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1 800 FLOWERS COM INC  
Form 10-Q  
November 13, 2006

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

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended October 1, 2006

\_\_\_ 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

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(Registrant's telephone number, including area code)

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

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

Large accelerated filer ( ) Accelerated filer(X) Non-accelerated filer ( )

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:

28,307,595

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(Number of shares of Class A common stock outstanding as of November 2, 2006)

36,858,465

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(Number of shares of Class B common stock outstanding as of November 2, 2006)

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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)

|   | October 1,<br>2006 |             |
|---|--------------------|-------------|
|   |                    | (unaudited) |
| Assets  |                    |             |
| Current assets:   |                    |             |
| Cash and equivalents  | \$9,698            |             |
| Receivables, net  | 19,993             |             |
| Inventories   | 74,535             |             |
| Deferred income taxes   | 22,292             |             |
| Prepaid and other   | 27,123             |             |
| Total current assets  | 153,641            |             |
| Property, plant and equipment, net  | 62,071             |             |
| Goodwill  | 131,390            |             |
| Other intangibles, net  | 28,851             |             |
| Deferred income taxes   | 6,224              |             |
| Other assets  | 1,614              |             |
| Total assets  | \$383,791          | =====       |
| Liabilities and stockholders' equity  |                    |             |
| Current liabilities:  |                    |             |
| Accounts payable and accrued expenses   | \$ 70,260          |             |
| Current maturities of long-term debt and obligations under capital leases   | 47,187             |             |
| Total current liabilities   | 117,447            |             |
| Long-term debt and obligations under capital leases   | 77,701             |             |
| Other liabilities   | 1,721              |             |
| Total liabilities   | 196,869            |             |
| 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, 29,862,945 and 29,872,183 shares issued at October 1, 2006 and July 2, 2006, respectively | 299                |             |
| Class B common stock, \$.01 par value, 200,000,000 shares authorized, 42,138,465 shares issued at October 1, 2006 and July 2, 2006, respectively                | 421                |             |
| Additional paid-in capital  | 263,825            |             |
| Retained deficit  | (63,430)           |             |
| Treasury stock, at cost, 1,555,350 Class A shares at October 1, 2006 and July 2, 2006, respectively and 5,280,000 Class B shares                                | (14,193)           |             |
| Total stockholders' equity  | 186,922            |             |

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Total liabilities and stockholders' equity

\$383,791

See accompanying Notes to Consolidated Financial Statements.

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

|   | Three Months Ended |                    |
|---|--------------------|--------------------|
|   | October 1,<br>2006 | October 2,<br>2005 |
| Net revenues  | \$137,132          | \$112,765          |
| Cost of revenues  | 82,318             | 66,739             |
| Gross profit  | 54,814             | 46,026             |
| Operating expenses:   |                    |                    |
| Marketing and sales   | 42,370             | 38,224             |
| Technology and development  | 5,161              | 4,769              |
| General and administrative  | 13,343             | 10,636             |
| Depreciation and amortization   | 4,744              | 3,524              |
| Total operating expenses  | 65,618             | 57,153             |
| Operating loss  | (10,804)           | (11,127)           |
| Other income (expense):   |                    |                    |
| Interest income   | 337                | 215                |
| Interest expense  | (1,828)            | (84)               |
| Other   | 11                 | 6                  |
| Total other income (expense), net   | (1,480)            | 137                |
| Loss before income taxes  | (12,284)           | (10,990)           |
| Income tax benefit  | (4,865)            | (4,364)            |
| Net loss  | (\$7,419)          | (\$6,626)          |
| Basic and diluted net loss per common share   | (\$0.11)           | (\$0.10)           |
| Weighted average shares used in the calculation of<br>basic and diluted net loss per common share | 65,195             | 65,088             |

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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<br>October 1,<br>2006 |
|--|--|
| Operating activities:                                      |  |
| Net loss   | (\$7,419)                                |
| Reconciliation of net loss to net cash used in operations: |  |
| Depreciation and amortization                              | 4,744                                    |
| Deferred income taxes                                      | (4,865)                                  |
| Stock-based compensation                                   | 1,020                                    |
| Bad debt expense   | 238                                      |
| Other non-cash items                                       | 56                                       |
| Changes in operating items:                                |  |
| Receivables  | (7,078)                                  |
| Inventories  | (21,581)                                 |
| Prepaid and other  | (16,776)                                 |
| Accounts payable and accrued expenses                      | 6,391                                    |
| Other assets   | (387)                                    |
| Other liabilities  | 562                                      |
| Net cash used in operating activities                      | (45,095)                                 |
| Investing activities:                                      |  |
| Proceeds from sale of investments                          | -  |
| Capital expenditures                                       | (6,146)                                  |
| Other  | (262)                                    |
| Net cash used in investing activities                      | (6,408)                                  |
| Financing activities:                                      |  |
| Acquisition of treasury stock                              | -  |
| Proceeds from employee stock options                       | 138                                      |
| Proceeds from bank borrowings                              | 37,000                                   |
| Repayment of notes payable                                 | (363)                                    |
| Payment of capital lease obligations                       | (173)                                    |
| Net cash provided by (used in) financing activities        | 36,602                                   |
| Net change in cash and equivalents                         | (14,901)                                 |

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Cash and equivalents:

Beginning of period

24,599

End of period

\$9,698

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 October 1, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending July 1, 2007.

The balance sheet information at July 2, 2006 has been derived from the audited financial statements at that date.

The information in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 2006.

##### 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

For the three months ended October 1, 2006 and October 2, 2005, the Company's comprehensive losses were equal to the respective net losses for each of the periods presented.

##### Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 applies to all tax positions accounted for under SFAS No. 109,

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"Accounting for Income Taxes" and defines the confidence level that a tax position must meet in order to be recognized in the financial statements. The interpretation requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained by the taxing authority as of the reporting date. If a tax position is not considered "more-likely-than-not" to be sustained then no benefits of the position are to be recognized. FIN 48 requires additional disclosures and is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements, and is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the effect that the adoption of this Statement will have on its consolidated results of operations and financial condition.

### Reclassifications

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

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

#### Note 2 - Net 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 925,072 and 1,314,000 dilutive potential common shares (consisting of employee stock options and unvested restricted stock awards) for the three months ended October 1, 2006 and October 1, 2005, 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 11 of the Company's 2006 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 share-based awards.

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

| Three Months Ended |                    |
|--------------------|--------------------|
| October 1,<br>2006 | October 2,<br>2005 |

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|   | (in thousands, except<br>per share data) |        |
|---|--|--------|
| Stock options   | \$856                                    | \$850  |
| Restricted stock awards                               | 164                                      | 87     |
|   | -----                                    | -----  |
| Total   | 1,020                                    | 937    |
| Related deferred income tax benefit                   | 281                                      | 210    |
|   | -----                                    | -----  |
|   | \$739                                    | \$727  |
|   | =====                                    | =====  |
| Impact on basic and diluted net loss per common share | \$0.01                                   | \$0.01 |
|   | =====                                    | =====  |
| Marketing and sales                                   | \$358                                    | \$330  |
| Technology and development                            | 153                                      | 140    |
| General and administrative                            | 509                                      | 467    |
|   | -----                                    | -----  |
| Total (*)   | \$1,020                                  | \$937  |
|   | =====                                    | =====  |

(\*) Stock based compensation expense has not been allocated to the Company's business categories, but is reflected in Corporate expenses.

The Company did not grant stock options during the three months ended October 1, 2006. 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 during the three months ended October 2, 2005 were as follows:

|  | Three Months Ended |                    |
|--|--------------------|--------------------|
|  | October 1,<br>2006 | October 2,<br>2005 |
|  | -----              | -----              |
| Weighted average fair value of options granted | -                  | \$3.38             |
| Expected volatility                            | -                  | 46%                |
| Expected life                                  | -                  | 5.2 yrs            |
| Risk-free interest rate                        | -                  | 4.17%              |
| Expected dividend yield                        | -                  | 0.0%               |

The expected volatility of the option is determined using historical volatilities based on historical stock prices. The Company estimated the expected life of options granted to be the average of the Company's historical expected term from vest date and the midpoint between the average vesting term and the contractual term. The risk-free interest rate is determined using the yield available for zero-coupon country-regionplaceU.S. government issues with a



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remaining term equal to the expected life of the option. The Company has never paid a dividend, and as such the dividend yield is 0.0%.

The following table summarizes stock option activity during the three months ended October 1, 2006:

|   | Options    | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term |
|---|------------|--|---|
| Outstanding at July 2, 2006                           | 10,103,491 | \$8.09                                   |   |
| Granted   | 0          |  |   |
| Exercised   | (31,255)   | \$4.44                                   |   |
| Forfeited   | (186,349)  | \$11.06                                  |   |
|   | -----      |  |   |
| Outstanding at October 1, 2006                        | 9,885,887  | \$8.04                                   | 5.6 years   |
|   | =====      |  |   |
| Options vested or expected to vest at October 1, 2006 | 9,678,383  | \$8.06                                   | 4.7 years   |
| Exercisable at October 1, 2006                        | 7,485,722  | \$8.33                                   | 4.7 years   |

As of October 1, 2006, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$6.3 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 and, in certain cases, holding periods (Restricted Stock Awards). The following table summarizes the activity of non-vested restricted stock during the three months ended October 1, 2006:

|                               | Shares   | Weighted<br>Average Grant<br>Date Fair<br>Value |
|-------------------------------|----------|---|
| Non-vested at July 2, 2006    | 293,681  | \$7.  |
| Granted                       | 11,058   | \$5.  |
| Vested                        | (29,163) | \$6.  |
| Forfeited                     | (1,438)  | \$7.  |
|                               | -----    |   |
| Non-vested at October 1, 2006 | 274,138  | \$7.  |
|                               | =====    |   |

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of October 1, 2006, there was \$1.1 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over a weighted-average period of 2.4 years.

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

#### Note 4 - Acquisitions

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

#### Acquisition of Fannie May Confections Brands, Inc.

On May 1, 2006, the Company acquired all of the outstanding common stock of Fannie May Confections Brands, Inc. ("Fannie May Confections Brands"), a manufacturer and multi-channel retailer and wholesaler of premium chocolate and other confections under the well-known Fannie May, Harry London and Fanny Farmer brands. The acquisition, for a purchase price of approximately \$92.2 million in cash, including estimated working capital adjustments and transaction costs, includes a modern 200,000-square foot manufacturing facility in North Canton, Ohio and 52 Fannie May retail stores in the Chicago area, where the chocolate brand has been a tradition since 1920. The purchase price is subject to "earn-out" incentives which amount to a maximum of \$4.5 million during the year ending July 1, 2007 and \$1.5 million during the year ending June 29, 2008, upon achievement of specified earnings targets. Fannie May Confections Brands generated revenues of approximately \$75.0 million in its most recent fiscal year ended April 30, 2006.

As described further under "Long-Term Debt," in order to finance the acquisition, on May 1, 2006, the Company entered into a \$135.0 million secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility includes an \$85.0 million term loan and a \$50.0 million revolving facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed \$85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands.

