

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

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 September 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  
11-3117311  
(State of  
Employer  
incorporation)  
Identification No.)

(I.R.S.

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 ( )

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

Large accelerated filer  Accelerated filer   
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

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

27,123,413  
(Number of shares of Class A common stock outstanding as of November 1, 2010)

36,858,465  
(Number of shares of Class B common stock outstanding as of November 1, 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)

	September 26, 2010	June 27, 2010
	(unaudited)	
Assets		
Current assets:		
Cash and equivalents	\$9,056	\$27,843
Receivables, net	22,058	13,943
Inventories	70,990	45,121
Deferred tax assets	9,391	5,109
Prepaid and other	8,356	5,662
Total current assets	119,851	97,678
Property, plant and equipment, net	49,248	51,324
Goodwill	41,211	41,211
Other intangibles, net	40,444	41,042
Deferred tax assets	19,308	19,265
Other assets	5,525	5,566
Total assets	\$275,587	\$256,086
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$57,289	\$59,914
Current maturities of long-term debt and obligations under capital leases	45,563	14,801
Total current liabilities	102,852	74,715
Long-term debt and obligations capital leases	41,465	45,707
Other liabilities	3,096	3,038
Total liabilities	147,413	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 32,518,816 and 32,492,266 shares issued at September 26, 2010 and June 27, 2010, respectively	325	325
Class B common stock, \$.01 par value, 200,000,000 shares authorized 42,138,465 shares issued at September 26, 2010 and June 27, 2010	421	421
Additional paid-in capital	286,170	285,515
Retained deficit	(125,601 )	(120,477 )

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Accumulated other comprehensive loss, net of tax	(317	)	(334	)
Treasury stock, at cost – 5,465,046 Class A shares and 5,280,000 Class B shares at September 26, 2010 and June 27, 2010.	(32,824	)	(32,824	)
Total stockholders' equity	128,174		132,626	
Total liabilities and stockholders' equity	\$275,587		\$256,086	

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended	
	September 26, 2010	September 27, 2009
Net revenues	\$104,521	\$108,316
Cost of revenues	60,940	64,562
Gross profit	\$43,581	\$43,754
Operating expenses:		
Marketing and sales	29,918	29,476
Technology and development	4,881	4,556
General and administrative	11,880	12,534
Depreciation and amortization	5,135	4,946
Total operating expenses	51,814	51,512
Operating loss	(8,233 )	(7,758 )
Other income (expense):		
Interest income	29	14
Interest expense	(1,199 )	(1,546 )
Other	1	2
Total other income (expense), net	(1,169 )	(1,530 )
Loss from continuing operations before income taxes	(9,402 )	(9,288 )
Income tax benefit from continuing operations	4,278	3,622
Loss from continuing operations	(5,124 )	(5,666 )
Loss from discontinued operations	-	(2,638 )
Income tax benefit from discontinued operations	-	1,029
Loss from discontinued operations	-	(1,609 )
Net loss	\$(5,124 )	\$(7,275 )
Basic and diluted net loss per common share		
From continuing operations	\$(0.08 )	\$(0.09 )
From discontinued operations	-	\$(0.03 )
Net loss per common share	\$(0.08 )	\$(0.11 )
Weighted average shares used in the calculation of basic and diluted net loss per common share	63,894	63,472

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended	
	September 26, 2010	September 27, 2009
Operating activities		
Net loss	\$(5,124 )	\$(7,275 )
Reconciliation of net loss to net cash used in operating activities:		
Loss from discontinued operations	-	(1,695 )
Depreciation and amortization	5,135	4,861
Amortization of deferred financing costs	120	85
Deferred income taxes	(4,282 )	(360 )
Stock based compensation	655	1,053
Bad debt expense	458	309
Other	-	84
Changes in operating items		
Receivables	(8,573 )	(9,528 )
Inventories	(25,869 )	(28,617 )
Prepaid and other	(2,694 )	(1,675 )
Accounts payable and accrued expenses	(2,625 )	(4,290 )
Other assets	(109 )	(86 )
Other liabilities	32	(2 )
Net cash used in operating activities	(42,876 )	(47,136 )
Investing activities		
Capital expenditures	(2,450 )	(2,283 )
Purchase of investment	-	(598 )
Other, net	36	39
Investing activities of discontinued operations	-	(35 )
Net cash used in investing activities	(2,414 )	(2,877 )
Financing activities		
Proceeds from bank borrowings	30,000	29,000
Repayment of notes payable and bank borrowings	(3,000 )	(5,087 )
Debt issuance cost	(17 )	-
Repayment of capital lease obligations	(480 )	(485 )
Net cash provided by financing activities	26,503	23,428
Net change in cash and equivalents	(18,787 )	(26,585 )
Cash and equivalents:		
Beginning of period	27,843	29,562
End of period	\$9,056	\$2,977

