertising Awards) and RIS (Retail Info Systems) 2010 Mobile App of the Year Award in the "Best Shopping" category. 1-800-FLOWERS.COM was also rated number one vs. competitors for customer satisfaction by STELLAService and named by the E-Tailing Group as one of only nine online retailers out of 100 benchmarked to meet the criteria for Excellence in Online Customer Service. 1-800-FLOWERS.COM has been honored in Internet Retailer's "Hot 100: America's Best Retail Web Sites" for 2011. The Company's BloomNet® international floral wire service ([www.mybloomnet.net](http://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® (1-800-541-2676 or [www.thepopcornfactory.com](http://www.thepopcornfactory.com)); cookies and baked gifts from Cheryl's® (1-800-443-8124 or [www.cheryls.com](http://www.cheryls.com)); premium chocolates and confections from Fannie May® confections brands ([www.fanniemay.com](http://www.fanniemay.com) and [www.harrylondon.com](http://www.harrylondon.com)); gift baskets and towers from 1-800-Baskets.com® ([www.1800baskets.com](http://www.1800baskets.com)); and wine gifts from Winetasting.com® ([www.winetasting.com](http://www.winetasting.com)). The Company's Celebrations® brand ([www.celebrations.com](http://www.celebrations.com)) is 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 as well as various philanthropic and charitable efforts.

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.

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



## 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) from each of the Company’s business categories. Additionally, the table adjusts Category Contribution Margin to EBITDA and Adjusted EBITDA (adjusted for litigation settlements and the impact of the post sale 3rd party marketing agreement) and reconciles Net Income from continuing operations to EBITDA and Adjusted EBITDA, and reconciles Net Income from continuing operations to Adjusted Net Income. 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      |                         |          | Six Months Ended        |                         |          |
|---|-------------------------|-------------------------|----------|-------------------------|-------------------------|----------|
|   | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change |
|   | (in thousands)          |                         |          |                         |                         |          |
| Net revenues from continuing operations:      |                         |                         |          |                         |                         |          |
| 1-800-Flowers.com Consumer Floral (*)         | \$82,574                | \$85,890                | (3.9%)   | \$145,177               | \$153,924               | (5.7%)   |
| BloomNet Wire Service                         | 16,219                  | 14,753                  | 9.9%     | 31,178                  | 28,538                  | 9.3%     |
| Gourmet Food & Gift Baskets (*)               | 136,668                 | 138,207                 | (1.1%)   | 163,577                 | 164,914                 | (0.8%)   |
| Corporate (**)                                | 339                     | 126                     | 169.0%   | 554                     | 252                     | 119.8%   |
| Intercompany eliminations                     | (398 )                  | (522 )                  | (23.8%)  | (563 )                  | (858 )                  | 34.4%    |
| Total net revenues from continuing operations | \$235,402               | \$238,454               | (1.3%)   | \$339,923               | \$346,770               | (2.0%)   |

|  | Three Months Ended      |                         |          | Six Months Ended        |                         |          |
|--|-------------------------|-------------------------|----------|-------------------------|-------------------------|----------|
|  | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change |
|  | (in thousands)          |                         |          |                         |                         |          |
| Gross profit from continuing operations: |                         |                         |          |                         |                         |          |
| 1-800-Flowers.com Consumer Floral (*)    | \$31,854<br>38.6%       | \$32,856<br>38.3%       | (3.0%)   | \$55,693<br>38.4%       | \$57,977<br>37.7%       | (3.9%)   |
| BloomNet Wire Service                    | 9,086<br>56.0%          | 8,569<br>58.1%          | 6.0%     | 17,549<br>56.3%         | 16,591<br>58.1%         | 5.8%     |
| Gourmet Food & Gift Baskets (*)          | 57,679<br>42.2%         | 58,132<br>42.1%         | (0.8%)   | 68,883<br>42.1%         | 68,649<br>41.6%         | 0.3%     |
| Corporate (**)                           | 213<br>62.8%            | 106<br>84.1%            | 100.9%   | 288<br>52.0%            | 200<br>79.4%            | 44.0%    |
| Intercompany eliminations                | -                       | -                       |          | -                       | -                       |          |