The Company is in the process of obtaining independent appraisals for the purpose of allocating the purchase price to individual assets acquired and liabilities assumed as a result of the acquisition of Fannie May Confections Brands. This will result in potential adjustments to the carrying value of Fannie May Confections Brands' recorded assets and liabilities, the establishment of certain additional intangible assets, revisions of useful lives of intangible assets, some of which will have indefinite lives not subject to amortization, and the determination of any residual amount that will be allocated to goodwill. The preliminary allocation of the purchase price included in the current period balance sheet is based on the best estimates of management and is subject to revision based on final determination of asset fair values and useful lives.

#### Acquisition of Wind & Weather

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On October 31, 2005, the Company acquired all of the outstanding common stock of Wind & Weather, a Fort Bragg, California based direct marketer of weather-themed gifts, with annual revenues of approximately \$14.4 million during its then most recently completed fiscal year ended March 31, 2005. The purchase price of approximately \$5.2 million, including acquisition costs, was funded utilizing the Company's line of credit which was repaid during the Company's second quarter utilizing cash generated from operations, and excludes the assumption of Wind & Weather's \$1.2 million balance on its seasonal working capital line. The Company has since relocated the operations of Wind & Weather to its Madison, Virginia facility, and terminated operations in California.

The following table summarizes the allocation of purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of acquisitions of Fannie May Confections Brands and Wind & Weather:

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

|                               | Fannie May<br>Confections<br>Brands<br>Purchase Price<br>Allocation | Wind & Weather<br>Purchase Price<br>Allocation |
|-------------------------------|---|--|
|                               | -----   | -----  |
|                               | (in thousands)  |  |
| Current assets                | \$21,979  | \$4,014  |
| Property, plant and equipment | 3,640   | 67   |
| Intangible assets             | 13,200  | 2,560  |
| Goodwill                      | 63,001  | 2,703  |
| Other                         | 156   | 20   |
|                               | -----   | -----  |
| Total assets acquired         | 101,976   | 9,364  |
|                               | -----   | -----  |
| Current liabilities           | 4,929   | 3,810  |
| Deferred tax liabilities      | 4,485   | 265  |
| Other                         | 399   | 39   |
|                               | -----   | -----  |
| Total liabilities assumed     | \$9,813   | 4,114  |
| Net assets acquired           | \$92,163  | \$5,250  |
|                               | =====   | =====  |

Of the \$15.8 million of acquired intangible assets related to the Fannie May Confections Brands and Wind & Weather acquisitions, \$1.9 million was assigned to trademarks that are not subject to amortization, while the remaining acquired intangibles of \$13.9 million were allocated primarily to customer related intangibles which are being amortized over the assets' determinable useful life of 5 years.

Pro forma Results of Operation

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The following unaudited pro forma consolidated financial information has been prepared as if the acquisitions of Fannie May Confections Brands and Wind & Weather had taken place at the beginning of each fiscal year presented. The following unaudited pro forma information is not necessarily indicative of the results of operations in future periods or results that would have been achieved had the acquisitions taken place at the beginning of the periods presented.

|  | Three Months Ended                       |                    |
|--|--|--------------------|
|  | October 1,<br>2006                       | October 2,<br>2005 |
|  | (in thousands, except per<br>share data) |                    |
| Net revenues                                   | \$137,132                                | \$124,885          |
| Operating loss                                 | (\$10,804)                               | (\$12,075)         |
| Net loss                                       | (\$7,419)                                | (\$8,106)          |
| Net loss per basic and diluted<br>common share | (\$0.11)                                 | (\$0.12)           |

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

### Note 5 - Inventory

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

|                 | October<br>2006 |
|-----------------|-----------------|
| Finished goods  | \$51,6          |
| Work-in-Process | 5,0             |
| Raw materials   | 17,7            |
|                 | \$74,5          |

### Note 6 - Goodwill and Intangible Assets

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

October  
2006

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|  |                |
|--|----------------|
|  | (in thousands) |
| Goodwill - beginning of year                 | \$131,1        |
| Acquisition of Fannie May Confections Brands | 2              |
| Goodwill - end of period                     | \$131,3        |
|  | =====          |

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

|  |                        | October 1, 2006             |                             |          |                             |
|--|------------------------|-----------------------------|-----------------------------|----------|-----------------------------|
|  | Amortization<br>Period | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net      | Gross<br>Carrying<br>Amount |
|  |                        |                             |                             |          |                             |
|  |                        |                             |                             |          | (in thousands)              |
| Intangible assets with<br>determinable lives |                        |                             |                             |          |                             |
| Investment in licenses                       | 14 - 16 years          | \$4,927                     | \$3,842                     | \$1,085  | \$4,927                     |
| Customer lists                               | 3 - 6 years            | 18,500                      | 3,082                       | 15,418   | 18,500                      |
| Other  | 5 - 8 years            | 1,754                       | 314                         | 1,440    | 1,754                       |
|  |                        | 25,181                      | 7,238                       | 17,943   | 25,181                      |
| Trademarks with<br>indefinite lives          |                        | 10,908                      | -                           | 10,908   | 10,886                      |
| Total identifiable<br>intangible assets      |                        | \$36,089                    | \$7,238                     | \$28,851 | \$36,067                    |
|  |                        | =====                       | =====                       | =====    | =====                       |

Estimated future amortization expense is as follows: remainder of fiscal 2007 - \$3.0 million, fiscal 2008 - \$4.0 million, fiscal 2009 - \$3.9 million, fiscal 2010 - \$3.8 million, fiscal 2011 - \$2.9 million, and thereafter - \$0.3 million.