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 months ended September 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 months ended September 26, 2010 and September 27, 2009, the Company’s comprehensive losses were as follows:

	Three Months Ended	
	September 26, 2010	September 27, 2009
	(in thousands)	
Net loss	\$ (5,124 )	\$ (7,275 )
Change in fair value of cash flow hedge, net of tax	17	(279 )
Comprehensive loss	\$ (5,107 )	\$ (7,554 )



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

### 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.

### 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, resulting in a change to our reportable segment structure. Gift basket products, formerly included in the Consumer Floral reportable segment are now included in the Gourmet Food & Gift Baskets segment. These changes have been reflected in the Company's segment reporting for all periods presented.

### Note 2 – Net Income (Loss) Per Common Share

Basic net loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed using the weighted-average number of common shares outstanding during the period, and excludes the effect of dilutive potential common shares (consisting of employee stock options and unvested restricted stock awards) for the three months ended September 26, 2010 and September 27, 2009, respectively, as their inclusion would be antidilutive.

### 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.

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

Three Months Ended	
September	September
26, 2010	27, 2009
(in thousands)	

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Stock options	\$289	\$495
Restricted stock awards	366	558
Total	655	1,053
Deferred income tax benefit	216	322
Stock-based compensation expense, net	\$439	\$731

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

	Three Months Ended	
	September	September
	26, 2010	27, 2009
	(in thousands)	
Marketing and sales	\$262	\$458
Technology and development	131	229
General and administrative	262	366
Total	\$655	\$1,053

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

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	
	September 26, 2010	September 27, 2009
Weighted average fair value of options granted	\$ 1.01	\$ 1.63
Expected volatility	69.0%	62.0%
Expected life	5.6 yrs	5.6 yrs
Risk-free interest rate	1.36%	2.48%
Expected dividend yield	0.0%	0.0%

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

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at June 27, 2010	6,890,089	\$ 6.50		
Granted	27,000	\$ 1.69		
Exercised	-	\$ -		
Forfeited	(162,451 )	\$ 4.79		
Outstanding at September 26, 2010	6,754,638	\$ 6.52	3.3 years	\$ 4
Options vested or expected to vest at September 26, 2010	6,667,026	\$ 6.56	3.2 years	\$ 3
Exercisable at September 26, 2010	5,517,204	\$ 7.14	2.6 years	\$ -

As of September 26, 2010, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$1.4 million and the weighted average period over which these awards are expected to be recognized was 1.9 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 months ended September 26, 2010:

Shares	Weighted Average Grant Date Fair Value
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Non-vested at June 27, 2010	1,661,811	\$	4.35
Granted	29,334	\$	1.69
Vested	(26,550 )	\$	4.15
Forfeited	(146,005 )	\$	4.32
Non-vested at September 26, 2010	1,518,590	\$	4.30

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

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of September 26, 2010, there was \$2.8 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 1.3 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:

	September 26, 2010	June 27, 2010
	(in thousands)	
Finished goods	\$44,295	\$23,611
Work-in-Process	17,166	13,390
Raw materials	9,529	8,120
	\$70,990	\$45,121

Note 5 – Goodwill and Intangible Assets

The carrying amount of goodwill is as follows:

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

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.

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

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

	Amortization Period	September 26, 2010			June 27, 2010		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
(in thousands)							
Intangible assets with determinable lives							
Investment in licenses	14 - 16 years	\$5,314	\$5,314	\$-	\$5,314	\$ 5,314	\$-
Customer lists	3 - 10 years	15,695	7,259	8,436	15,695	6,758	8,937
Other	5 - 8 years	2,388	1,458	930	2,388	1,351	1,037
		23,397	14,031	9,366	23,397	13,423	9,974
Intangible assets with indefinite lives	-	31,078	-	31,078	31,068	-	31,068
Total identifiable intangible assets		\$54,475	\$ 14,031	40,444	\$54,465	\$ 13,423	\$41,042

Future estimated amortization expense is as follows: remainder of fiscal 2011 - \$1.6 million, fiscal 2012 - \$1.6 million, fiscal 2013 - \$1.5 million, fiscal 2014 - \$1.2 million, fiscal 2015 - \$1.2 million and thereafter - \$2.3 million.