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|   |                   |                   |        |                    |                    |        |
|---|-------------------|-------------------|--------|--------------------|--------------------|--------|
| Total gross profit from continuing operations | \$98,832<br>42.0% | \$99,663<br>41.8% | (0.8%) | \$142,413<br>41.9% | \$143,417<br>41.4% | (0.7%) |
|---|-------------------|-------------------|--------|--------------------|--------------------|--------|

|  | Three Months Ended      |                         |          | Six Months Ended        |                         |          |
|--|-------------------------|-------------------------|----------|-------------------------|-------------------------|----------|
|  | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change |
| (in thousands)   |                         |                         |          |                         |                         |          |
| Category Contribution Margin and Adjusted EBITDA from continuing operations: |                         |                         |          |                         |                         |          |
| 1-800-Flowers.com Consumer Floral (*)  | \$8,180                 | \$7,578                 | 7.9%     | \$13,533                | \$14,922                | (9.3%)   |
| BloomNet Wire Service  | 5,363                   | 4,691                   | 14.3%    | 9,662                   | 8,796                   | 9.8%     |
| Gourmet Food & Gift Baskets (*)  | 28,652                  | 28,616                  | 0.1%     | 26,578                  | 25,735                  | 3.3%     |
| Category Contribution Margin Subtotal  | 42,195                  | 40,885                  | 3.2%     | 49,773                  | 49,453                  | 0.6%     |
| Corporate (**)   | (11,828 )               | (12,396 )               | 4.6%     | (22,504 )               | (23,776 )               | 5.4%     |
| EBITDA   | 30,367                  | 28,489                  | 6.6%     | \$27,269                | \$25,677                | 6.2%     |
| Litigation settlement  | -                       | 898                     | -        | -                       | 898                     | -        |
| Post sale 3rd party marketing agreement                                      | -                       | (1,425 )                | -        | -                       | (2,180 )                | -        |
| Adjusted EBITDA (***)  | \$30,367                | \$27,962                | 8.6%     | \$27,269                | \$24,395                | 11.8%    |



|                          | Three Months Ended      |                         |          | Six Months Ended        |                         |          |
|--------------------------|-------------------------|-------------------------|----------|-------------------------|-------------------------|----------|
|                          | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change |
| (in thousands)           |                         |                         |          |                         |                         |          |
| Discontinued Operations: |                         |                         |          |                         |                         |          |
| Net revenues             | -                       | \$64,334                | -        | -                       | \$81,688                | -        |
| Gross profit             | -                       | \$31,158                | -        | -                       | \$38,706                | -        |
| Contribution margin      | -                       | \$7,581                 | -        | -                       | \$5,462                 | -        |

|   | Three Months Ended      |                         | Six Months Ended        |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
|   | December<br>26,<br>2010 | December<br>27,<br>2009 | December<br>26,<br>2010 | December<br>27,<br>2009 |
| (in thousands)  |                         |                         |                         |                         |
| Reconciliation of Income from Continuing Operations to EBITDA and Adjusted EBITDA from Continuing Operations: |                         |                         |                         |                         |
| Net income from continuing operations   | \$13,530                | \$12,733                | \$8,406                 | \$7,067                 |
| Add:  |                         |                         |                         |                         |
| Interest expense  | 1,310                   | 1,985                   | 2,509                   | 3,531                   |
| Depreciation and amortization   | 5,286                   | 5,343                   | 10,421                  | 10,289                  |
| Income tax expense  | 10,253                  | 8,452                   | 5,975                   | 4,830                   |
| Less:   |                         |                         |                         |                         |
| Interest income   | 10                      | 11                      | 39                      | 25                      |
| Other income (expense)  | 2                       | 13                      | 3                       | 15                      |
| EBITDA  | \$30,367                | \$28,489                | \$27,269                | \$25,677                |
| Litigation settlement   | -                       | 898                     | -                       | 898                     |
| Post sale 3rd party marketing agreement   | -                       | (1,425)                 | -                       | (2,180)                 |
| Adjusted EBITDA (***)   | \$30,367                | \$27,962                | \$27,269                | \$24,395                |

|  | December<br>26,<br>2010 | December<br>27,<br>2009 | December<br>26,<br>2010 | December<br>27,<br>2009 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
|  | (in thousands)          |                         |                         |                         |
| Reconciliation of Income from Continuing Operations to Adjusted Income from Continuing Operations: |                         |                         |                         |                         |
| Income from continuing operations  | \$13,530                | \$12,733                | \$8,406                 | \$7,067                 |
| Add:   |                         |                         |                         |                         |
| Litigation settlement  | -                       | 898                     | -                       | 898                     |
| Post sale 3rd party marketing agreement  | -                       | (1,425)                 | -                       | (2,180)                 |