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

### Note 7 - Long-Term Debt

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

|                       | October<br>2006 |
|-----------------------|-----------------|
| Term loan             | \$85,000        |
| Revolving credit line | 37,000          |

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|  |          |
|--|----------|
| Commercial note  | 2,603    |
| Seller financed acquisition obligations  | -        |
| Obligations under capital leases   | 285      |
|  | -----    |
|  | 124,888  |
| Less current maturities of long-term debt and obligations under capital leases | 47,187   |
|  | -----    |
|  | \$77,701 |
|  | =====    |

In order to finance the acquisition of Fannie May Confections Brands, on May 1, 2006, the Company entered into a \$135.0 million secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility includes an \$85.0 million term loan and a \$50.0 million revolving facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed \$85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands. The Company is required to pay the outstanding term loan in escalating quarterly installments, with the final installment payment due on May 1, 2012. As of October 1, 2006, \$37.0 million was outstanding under the revolving credit facility, the proceeds of which were used to fund working capital requirements for the Company's upcoming holiday season.

### 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 for the three months ended October 1, 2006 was 39.6% compared to 39.7% during the comparative three month period ended October 2, 2005. The effective tax rate during the three months ended October 1, 2006 and October 2, 2005 includes the impact of stock-based compensation recognized in accordance with SFAS No. 123(R), and resulted in decreases in the effective income tax rate of approximately 1.1% and 1.6%, respectively, resulting primarily from the associated book/tax differences in accounting for incentive stock options.

### Note 9 - Business Segments

During the first quarter of fiscal 2007, the Company segmented its organization to improve execution and customer focus and to align its resources to meet the demands of the markets it serves. The Company's management reviews the results of the Company's operations by the following four business categories:

- o 1-800-Flowers.com Consumer Floral;
- o BloomNet Wire Service;
- o Gourmet Food and Gift Baskets; and
- o Home and Children's Gifts.

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

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include the effect of corporate overhead such as Information Technology, Human Resources and Finance, which are operated under a centralized management platform, providing services throughout the organization, nor does it include depreciation and amortization, other income (net), and income taxes. Assets and liabilities are reviewed at the consolidated level by management and not accounted for by category.

|                                   | Three Months Ended |                    |
|-----------------------------------|--------------------|--------------------|
|                                   | October 1,<br>2006 | October 2,<br>2005 |
| Net Revenues                      |                    |                    |
| (in thousands)                    |                    |                    |
| Net revenues:                     |                    |                    |
| 1-800-Flowers.com Consumer Floral | \$82,525           | \$76,275           |
| BloomNet Wire Service             | 7,166              | 4,516              |
| Gourmet Food & Gift Baskets       | 22,176             | 8,587              |
| Home & Children's Gifts           | 24,595             | 22,676             |
| Corporate (*)                     | 1,378              | 1,399              |
| Intercompany eliminations         | (708)              | (688)              |
| Total net revenues                | \$137,132          | \$112,765          |

|  | Three Months Ended |                    |
|--|--------------------|--------------------|
|  | October 1,<br>2006 | October 2,<br>2005 |
| Operating Income (Loss)                |                    |                    |
| (in thousands)                         |                    |                    |
| Category Contribution Margin:          |                    |                    |
| 1-800-Flowers.com Consumer Floral      | \$7,841            | \$5,916            |
| BloomNet Wire Service                  | 1,702              | 673                |
| Gourmet Food & Gift Baskets            | (1,606)            | (1,428)            |
| Home & Children's Gifts                | (2,055)            | (1,942)            |
| Category Contribution Margin Subtotal: | 5,882              | 3,219              |
| Corporate (*)                          | (11,942)           | (10,822)           |
| Depreciation and amorization           | (4,744)            | (3,524)            |
| Operating Loss                         | (\$10,804)         | (\$11,127)         |

(\*) 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. 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, (including share-based compensation), 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.

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### Note 10 - 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. The Company is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its consolidated financial position, results of operations or liquidity.

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

#### Forward Looking Statements

The section entitled "Forward Looking Information and Factors that May Affect Future Results," provides a description of the risks and uncertainties that could cause actual results to differ materially from those discussed in forward-looking statements set forth in this report relating to the financial results, operations and business prospects of the Company. Such forward-looking statements are based on management's current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances.

#### Overview

For more than 30 years, 1-800-FLOWERS.COM Inc. - "Your Florist of Choice(R)" - has been providing customers around the world with the freshest flowers and finest selection of plants, gift baskets, gourmet foods and confections, and plush stuffed animals perfect for every occasion. 1-800-FLOWERS.COM(R) offers the best of both worlds: exquisite, florist-designed arrangements individually created by some of the nation's top floral artists and hand-delivered the same day, and spectacular flowers delivered through its "Fresh From Our Growers" program.

Customers can "call, click or come in" to shop 1-800-FLOWERS.COM twenty four hours a day, 7 days a week at 1-800-356-9377 or [www.1800flowers.com](http://www.1800flowers.com). Sales and Service Specialists are available 24/7, and fast and reliable delivery is offered same day, any day. As always, 100 percent satisfaction and freshness is guaranteed. The 1-800-FLOWERS.COM collection of brands also includes home decor and children's gifts from Plow & Hearth(R) (1-800-627-1712 or [www.plowandhearth.com](http://www.plowandhearth.com)), Problem Solvers(R) ([www.problemsolvers.com](http://www.problemsolvers.com)), Wind & Weather(R) ([www.windandweather.com](http://www.windandweather.com)), Madison Place(R) ([www.madisonplace.com](http://www.madisonplace.com)), HearthSong(R) ([www.hearthsong.com](http://www.hearthsong.com)) and Magic Cabin(R) ([www.magiccabin.com](http://www.magiccabin.com)); gourmet gifts including popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or [www.thepopcornfactory.com](http://www.thepopcornfactory.com)); exceptional cookies and baked gifts from Cheryl&Co.(R) (1-800-443-8124 or [www.cherylandco.com](http://www.cherylandco.com)); premium chocolates and confections from Fannie May Confections Brands(R) ([www.fanniemay.com](http://www.fanniemay.com) and [www.harrylondon.com](http://www.harrylondon.com)); gourmet foods from GreatFood.com(R) ([www.greatfood.com](http://www.greatfood.com)); wine gifts from Ambrosia.com ([www.ambrosia.com](http://www.ambrosia.com)); gift baskets from 1-800-BASKETS.COM(R) ([www.1800baskets.com](http://www.1800baskets.com)) and the BloomNet(R) international floral wire service providing quality products and diverse services to a select network of florists.