#### Note 6 – Long-Term Debt

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

	September 26, 2010	June 27, 2010
(in thousands)		
Term loan (1)	\$54,000	\$57,000
Revolving line of credit (1)	30,000	-
Obligations under capital leases (2)	3,028	3,508
	87,028	60,508
Less current maturities of long-term debt and obligations under capital leases	45,563	14,801
	\$41,465	\$45,707

(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, amortized at the rate of 20% in year one, 25% in years two and three and 30% in year four.

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

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 revises 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.

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.



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

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 September 26, 2010	Fair Value Measurements Assets (Liabilities)		
		Level 1	Level 2 (in thousands)	Level 3
Interest rate swap (1)	(\$584)	-	(\$584)	-

(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 rate from continuing operations for the three months ended September 26, 2010 was 45.5%, compared to 39.0% during the comparative three months ended September 27, 2009. 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.

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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 (1) below), which are operated under a centralized management platform, providing services throughout the organization, nor does it include depreciation and amortization, goodwill and intangible impairment, other income, and income taxes, or stock-based compensation and severance and restructuring costs, both 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	
	September 26, 2010	September 27, 2009 (2)
Net revenues	(in thousands)	
Net revenues:		
1-800-Flowers.com Consumer Floral	\$ 62,603	\$ 68,034
BloomNet Wire Service	14,959	13,785
Gourmet Food & Gift Baskets	26,909	26,707
Corporate	215	126
Intercompany eliminations	(165 )	(336 )
Total net revenues	\$ 104,521	\$ 108,316

	Three Months Ended	
	September 26, 2010	September 27, 2009
Operating Income	(in thousands)	
Operating Income	26, 2010	(2)

Category Contribution Margin:

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1-800-Flowers.com Consumer Floral	\$5,353	\$7,344
Bloomnet Wire Service	4,299	4,105
Gourmet Food & Gift Baskets	(2,074 )	(2,881 )
Category Contribution Margin Subtotal	\$7,578	\$8,568
Corporate	(10,676 )	(11,380 )
Depreciation and amortization	(5,135 )	(4,946 )
Operating loss	\$(8,233 )	\$(7,758 )

(1) 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.

(2) 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, resulting in a change to our reportable segment structure. Gift basket products, formerly included in the Consumer Floral reportable segment are now included in the Gourmet Food & Gift Baskets segment. These changes have been reflected in the Company's segment reporting for all periods presented.

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

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 business to PH International, LLC. 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	
	September 26, 2010	September 27, 2009
	(in thousands)	
Net revenues from discontinued operations	-	\$17,354
Operating loss from discontinued operations	-	(2,638 )
Income tax benefit from discontinued operations	-	(1,029 )
Loss from discontinued operations	-	(1,609 )

Note 11 – Commitments and Contingencies

Legal Proceedings

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

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

### Forward Looking Statements

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

### Overview

1-800-FLOWERS.COM, Inc. is the world's leading florist and gift shop. For more than 30 years, 1-800-FLOWERS® (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 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. 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; refer to the Consolidated Financial Statements "Discontinued Operations" 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.

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. (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		% Change
	September 26, 2010	September 27, 2009 (in thousands)	
Net revenues from continuing operations:			
1-800-Flowers.com Consumer Floral	\$ 62,603	\$ 68,034	(8.0 %)
BloomNet Wire Service	14,959	13,785	8.5 %
Gourmet Food & Gift Baskets	26,909	26,707	0.8 %
Corporate (*)	215	126	70.6 %
Intercompany eliminations	(165 )	(336 )	(50.9 %)
Total net revenues from continuing operations	\$ 104,521	\$ 108,316	(3.5 %)