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|  |          |          |         |         |
|--|----------|----------|---------|---------|
| Income tax expense associated with litigation settlement and post sale 3rd party marketing agreement | -        | 210      | -       | 519     |
| Adjusted net income from continuing operations   | \$13,530 | \$12,416 | \$8,406 | \$6,304 |
| Adjusted net income per basic and diluted common share from continuing operations:                   |          |          |         |         |
| Basic  | \$0.21   | \$0.20   | \$0.13  | \$0.10  |
| Diluted  | \$0.21   | \$0.19   | \$0.13  | \$0.10  |
| Weighted average shares used in the calculation of net income per share from continuing operations:  |          |          |         |         |
| Basic  | 63,966   | 63,555   | 63,930  | 63,514  |
| Diluted  | 64,801   | 64,070   | 64,692  | 63,969  |

(\*) During the second quarter of fiscal 2010 the Company launched the 1-800-Baskets.com brand which is included within the results of the Gourmet Food & Gift Baskets category. Prior period results, which had previously been included within the 1-800-Flowers Consumer Floral category, have been reclassified accordingly.

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

(\*\*\*) Performance is measured based on category contribution margin or category Adjusted EBITDA, reflecting only the direct controllable revenue and operating expenses of the categories. As such, management's measure of profitability for these categories does not include the effect of corporate overhead, described above, depreciation and amortization, other income (net), income taxes, nor does it include litigation settlements and the impact of the post sale 3rd party marketing agreement. Management utilizes EBITDA, and adjusted financial information, 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 and adjusted financial information 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 and adjusted financial information to measure compliance with covenants such as interest coverage and debt incurrence. EBITDA and adjusted financial information is also used by the Company to evaluate and price potential acquisition candidates. EBITDA and adjusted financial information have 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.

## Results of Operations

### Net Revenues

|                    | Three Months Ended      |                         |          | Six Months Ended        |                         |          |
|--------------------|-------------------------|-------------------------|----------|-------------------------|-------------------------|----------|
|                    | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change |
|                    | (in thousands)          |                         |          |                         |                         |          |
| Net revenues:      |                         |                         |          |                         |                         |          |
| E-Commerce         | \$ 154,599              | \$ 151,660              | 1.9%     | \$ 225,812              | \$ 226,500              | (0.3%)   |
| Other              | 80,803                  | 86,794                  | (6.9%)   | 114,111                 | 120,270                 | (5.1%)   |
| Total net revenues | \$ 235,402              | \$ 238,454              | (1.3%)   | \$ 339,923              | \$ 346,770              | (2.0%)   |

During the three and six months ended December 26, 2010, revenues declined by 1.3% and 2.0%, respectively, in comparison to prior year periods as a result of reduced wholesale order volume from DesignPac Gifts, which is included within the Company's Gourmet Food & Gift Baskets business, as well as the loss of revenues associated with a third-party marketing program which was discontinued in December 2009. This decline was partially offset by e-commerce sales growth within the Gourmet Food and Gift Basket category, and by wholesale product growth within the BloomNet Wire Service business.

The Company fulfilled approximately 2,889,200 and 4,025,500 orders through its E-commerce sales channels (online and telephonic sales) during the three and six months ended December 26, 2010, a decrease of 0.4% and 3.0% from the same periods of the prior year. The Company's E-commerce average order value of \$53.51 and \$56.10 during the three and six months ended December 26, 2010, respectively, increased by 2.4% and 2.8% over the respective prior year periods, reflecting a reduction in promotional activities and sales mix.