1-800-FLOWERS.COM, Inc. stock is traded on the NASDAQ market under ticker symbol FLWS.

#### Category Information



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During the first quarter of fiscal 2007, the Company segmented its organization to improve execution and customer focus and to align its resources to meet the demands of the markets it serves. The following table presents the contribution of net revenues, gross profit and "EBITDA" (earnings before interest, taxes, depreciation and amortization) from each of the Company's business categories. Prior year information has been restated for comparative purposes.

| Net Revenues                      | Three Months Ended |                    |       |
|-----------------------------------|--------------------|--------------------|-------|
|                                   | October 1,<br>2006 | October 2,<br>2005 | % Cha |
|                                   | (in thousands)     |                    |       |
| Net revenues:                     |                    |                    |       |
| 1-800-Flowers.com Consumer Floral | \$82,525           | \$76,275           | 8.    |
| BloomNet Wire Service             | 7,166              | 4,516              | 58.   |
| Gourmet Food & Gift Baskets       | 22,176             | 8,587              | 158.  |
| Home & Children's Gifts           | 24,595             | 22,676             | 8.    |
| Corporate (*)                     | 1,378              | 1,399              | (1.   |
| Intercompany eliminations         | (708)              | (688)              | (2.   |
| Total net revenues                | \$137,132          | \$112,765          | 21.   |

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| Gross Profit                      | Three Months Ended |                    |       |
|-----------------------------------|--------------------|--------------------|-------|
|                                   | October 1,<br>2006 | October 2,<br>2005 | % Cha |
|                                   | (in thousands)     |                    |       |
| Gross Profit:                     |                    |                    |       |
| 1-800-Flowers.com Consumer Floral | \$31,373           | \$29,201           | 7.    |
| BloomNet Wire Service             | 4,100              | 2,613              | 56.   |
| Gourmet Food & Gift Baskets       | 8,487              | 3,768              | 125.  |
| Home & Children's Gifts           | 10,166             | 9,690              | 4.    |
| Corporate (*)                     | 732                | 796                | (8.   |
| Intercompany eliminations         | (44)               | (42)               | (4.   |
| Total gross profit                | \$54,814           | \$46,026           | 19.   |

| EBITDA                                 | Three Months Ended |                    |       |
|--|--------------------|--------------------|-------|
|  | October 1,<br>2006 | October 2,<br>2005 | % Cha |
|  | (in thousands)     |                    |       |
| Category Contribution Margin:          |                    |                    |       |
| 1-800-Flowers.com Consumer Floral      | \$7,841            | \$5,916            | 32.   |
| BloomNet Wire Service                  | 1,702              | 673                | 152.  |
| Gourmet Food & Gift Baskets            | (1,606)            | (1,428)            | (12.  |
| Home & Children's Gifts                | (2,055)            | (1,942)            | (5.   |
| Category Contribution Margin Subtotal: | 5,882              | 3,219              | 82.   |
| Corporate (*)                          | (11,942)           | (10,822)           | (10.  |

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EBITDA

(\$6,060)

(\$7,603)

20.

=====

(\*) 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. 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, (including share-based compensation), 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 as a performance measurement tool because it considers such information a meaningful supplemental measure of its performance and believes it is frequently used by the investment community in the evaluation of companies with comparable market capitalization. The Company also uses EBITDA as one of the factors used to determine the total amount of bonuses available to be awarded to executive officers and other employees. The Company's credit agreement uses EBITDA (with additional adjustments) to measure compliance with covenants such as interest coverage and debt incurrence. EBITDA is also used by the Company to evaluate and price potential acquisition candidates. EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. Some of these limitations are: (a) EBITDA does not reflect changes in, or cash requirements for, the Company's working capital needs; (b) EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Company's debts; and (c) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA does not reflect any cash requirements for such capital expenditures. Because of these limitations, EBITDA should only be used on a supplemental basis combined with GAAP results when evaluating the Company's performance.

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## Results of Operations

### Net Revenues

| Three Months Ended |                    |          |
|--------------------|--------------------|----------|
| October 1,<br>2006 | October 2,<br>2005 | % Change |
| (in thousands)     |                    |          |

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|                    |           |           |        |
|--------------------|-----------|-----------|--------|
| Net revenues:      |           |           |        |
| E-commerce         | \$109,259 | \$100,655 | 8.5%   |
| Other              | 27,873    | 12,110    | 130.2% |
|                    | -----     | -----     |        |
| Total net revenues | \$137,132 | \$112,765 | 21.6%  |
|                    | =====     | =====     |        |