	Three Months Ended		% Change
	September 26, 2010	September 27, 2009 (in thousands)	
Gross profit from continuing operations:			
1-800-Flowers.com Consumer Floral	\$ 23,839 38.1 %	\$ 25,121 36.9 %	(5.1 %)
BloomNet Wire Service	8,463 56.6 %	8,022 58.2 %	5.5 %
Gourmet Food & Gift Baskets	11,204 41.6 %	10,517 39.4 %	6.5 %
Corporate (*)	75 34.9 %	94 74.6 %	(20.2 %)
Intercompany eliminations	-	-	
Total gross profit from continuing operations	\$ 43,581 41.7 %	\$ 43,754 40.4 %	(0.4 %)

Three Months Ended

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	September 26, 2010	September 27, 2009 (in thousands)	% Change
Category contribution margin from continuing operations:			
1-800-Flowers.com Consumer Floral	\$ 5,353	\$ 7,344	(27.1 %)
BloomNet Wire Service	4,299	4,105	4.7 %
Gourmet Food & Gift Baskets	(2,074 )	(2,881 )	28.0 %
Category contribution margin subtotal	\$ 7,578	\$ 8,568	(11.6 %)
Corporate (*)	(10,676 )	(11,380 )	6.2 %
EBITDA from continuing operations	\$ (3,098 )	\$ (2,812 )	(10.2 %)

	Three Months Ended		
	September 26, 2010	September 27, 2009	% Change
	(in thousands)		
Discontinued operations:			
Net revenues from discontinued operations	-	\$ 17,354	-
Gross profit from discontinued operations	-	7,548	-
Contribution margin from discontinued operations	-	(2,119 )	-

(\*) 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, and 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 EBITDA, reflecting only the direct controllable revenue and operating expenses of the categories. As such, management's measure of profitability for these categories does not include the effect of corporate overhead, described above, nor does it include depreciation and amortization, other income (net), and income taxes. Management utilizes EBITDA/Adjusted EBITDA as a performance measurement tool because it considers such information a meaningful supplemental measure of its performance and believes it is frequently used by the investment community in the evaluation of companies with comparable market capitalization. The Company also uses EBITDA/Adjusted EBITDA as one of the factors used to determine the total amount of bonuses available to be awarded to executive officers and other employees. The Company's credit agreement uses EBITDA/Adjusted EBITDA to measure compliance with covenants such as the interest coverage ratio and consolidated leverage ratio. EBITDA is also used by the Company to evaluate and price potential acquisition candidates. EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. Some of these limitations are: (a) EBITDA does not reflect changes in, or cash requirements for, the Company's working capital needs; (b) EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Company's debts; and (c) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA does not reflect any cash requirements for such capital expenditures. Because of these limitations, EBITDA/Adjusted

EBITDA should only be used on a supplemental basis combined with GAAP results when evaluating the Company's performance.

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## Reconciliation of Net Loss from Continuing Operations to EBITDA from Continuing Operations:

	Three Months Ended	
	September 26, 2010	September 27, 2009
	(in thousands)	
Net loss from continuing operations	\$(5,124 )	\$(5,666 )
Add:		
Interest expense	1,199	1,546
Depreciation and amortization	5,135	4,946
Less:		
Income tax benefit	4,278	3,622
Interest income	29	14
Other income (expense)	1	2
EBITDA from continuing operations	\$(3,098 )	\$(2,812 )

## Results of Operations

## Net Revenues

	September 26, 2010	Three Months Ended September 27, 2009 (in thousands)	% Change
Net revenues:			
E-Commerce	\$ 71,213	\$ 74,840	(4.8%)
Other	33,308	33,476	(0.5%)
Total net revenues	\$ 104,521	\$ 108,316	(3.5%)

During the three months ended September 26, 2010, revenues declined by 3.5% in comparison to the three months ended September 27, 2009 as a result of lower demand within the 1-800-Flowers Consumer Floral 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 sales growth in the Company's BloomNet Wire Service business and e-commerce sales within the Gourmet Food and Gift Basket category.

The Company fulfilled approximately 1,136,000 orders through its E-commerce sales channels (online and telephonic sales) during the three months ended September 26, 2010, representing a decline of 9.0% in comparison to the same period of the prior year. The Company's E-commerce average order value of \$62.67, during the three months ended September 26, 2010, increased by 4.6% over the prior year period, reflecting the Company's efforts to reduce promotional pricing.