Other revenues decreased 6.9% and 5.1% during the three and six months ended December 26, 2010, respectively, primarily as a result of the aforementioned wholesale order decline within the Gourmet Food and Gift Basket category, offset in part by sales growth in the BloomNet Wire Service business.

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 two 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 26, 2010 decreased by 3.9% and 5.7% over the respective prior year periods, as a result of lower order volume, as well as the loss of high-margin revenues associated with a third-party marketing program which the Company ended in December 2009. Although the 1-800-Flowers.com Consumer Floral category revenues declined in comparison to the prior periods, the trend is improving, as the Company believes it is on track to achieving its stated objectives for this category: to improve the sales trend, increase gross profit margin and enhance category contribution.

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 26, 2010 increased by 9.9% and 9.3% over the respective prior year periods, primarily as a result of increased wholesale product revenues, including the Company's new exclusive Yankee Candle® products, as well as the annualization of pricing initiatives and new product offerings within BloomNet's core membership and transaction businesses.

The Gourmet Food & Gift Basket category includes the operations of 1-800-Baskets, Cheryl's Cookies & Brownies, Fannie May Chocolates, 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's and Fannie May brand names, as well as wholesale operations. Net revenue during the three and six months ended December 26, 2010 decreased 1.1% and 0.8%, compared to the respective prior year periods, as a result of reduced wholesale basket orders from DesignPac, partially offset by e-commerce sales growth from the 1-800-Baskets.com and Cheryl's brands, and retail store sales growth by the Fannie May brand.

### Gross Profit

|                | Three Months Ended      |                         |          | Six Months Ended        |                         |          |
|----------------|-------------------------|-------------------------|----------|-------------------------|-------------------------|----------|
|                | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change |
|                | (in thousands)          |                         |          |                         |                         |          |
| Gross profit   | \$ 98,832               | \$ 99,663               | (0.8%)   | \$ 142,413              | \$ 143,417              | (0.7%)   |
| Gross margin % | 42.0%                   | 41.8%                   |          | 41.9%                   | 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 slightly during the three and six months ended December 26, 2010, due to the decline in revenues described above, while gross margin percentage increased 20 basis points and 50 basis points, respectively, due to several factors, including product mix, reduced promotional activities and improved manufacturing and supply chain operating efficiencies, which more than offset commodity price increases and the margin impact of the discontinued third party marketing program.

The 1-800-Flowers.com Consumer Floral category gross profit decreased by 3.0% and 3.9% during the three and six months ended December 26, 2010, respectively, due to the lower revenue as described above, including the impact of the discontinuation of the third-party marketing program, while gross profit margin percentage increased 30 basis points and 70 basis points, respectively, due to the aforementioned decrease in promotional activity, which the Company expects to continue to see benefits from, throughout the remainder of fiscal 2011.

The BloomNet Wire Service category gross profit increased by 6.0% and 5.8% during the three and six months ended December 26, 2010 as a result of the above mentioned increase in wholesale product revenue, which also caused the reduced gross margin percentage, since these products bear lower margins.

The Gourmet Food & Gift Basket category gross profit decreased by 0.8% during the three months ended December 26, 2010 as a result of the aforementioned lower wholesale order volume from DesignPac. Gross profit increased by 0.3% for the six month period ended December 26, 2010 as a result of sales mix, whereby higher margin e-commerce sales growth within the 1-800-Baskets and Cheryl's brands and retail store revenue growth by the Fannie May brand, more that offset the impact of the loss of lower margin wholesale order volume from DesignPac. Gross margin percentage increased by 10 and 50 basis points for the three and six months ended December 26, 2010, respectively, reflecting this change in sales mix, as well as improved margins resulting from manufacturing efficiencies within the category.

During the remainder of fiscal 2011, the Company expects its gross margin percentage will improve in comparison to fiscal 2010 as a result of a reduction in promotional activity, as well as improvements in product sourcing, supply chain and manufacturing efficiencies.