The Company's revenue growth of 21.6% during the three months ended October 1, 2006 was due to a combination of organic growth, as well as the acquisitions of Wind & Weather, a direct marketer of weather-themed gifts, acquired on October 31, 2005, and Fannie May Confections Brands, Inc., a manufacturer and retailer of premium chocolates and other confections, acquired on May 1, 2006. Excluding the impact of acquisitions, total revenue growth during the three months ended October 1, 2006 was 9.5%, reflecting: (i) the Company's strong brand name recognition, (ii) continued leveraging of its existing customer base, and (iii) cost effective spending on its marketing and selling programs, designed to improve customer acquisition and accelerate top-line growth. The Company fulfilled approximately 1,637,000 orders through its E-commerce sales channels (online and telephonic sales) during the three months ended October 1, 2006, an increase of 2.6% over the prior year period. The Company's E-commerce average order value of \$66.74 increased 5.8% over the respective prior year period, primarily from a combination of product mix and pricing initiatives. Other revenues, for the three months ended October 1, 2006, increased in comparison to the same period of the prior year primarily as a result of retail/wholesale contribution of Fannie May Confections Brands, Inc., as well as the continued membership growth and wholesale floral product and service offerings from the Company's BloomNet Wire Service category.

The 1-800-Flowers.com Consumer Floral category includes the 1-800-Flowers brand operations which derives revenue from the sale of consumer floral products through its E-Commerce sales channels (telephonic and online sales) or company-owned and operated retail floral stores, as well as royalties from its franchise operations. Net revenues during the three months ended October 1, 2006 increased by 8.2% over the prior year period primarily from a combination of increased average order value and order volumes from its E-commerce sales channel, offset in part by lower retail sales from its company-owned floral stores due to the sale or closure of several under-performing locations.

The BloomNet Wire Service category includes revenues from membership fees as well as other service offerings to florists. Net revenues during the three months ended October 1, 2006 increased by 58.7% over the prior year period primarily as a result of increased florist membership, as well as increased wholesale floral product sales.

The Gourmet Food & Gift Basket category includes the operations of the Cheryl & Co., Fannie May Confections, The Popcorn Factory and The Winetasting Network brands. Revenue is derived from the sale of cookies, baked gifts, premium chocolates and confections, gourmet popcorn and wine gifts through its E-commerce sales channels (telephonic and online sales) or company-owned and operated retail stores under the Cheryl & Co. and Fannie May brands, as well as wholesale operations. Net revenue during the three months ended October 1, 2006 increased by 158.3% over the prior year period, primarily as a result of the contribution of Fannie May Confections Brands, Inc.

The Home & Children's Gifts category includes revenues from Plow & Hearth, Wind & Weather, Problem Solvers, Madison Place, HearthSong and Magic Cabin brands. Revenue is derived from the sale of home decor and children's gifts through its E-commerce sales channels (telephonic and online sales) or company-owned and operated retail stores under the Plow & Hearth brand. Net revenue during the three months ended October 1, 2006 increased by 8.5% over the prior year period primarily as a result of the contribution of Wind & Weather.

At the start of the second half of fiscal 2005, the Company initiated a strategy designed to extend the Company's leadership position in the floral and thoughtful gift marketplace, and implemented plans to increase its marketing spending to drive increased customer acquisition, particularly in the core floral gift category. While the Company was successful in achieving strong revenue growth during the prior year, the growth was below the level that the Company targeted to achieve with its increased marketing spend, resulting in lower than anticipated earnings. Having now achieved a solid base of business, through a combination of organic efforts and strategic acquisitions, management's current focus is on improving the Company's earnings performance. As such, the Company expects revenue growth for fiscal 2007 to be in the range of 17-20 percent.

#### Gross Profit

|                | Three Months Ended |                    |          |
|----------------|--------------------|--------------------|----------|
|                | October 1,<br>2006 | October 2,<br>2005 | % Change |
|                | (in thousands)     |                    |          |
| Gross profit   | \$54,814           | \$46,026           | 19.1%    |
| Gross margin % | 40.0%              | 40.8%              |          |

Gross profit increased during the three months ended October 1, 2006, in comparison to the same period of the prior year, primarily as a result of the revenue growth described above. Gross margin percentage decreased 80 basis points, to 40.0%, from the prior year period, primarily as a result of the seasonally lower margins of Fannie May Confections Brands, acquired in May 2006.

The 1-800-Flowers.com Floral Consumer category gross profit increased by 7.4% over the prior year period as a result of the aforementioned increase in net revenues. Gross margin percentage decreased 30 basis points, to 38.0% during the three months ended October 1, 2006, primarily as a result of increased shipping costs due to carrier fuel surcharges.

The BloomNet Wire Service category gross profit increased by 56.9% over the prior year period as a result of increases in florist membership and floral wholesale product sales. Gross margin percentage decreased 70 basis points, to 57.2% during the three months ended October 1, 2006, as a result of sales mix, reflecting the impact of increased wholesale products revenues which carry lower margins.

The Gourmet Food & Gift Basket category gross profit increased by 125.2% over the prior year period primarily as a result of the incremental revenue generated by Fannie May Confections Brands. Gross margin percentage decreased 560 basis points to 38.3% during the three months ended October 1, 2006, as a result of the seasonally lower margins of Fannie May Confections Brands.

The Home & Children's Gift category gross profit increased by 4.9% over the prior year period primarily as a result of the additional revenue generated by Wind & Weather. Gross margin percentage decreased 140 basis points to 41.3% during the three months ended October 1, 2006, as a result of higher shipping

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costs due to carrier fuel surcharges.

During the remainder of fiscal 2007, although varying by quarter due to seasonal changes in product mix, the Company expects that its gross margin percentage will improve primarily through: (i) growth of its higher margin business categories, including Cheryl & Co., Wind & Weather, and more recently, Fannie May Confections Brands, Inc., (ii) improved product sourcing, new product development and process improvement initiatives implemented during the latter half of the first quarter which are expected to mitigate continued pressure on shipping costs, and (iii) the contribution of the BloomNet Wire Service business, which has completed its roll-out investment phase.