Other revenues during the three months ended September 26, 2010 were relatively consistent with the prior year period as revenue growth within the BloomNet Wire Service business, due to improved floral wholesale product sales, was entirely offset by lower wholesale orders within the Gourmet Food and Gift Basket businesses and lower retail store sales due to unseasonably hot weather that impacted Fannie May retail store traffic in July and August of the current fiscal year.

The 1-800-Flowers.com Consumer Floral category includes the operations of the 1-800-Flowers brand which derives revenue from the sale of consumer floral products through its E-Commerce sales channels (telephonic and online sales) and company-owned and operated retail floral stores, as well as royalties from its franchise operations. Net revenues during the three months ended September 26, 2010 decreased by 8.0% over the prior year period as a result of lower demand due to the economic climate, as well as the loss of revenues associated with a third-party marketing program which was discontinued in December 2009.

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 months ended September 26, 2010 increased by 8.5% compared to the prior year as a result of increased wholesale product revenues, including the Company's new exclusive Yankee Candle® products, as well as 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 months ended September 26, 2010 increased 0.8% over the prior year as a result of higher e-commerce orders, partially offset by lower wholesale orders and lower retail store sales due to unseasonably hot weather that negatively impacted Fannie May retail store traffic in July and August of 2010.

#### Gross Profit

	Three Months Ended		
	September 26, 2010	September 27, 2009	% Change
	(in thousands)		
Gross profit	\$ 43,581	\$ 43,754	(0.4%)
Gross margin %	41.7%	40.4%	

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 months ended September 26, 2010, due to the decline in revenues described above, while gross margin percentage increased 130 basis points, due to several factors including product

mix, decreased promotional activity, improved manufacturing and supply chain operating efficiencies and reduced outbound shipping costs.

The 1-800-Flowers.com Consumer Floral category gross profit decreased by 5.1% during the three months ended September 26, 2010, due to the lower revenue as described above, including the impact of the discontinuation of the high margin third-party marketing program, while the gross profit margin percentage increased 120 basis points, due to the aforementioned decrease in promotional activity, which the Company expects to continue to see benefits from, in the form of improved gross profit margins, throughout the remainder of fiscal 2011.

The BloomNet Wire Service category gross profit increased by 5.5% during the three months ending September 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.

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The Gourmet Food & Gift Baskets category gross profit and gross profit margin percentage increased during the three months ended September 26, 2010 by 6.5% and 220 basis points, respectively, as a result of sales mix, which included higher e-commerce revenue, as well as improved gross margins from a combination of manufacturing efficiencies and reduced outbound shipping costs achieved through the Company's sourcing initiatives 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 and a shift in product mix, as well as improvements in product sourcing, supply chain and manufacturing efficiencies.

#### Marketing and Sales Expense

	Three Months Ended		
	September 26, 2010 (in thousands)	September 27, 2009	% Change
Marketing and sales	29,918	29,476	1.5%
Percentage of net revenues	\$ 28.6%	\$ 27.2%	

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 increased by 1.5% during the three months ended September 26, 2010, primarily as a result of expenditures to fund future growth initiatives, including franchising, the Celebrations.com brand and enhancements to the floral supply chain.

During the three months ended September 26, 2010 the Company added approximately 340,000 new customers, and approximately 934,000 customers placed orders during the three months ended September 26, 2010, of which approximately 64% represented repeat customers, compared to 63% during the prior year period, reflecting the Company's ongoing focus on deepening the relationship with its existing customers as their trusted resource for all their celebratory occasions.

#### Technology and Development Expense

	Three Months Ended		
	September 26, 2010 (in thousands)	September 27, 2009	% Change
Technology and development	4,881	4,556	7.1%
Percentage of net revenues	\$ 4.7%	\$ 4.2%	

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 months ended September 26, 2010, technology and development expense increased by 7.1%, over the 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 months ended September 26, 2010 and September 27, 2009, the Company expended \$6.2 million and \$6.3 million, respectively, on technology and development, of which \$1.3 million and \$1.7 million, respectively, has been capitalized.

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## General and Administrative Expense

	Three Months Ended		
	September 26, 2010	September 27, 2009	% Change
	(in thousands)		
General and administrative	\$ 11,880	\$ 12,534	(5.2%)
Percentage of net revenues	11.4%	11.6%	

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 5.2% during the three months ended September 26, 2010 compared to the prior year, as a result of decreased health insurance costs due to plan redesign and a decrease in legal fees associated with litigation which was settled in the prior year.