## Marketing and Sales Expense

|                            | Three Months Ended      |                         |          | Six Months Ended        |                         |          |
|----------------------------|-------------------------|-------------------------|----------|-------------------------|-------------------------|----------|
|                            | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change |
|                            | (in thousands)          |                         |          |                         |                         |          |
| Marketing and sales        | \$ 50,848               | \$ 51,976               | (2.2%)   | \$ 80,766               | \$ 81,452               | (0.8%)   |
| Percentage of new revenues | 21.6%                   | 21.8%                   |          | 23.8%                   | 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.

Marketing and sales expense decreased by 2.2% and 0.8% during the three and six months ended December 26, 2010, respectively, as a result of improved advertising effectiveness which allowed for reductions in spending, primarily within the Company's 1-800-Flowers.com Consumer Floral category.

During the three and six months ended December 26, 2010 the Company added approximately 653,600 and 975,100 new E-commerce customers, respectively. Of the 1,638,600 and 2,572,100 total customers who placed E-commerce orders during the three and six months ended December 26, 2010, approximately 61.2% and 59.2%, respectively, represented repeat customers, compared to 60.4% and 58.9% during the respective prior year periods.

## Technology and Development Expense

|                            | Three Months Ended      |                         |          | Six Months Ended        |                         |          |
|----------------------------|-------------------------|-------------------------|----------|-------------------------|-------------------------|----------|
|                            | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change |
|                            | (in thousands)          |                         |          |                         |                         |          |
| Technology and development | \$ 4,786                | \$ 4,525                | 5.8%     | \$ 9,667                | \$ 9,081                | 6.5%     |
| Percentage of net revenues | 2.0%                    | 1.9%                    |          | 2.8%                    | 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 and support costs related to the Company's order entry, customer service, fulfillment and database systems.

During the three and six months ended December 26, 2010, technology and development expense increased by 5.8% and 6.5% over the respective prior year period, as a result of increased labor/consulting costs to support and implement recent website improvements, partially offset by reductions in the cost of hosting the Company's

technology platforms, as a result of footprint reductions and sourcing savings.

During the three and six months ended December 26, 2010, the Company expended \$8.1 million and \$14.3 million, respectively, on technology and development, of which \$3.3 million and \$4.6 million, respectively, has been capitalized.



## General and Administrative Expense

|                            | Three Months Ended      |                         |          | Six Months Ended        |                         |          |
|----------------------------|-------------------------|-------------------------|----------|-------------------------|-------------------------|----------|
|                            | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change |
|                            | (in thousands)          |                         |          |                         |                         |          |
| General and administrative | \$ 12,831               | \$ 14,673               | (12.6%)  | \$ 24,711               | \$ 27,207               | (9.2%)   |
| Percentage of net revenues | 5.5%                    | 6.2%                    |          | 7.3%                    | 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 decreased by 12.6% and 9.2% during the three and six months ended December 26, 2010, respectively, compared to the prior year, as a result of decreased legal fees associated with litigation which was settled in the prior year, and decreased health insurance costs due to plan redesign.

## Depreciation and Amortization Expense

|                               | Three Months Ended      |                         |          | Six Months Ended        |                         |          |
|-------------------------------|-------------------------|-------------------------|----------|-------------------------|-------------------------|----------|
|                               | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change | December<br>26,<br>2010 | December<br>27,<br>2009 | % Change |
|                               | (in thousands)          |                         |          |                         |                         |          |
| Depreciation and amortization | \$ 5,286                | \$ 5,343                | (1.1%)   | \$ 10,421               | \$ 10,289               | 1.3%     |
| Percentage of net revenues    | 2.2%                    | 2.2%                    |          | 3.1%                    | 3.0%                    |          |

Depreciation and amortization expense during the three and six months ended December 26, 2010 was relatively consistent with the prior year periods.

## Other Income (Expense)

| Three Months Ended      |                         | Six Months Ended     |                         |
|-------------------------|-------------------------|----------------------|-------------------------|
| December<br>26,<br>2010 | December<br>27,<br>2009 | December<br>26, 2010 | December<br>27,<br>2009 |
| (in thousands)          |                         |                      |                         |

|                  |            |            |            |            |
|------------------|------------|------------|------------|------------|
| Interest income  | \$10       | \$11       | \$39       | \$25       |
| Interest expense | (1,310 )   | (1,985 )   | (2,509 )   | (3,531 )   |
| Other            | 2          | 13         | 3          | 15         |
|                  | \$(1,298 ) | \$(1,961 ) | \$(2,467 ) | \$(3,491 ) |

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 26, 2010 compared to the prior year period, as a result of reduced amounts outstanding under the Company's term loans and reduced borrowing costs.