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### Marketing and Sales Expense

|                            | Three Months Ended |                    |          |
|----------------------------|--------------------|--------------------|----------|
|                            | October 1,<br>2006 | October 2,<br>2005 | % Change |
|                            | (in thousands)     |                    |          |
| Marketing and sales        | \$42,370           | \$38,224           | 10.8%    |
| Percentage of net revenues | 30.9%              | 33.9%              |          |

During the three months ended October 1, 2006, marketing and sales expenses decreased from 33.9% of net revenue to 30.9%, reflecting improved operating leverage based on a number of cost-saving initiatives and the completion of the investment phase of the Company's BloomNet Wire Service business, including the absorption of incremental sales and technology personnel in order to develop a member directory, increase BloomNet Technologies penetration and expand membership. Marketing and sales expense increased over the prior year period by 10.8% as a result of several factors including: (i) incremental expenses associated with the recent acquisitions of Wind & Weather and Fannie May Confections Brands, (ii) incremental variable costs to accommodate the higher sales volumes, and (iii) personnel associated with the expansion of the BloomNet Wire Service business. During the three months ended October 1, 2006, the Company added 548,000 new customers, an increase of 7.8% over the same period of the prior year. As a result of the Company's effective customer retention efforts, 798,000 existing customers placed e-commerce orders during the three months ended October 1, 2006, consistent with the same period of the prior year. Of the 1,345,000 total customers who placed e-commerce orders during the three months ended October 1, 2006, approximately 59.3% were repeat customers, reflecting the Company's ongoing focus on deepening the relationship with its existing customers as their trusted source for gifts and services for all of their celebratory occasions.

During fiscal 2007, the Company is focused on improving its operating expense ratio through a number of cost saving initiatives, including catalog printing and e-mail pricing improvements, as well as a review of the type, quantity and effectiveness of its marketing programs. In addition to the improved operating results expected now that the Company has completed the investment phase of its BloomNet florist business, the Company expects that marketing and sales expense, as a percentage of revenue, will continue to decrease in comparison to the prior year.

### Technology and Development Expense

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|                            | Three Months Ended |                    |          |
|----------------------------|--------------------|--------------------|----------|
|                            | October 1,<br>2006 | October 2,<br>2005 | % Change |
|                            | (in thousands)     |                    |          |
| Technology and development | \$5,161            | \$4,769            | 8.2%     |
| Percentage of net revenues | 3.8%               | 4.2%               |          |

During the three months ended October 1, 2006, technology and development expense decreased from 4.2% of net revenue to 3.8%, reflecting improved operating leverage, but increased over the prior year period by 8.2% as a result of the incremental expenses associated with the acquisitions of Wind & Weather and Fannie May Confections Brands, as well as for increases in the cost of maintenance and license agreements required to support the Company's technology platform. During the three months ended October 1, 2006, the Company expended \$8.5 million on technology and development, of which \$3.3 million has been capitalized.

The Company believes that continued investment in technology and development is critical to attaining its strategic objectives. While many of its acquisition-related integration projects are complete, as a result of incremental expenses associated with Fannie May Confections Brands, the Company expects that its spending for the remainder of fiscal 2007 will remain consistent or decrease slightly as a percentage of net revenues in comparison to the prior year.

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## General and Administrative Expense

|                            | Three Months Ended |                    |          |
|----------------------------|--------------------|--------------------|----------|
|                            | October 1,<br>2006 | October 2,<br>2005 | % Change |
|                            | (in thousands)     |                    |          |
| General and administrative | \$13,343           | \$10,636           | 25.5%    |
| Percentage of net revenues | 9.7%               | 9.4%               |          |

General and administrative expense increased 25.5% during the three months ended October 1, 2006, and from 9.4% of net revenue in the prior year to 9.7% during the current year period, primarily as a result of: (i) incremental expenses associated with Fannie May Confections Brands, (ii) incremental travel expenses associated with the expansion of the Company's BloomNet Wire Service business, and (iii) higher insurance costs.

Although the Company believes that its current general and administrative infrastructure is sufficient to support existing requirements and drive operating leverage, as a result of the incremental expenses associated with Fannie May Confections Brands, including costs associated with Sarbanes-Oxley compliance, the Company expects that its general and administrative expenses as a percentage of net revenue during the remainder of fiscal 2007 will be consistent with the prior year period.

## Depreciation and Amortization Expense

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|                               | Three Months Ended |                    |          |
|-------------------------------|--------------------|--------------------|----------|
|                               | October 1,<br>2006 | October 2,<br>2005 | % Change |
|                               | (in thousands)     |                    |          |
| Depreciation and amortization | \$4,744            | \$3,524            | 34.6%    |
| Percentage of net revenues    | 3.5%               | 3.1%               |          |

Depreciation and amortization expense increased during the three months ended October 1, 2006 over the prior year period primarily as a result of the incremental amortization expense related to the intangibles established as a result of the acquisitions of Wind & Weather and Fannie May Confections Brands, as well as depreciation associated with recently completed technology projects designed to provide improved order/warehouse management functionality across the enterprise.

The Company believes that continued investment in its infrastructure, primarily in the areas of technology and development, including the improvement of the technology platforms are critical to attaining its strategic objectives. As a result of these improvements, but primarily as a result of an increase in amortization expense associated with intangibles established as a result of recent acquisitions, the Company expects that depreciation and amortization for the remainder of fiscal 2007 will remain consistent or increase slightly as a percentage of net revenues in comparison to the prior year.