## Depreciation and Amortization Expense

	Three Months Ended		
	September 26, 2010	September 27, 2009	% Change
	(in thousands)		
Depreciation and amortization	\$ 5,135	\$ 4,946	3.8%
Percentage of net revenues	4.9%	4.6%	

Depreciation and amortization expense increased by 3.8% during the three months ended September 26, 2010, in comparison to the prior year, due to increased depreciation expense associated with increased short-lived capital additions for technology improvements, including the Company's co-branded 1-800-BASKETS.com website.

## Other Income (Expense)

Three Months Ended	
September 26, 2010	September 27, 2009
(in thousands)	

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Interest income	\$29	\$14
Interest expense	(1,199)	(1,546 )
Other	1	2
	\$(1,169)	\$(1,530 )

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 months ended September 26, 2010 compared to the prior year period, as a result of reduced amounts outstanding under the Company's term loans.

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, amortized 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 months ended September 26, 2010 and September 27, 2009 the Company recorded an income tax benefit from continuing operations of \$4.3 million and \$3.6 million, respectively. The Company's effective tax rate from continuing operations for the three months ended September 26, 2010 was 45.5%, compared to 39% during the prior year period. 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	
September	September
26, 2010	27, 2009

(in thousands)

Discontinued Operations:

Net revenues from discontinued operations	-	\$17,354
Gross profit from discontinued operations	-	7,548
Contribution margin from discontinued operations	-	(2,119 )

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## Liquidity and Capital Resources

At September 26, 2010, the Company had working capital of \$17.0 million, including cash and equivalents of \$9.1 million, compared to working capital of \$23.0 million, including cash and equivalents of \$27.8 million, at June 27, 2010.

Net cash used in operating activities of \$42.9 million for the three months ended September 26, 2010 was primarily related to the net loss for the quarter, as well as seasonal changes in working capital, including increases in inventory and receivables related to the upcoming holiday season.

Net cash used in investing activities of \$2.4 million for the three months ended September 26, 2010 was primarily attributable to capital expenditures, primarily related to the Company's technology infrastructure.

Net cash provided by financing activities of \$26.5 million for the three months ended September 26, 2010 was primarily from revolving credit borrowings required to fund seasonal working capital needs, net of the repayment of bank borrowings on outstanding term-loan debt and long-term capital lease obligations. The Company expects that all borrowings under its revolver, which amounted to \$30 million at September 26, 2010, will be repaid by the end of its 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, amortized 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 anticipates borrowing against the facility to fund working capital requirements related to pre-holiday manufacturing and inventory purchases will peak during its fiscal second quarter before being repaid prior to the end of that quarter.

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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 September 26, 2010, \$12.3 million remains authorized but unused.

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

	Total	Payments due by period (in thousands)			
		Less than 1 year	1 – 2 years	3 – 5 years	More than 5 years
Long-term debt, including interest	\$90,031	\$46,321	\$34,524	\$9,186	\$-
Capital lease obligations, including interest	3,368	2,281	1,087	-	-
Operating lease obligations	50,456	11,624	19,223	11,462	8,147
Sublease obligations	4,761	2,188	1,973	539	61
Purchase commitments (*)	33,090	33,090	-	-	-
<b>Total</b>	<b>\$181,706</b>	<b>\$ 95,504</b>	<b>\$56,807</b>	<b>\$21,187</b>	<b>\$8,208</b>

(\*) Purchase commitments consist primarily of inventory and equipment purchase orders 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.

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### 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 business 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.

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## 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.

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## 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. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

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### 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 September 26, 2010, the Company's outstanding debt, including current maturities, approximated \$87.0 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 during the three months ended September 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 September 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 September 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 September 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.

ITEM 1A. RISK FACTORS

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

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

The Company had no purchases of common stock during the three months ended September 26, 2010 which includes the period June 28, 2010 through September 26, 2010.

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 September 26, 2010, \$12.3 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: November 5, 2010  
James F. McCann  
Chief Executive Officer and  
Chairman of the Board of Directors

/s/ James F. McCann

Date: November 5, 2010  
William E. Shea  
Senior Vice President of Finance and  
Administration and Chief Financial Officer

/s/ William E. Shea

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