On April 14, 2009, the Company amended its 2008 Credit Facility with JPMorgan Chase Bank N.A., as administrative agent, and a group of lenders (the "Amended 2008 Credit Facility"). The Amended 2008 Credit Facility provided for term loan debt of \$92.4 million and a seasonally adjusted revolving credit line ranging from \$75.0 to \$125.0 million.

On April 16, 2010, the Company entered into a Second Amended and Restated Credit Agreement (the "2010 Credit Facility"). The 2010 Credit Facility included a prepayment of approximately \$12.1 million, comprised primarily of the proceeds from the sale of the Home & Children's Gifts segment in January 2010, and thereby reducing the Company's outstanding term loan under the facility to \$60 million upon closing. The term loan, which matures on March 30, 2014, is payable in sixteen quarterly installments of principal and interest beginning in June 2010, with escalating payments at the rate of 20% in year one, 25% in years two and three and 30% in year four.

In addition, the 2010 Credit Facility extended the Company's revolving credit line through April 16, 2014, and reduced available borrowings from a seasonally adjusted limit which ranged from \$75.0 million to \$125.0 million to a seasonally adjusted limit ranging from \$40.0 to \$75.0 million.

Outstanding amounts under the 2010 Credit Facility will bear interest at the Company's option of 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 3.75% for LIBOR loans and 2.00% to 2.75% for ABR loans with pricing based upon the Company's leverage ratio.

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 this swap 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.

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.

#### Income Taxes

During the three and six months ended December 26, 2010 the Company recorded income tax expense from continuing operations of \$10.3 million and \$6.0 million, respectively, compared to \$8.5 million and \$4.8 million in the respective prior year periods. The Company's effective tax rate from continuing operations for the three and six months ended December 26, 2010 was 43.1% and 41.5%, respectively, compared to 39.9% and 40.6% in the prior year periods. These effective tax rates from continuing operations differed from the U.S. federal statutory rate of 35% primarily due to state income taxes and other permanent non-deductible items, 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 the assets and certain related liabilities of its Home & Children's Gifts business. The sales price of the assets was \$17.0 million, subject to adjustments for changes in working capital (net proceeds amounted to \$10.5 million). 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 Months Ended        |                         |             |
|--|-------------------------|-------------------------|-------------------------------|-------------------------|-------------------------|-------------|
|  | December<br>26,<br>2010 | December<br>27,<br>2009 | %<br>Change<br>(in thousands) | December<br>26,<br>2010 | December<br>27,<br>2009 | %<br>Change |
| Discontinued Operations:                         |                         |                         |                               |                         |                         |             |
| Net revenues from discontinued operations        | -                       | \$ 64,334               | -                             | -                       | \$ 81,688               | -           |
| Gross Profit from discontinued operations        | -                       | \$ 31,158               | -                             | -                       | \$ 38,706               | -           |
| Contribution margin from discontinued operations | -                       | \$ 7,581                | -                             | -                       | \$ 5,462                | -           |

#### Liquidity and Capital Resources

At December 26, 2010, the Company had working capital of \$33.5 million, including cash and equivalents of \$17.7 million, compared to working capital of \$23.0 million, including cash and equivalents of \$27.8 million, at June 27, 2010.

Net cash provided by operating activities of \$4.5 million for the six months ended December 26, 2010 was primarily related to net income, adjusted for non-cash charges for depreciation and amortization, deferred income taxes, and stock-based compensation, as well as seasonal changes in working capital, including an increase in inventory for the upcoming Valentine's Day/spring selling season, and increases in accounts receivable and accounts payable related to the Christmas holiday season which occurred at quarter end.

Net cash used in investing activities of \$7.6 million for the six months ended December 26, 2010 was primarily attributable to capital expenditures, primarily related to the Company's technology infrastructure.

Net cash used in financing activities of \$7.1 million for the six months ended December 26, 2010 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.

On April 14, 2009, the Company amended its 2008 Credit Facility with JPMorgan Chase Bank N.A., as administrative agent, and a group of lenders (the "Amended 2008 Credit Facility"). The Amended 2008 Credit Facility provided for term loan debt of \$92.4 million and a seasonally adjusted revolving credit line ranging from \$75.0 to \$125.0 million.

On April 16, 2010, the Company entered into a Second Amended and Restated Credit Agreement (the "2010 Credit Facility"). The 2010 Credit Facility included a prepayment of approximately \$12.1 million, comprised primarily of the proceeds from the sale of the Home & Children's Gifts segment in January 2010, and thereby reducing the Company's outstanding term loan under the facility to \$60 million upon closing. The term loan, which matures on March 30, 2014, is payable in sixteen quarterly installments of principal and interest beginning in June 2010, with escalating payments at the rate of 20% in year one, 25% in years two and three and 30% in year four.

In addition, the 2010 Credit Facility extended the Company's revolving credit line through April 16, 2014, and reduced available borrowings from a seasonally adjusted limit which ranged from \$75.0 million to \$125.0 million to a

seasonally adjusted limit ranging from \$40.0 to \$75.0 million.

Outstanding amounts under the 2010 Credit Facility will bear interest at the Company's option of 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 3.75% for LIBOR loans and 2.00% to 2.75% for ABR loans with pricing based upon the Company's leverage ratio.

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.

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.

Despite the current challenging economic environment, the Company believes that cash flows from operations along with available borrowings from its 2010 Credit Facility will be a sufficient source of liquidity. The Company typically borrows against the facility to fund working capital requirements related to pre-holiday manufacturing and inventory purchases which peak during its fiscal second quarter before being repaid prior to the end of that quarter.

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 26, 2010, \$12.2 million remains authorized but unused.

At December 26, 2010, the Company's contractual obligations from continuing operations consist of:

|   | Total     | Payments due by period<br>(in thousands) |             |             | More than<br>5<br>years |
|---|-----------|--|-------------|-------------|-------------------------|
|   |           | Less than<br>1 year                      | 1 – 2 years | 3 – 5 years |                         |
| Long-term debt, including interest            | \$56,194  | \$16,793                                 | \$34,840    | \$4,561     | \$-                     |
| Capital lease obligations, including interest | 2,824     | 2,281                                    | 543         | -           | -                       |
| Operating lease obligations                   | 59,114    | 11,529                                   | 20,518      | 12,367      | 14,700                  |
| Sublease obligations                          | 4,655     | 2,073                                    | 1,982       | 539         | 61                      |
| Purchase commitments (*)                      | 23,278    | 23,278                                   | -           | -           | -                       |
| Total   | \$146,065 | \$55,954                                 | \$57,883    | \$17,467    | \$14,761                |

(\*) 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 payments, additional allowances may be required.

### Inventory

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

### Goodwill and Other Intangible Assets

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

The Company performs an annual impairment test during its fiscal fourth quarter, or earlier if indicators of potential impairment exist, to evaluate goodwill. Goodwill is considered impaired if the carrying amount of the reporting unit exceeds its estimated fair value. In assessing the recoverability of goodwill, the Company reviews both quantitative as well as qualitative factors to support its assumptions with regard to fair value. Judgment regarding the existence of impairment indicators is based on market conditions and operational performance of the Company. Future events could cause the Company to conclude that impairment indicators exist and that goodwill and other intangible assets associated with our acquired businesses is impaired.

### Capitalized Software

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

### Stock-based Compensation

The measurement of stock-based compensation expense is based on the fair value of the award on the date of grant. The Company determines the fair value of stock options issued by using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model considers a range of assumptions related to volatility, dividend yield, risk-free interest rate and employee exercise behavior. Expected volatilities are based on historical volatility of the Company's stock price. The dividend yield is based on historical experience and future expectations. The risk-free interest rate is

derived from the US Treasury yield curve in effect at the time of grant. The Black-Scholes model also incorporates expected forfeiture rates, based on historical behavior. Determining these assumptions are subjective and complex, and therefore, a change in the assumptions utilized could impact the calculation of the fair value of the Company's stock options.

#### Income Taxes

The Company has established deferred income tax assets and liabilities for temporary differences between the financial reporting bases and the income tax bases of its assets and liabilities at enacted tax rates expected to be in 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

No new accounting pronouncement issued or effective during the fiscal year has had or is expected to have a material impact on the Company's financial position, results of operations 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 phrases. These forward-looking statements are subject to 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:

- the Company's ability:
  - 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;
- the outcome of contingencies, including legal proceedings in the normal course of business; and
- 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 27, 2010 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.

### 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 26, 2010, the Company's outstanding debt, including current maturities, approximated \$53.5 million.

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 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).

Exclusive 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 26, 2010.

### ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 26, 2010. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 26, 2010.

There were no changes in our internal control over financial reporting identified in connection with the Company's evaluation required by Rules 13a-15(d) or 15d-15(d) of the Securities Exchange Act of 1934 that occurred during the three months ended December 26, 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. – OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

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

On November 10, 2010, a purported class action complaint was filed in the United States District Court for the Eastern District of New York naming the Company (along with Trilegiant Corporation, Inc., Affinion, Inc. and Chase Bank USA, N.A.) as defendants in an action purporting to assert claims against the Company alleging violations arising under the Connecticut Unfair Trade Practices Act among other statutes, and for breach of contract and unjust enrichment in connection with certain post-transaction marketing practices in which certain of the Company's subsidiaries previously engaged in with certain third-party vendors. Plaintiffs seek to have this case certified as a class action and seek restitution and other damages, all in an amount in excess of \$5 million. The Company intends to defend this action vigorously.

In 2009, the United States Senate Committee on Commerce, Science and Transportation commenced an investigation of post-transaction marketing practices and the Company was one of many involved in that investigation. The Company fully complied with all requests from the committee. In addition, the Company received a civil investigative demand from the Attorney General of the State of New York regarding the same activities. The Company fully complied with that investigation, supplied the information sought and voluntarily entered into an Assurance of Discontinuance with the Attorney General's Office in December 2010. As part of the resolution of that matter, the Company paid the sum of \$325,000 to a fund to be used for consumer education, consumer redress and costs and fees of the investigation.

There are no assurances that additional legal actions will not be instituted in connection with the Company's former post-transaction marketing practices involving third party vendors nor can we predict the outcome of any such legal action.

## ITEM 1A. RISK FACTORS.

There were no material changes to the Company's risk factors as discussed in Part I, Item 1A-Risk Factors in the Company's Annual Report on Form 10-K for the year ended June 27, 2010.

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

The following table sets forth, for the months indicated, the Company's purchase of common stock during the first six months of fiscal 2011, which includes the period June 28, 2010 through December 26, 2010:

| Period | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | Dollar Value<br>of<br>Shares that<br>May Yet<br>Be Purchased<br>Under<br>the Plans or<br>Programs<br>(in thousands) |
|--------|---|---------------------------------------|--|---|
|        |   |                                       |  |   |

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(in thousands, except average price paid per share)

|                     |      |        |      |          |
|---------------------|------|--------|------|----------|
| 6/28/10 – 7/25/10   | -    | \$-    | -    | \$12,278 |
| 7/26/10 – 8/22/10   | 7.7  | \$1.69 | 7.7  | \$12,265 |
| 8/23/10 – 9/26/10   | 1.8  | \$2.35 | 1.8  | \$12,261 |
| 9/27/10 – 10/24/10  | 19.0 | \$1.76 | 19.0 | \$12,228 |
| 10/25/10 – 11/21/10 | 26.9 | \$1.78 | 26.9 | \$12,180 |
| 11/22/10 – 12/26/10 | -    | \$-    | -    | \$12,180 |
| Total               | 55.4 | \$1.78 | 55.4 |          |

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 26, 2010, \$12.2 million remains authorized but unused.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 31.1 Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
- 31.2 Certification of the principal financial officer 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.

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 4, 2011  
James F. McCann  
Chief Executive Officer and  
Chairman of the Board of Directors

/s/ James F. McCann

Date: February 4, 2011  
William E. Shea  
Senior Vice President of Finance and  
Administration and Chief Financial Officer

/s/ William E. Shea