## Other Income (Expense)

|                  | Three Months Ended |                    |            |
|------------------|--------------------|--------------------|------------|
|                  | October 1,<br>2006 | October 2,<br>2005 | % Change   |
|                  | (in thousands)     |                    |            |
| Interest income  | \$337              | \$215              | 56.7%      |
| Interest expense | (1,828)            | (84)               | (2,076.2%) |
| Other            | 11                 | 6                  | 83.3%      |
|                  | -----              | -----              |            |
|                  | (\$1,480)          | \$137              |            |
|                  | =====              | =====              |            |

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The decrease in other income (expense) during the three months ended October 1, 2006, in comparison to prior year period was the result of higher interest expense on the Company's 2006 Credit Facility, offset in part by slightly higher interest income, resulting from an increase in average cash balances and rates. The Company utilized an \$85.0 million term loan to finance the acquisition, and as of October 1, 2006, had an outstanding balance of \$37.0 million on its revolving credit facility to fund working capital needs in preparation for the holiday season.

## Income Taxes

During the three months ended October 1, 2006 and October 2, 2005, the Company recorded an income tax benefit of \$4.9 million and \$4.4 million, respectively. The Company's effective tax rate for the three months ending October 1, 2006 was

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39.6% compared to 39.7% during the comparative period of the prior year. The effective tax rate during the three months ended October 1, 2006 and October 2, 2005 includes the impact of share-based compensation recognized in accordance with SFAS No. 123(R), and resulted in a decrease in the effective income tax rate of approximately 1.1% and 1.6%, respectively, resulting primarily from the associated book/tax differences in accounting for incentive stock options.

### Liquidity and Capital Resources

At October 1, 2006, the Company had working capital of \$36.2 million, including cash and equivalents of \$9.7 million, compared to working capital of \$44.3 million, including cash and equivalents and short-term investments of \$24.6 million, at July 2, 2006.

Net cash used in operating activities of \$45.1 million for the three months ended October 1, 2006 was primarily attributable to the Company's net loss, non-cash charges for deferred income taxes, and seasonal changes in working capital, including increases in inventory, receivables and prepaids, consisting primarily of prepaid catalog production costs, partially offset by higher accounts payable and accrued expenses, which increased in preparation for the upcoming holiday selling season.

Net cash used in investing activities of \$6.4 million for the three months ended October 1, 2006 was primarily attributable to capital expenditures related to the Company's technology infrastructure.

Net cash provided by financing activities of \$36.6 million for the three months ended October 1, 2006, was primarily from bank borrowings of \$37.0 million was used to fund seasonal operating losses and working capital requirements, partially offset by the repayment of outstanding debt and long-term capital lease obligations.

On May 1, 2006, the Company entered into a \$135.0 million secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility includes an \$85.0 million term loan and a \$50.0 million revolving credit facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed \$85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands, Inc. The Company is required to pay the outstanding term loan in quarterly installments, with the final installment payment due on May 1, 2012. The 2006 Credit Facility contains various conditions to borrowing, and affirmative and negative financial covenants.

The Company has historically utilized cash generated from operations to meet its cash requirements, including all operating, investing and debt repayment activities. However, due to the Company's continued expansion into non-floral products, including the acquisition of Fannie May Confections Brands, the Company had borrowed \$37.0 million against its line of credit to fund working capital requirements, which have increased during this time period as a result of increased inventory and pre-holiday manufacturing requirements. The Company expects to increase its level of borrowing during its fiscal second quarter, but also expects that all such amounts will be repaid prior to the end of the quarter.

At October 1, 2006, the Company's contractual obligations consist of:



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|                             | Payments due by period |                     |                                  |             |
|-----------------------------|------------------------|---------------------|----------------------------------|-------------|
|                             | Total                  | Less than 1<br>year | (in thousands)<br>1 - 3<br>years | 3 -<br>year |
| Long-term debt              | \$145,332              | \$53,514            | \$30,542                         | \$34,276    |
| Capital lease obligations   | 311                    | 231                 | 36                               | 44          |
| Operating lease obligations | 67,289                 | 8,672               | 17,412                           | 10,105      |
| Sublease obligations        | 6,076                  | 1,530               | 2,669                            | 1,877       |
| Purchase commitments (*)    | 37,422                 | 37,422              | -                                | -           |
| Total                       | \$256,430              | \$101,369           | \$50,659                         | \$46,302    |

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

On May 12, 2005, the Company's Board of Directors increased the Company's authorization to repurchase the Company's Class A common stock up to \$20 million, from the previous authorized limit of \$10 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 October 1, 2006, the Company had repurchased 1,510,050 shares of common stock for \$11.1 million, of which none were repurchased during the three months ended October 1, 2006.

## 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/fulfillment) 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.

## Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses

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

### Capitalized Software

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

### Stock-based Compensation

SFAS No. 123R requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. The Company determines the fair value of stock options issued by using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model considers a range of assumptions related to volatility, dividend yield, risk-free interest rate and employee exercise behavior. Expected volatilities are based on historical volatility of the Company's stock price. The dividend yield is based on historical experience and future expectations. The risk-free interest rate is derived from the US Treasury yield curve in effect at the time of grant. The Black-Scholes model also incorporates expected forfeiture rates, based on historical behavior. Determining these assumptions 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

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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.

### Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 applies to all tax positions accounted for under SFAS no. 109, "Accounting for Income Taxes" and defines the confidence level that a tax position must meet in order to be recognized in the financial statements. The interpretation requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained by the taxing authority as of the reporting date. If a tax position is not considered "more-likely-than-not" to be sustained then no benefits of the position are to be recognized. FIN 48 requires additional disclosures and is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements, and is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the effect that the adoption of this Statement will have on its consolidated results of operations and financial condition.

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### Forward Looking Information and Factors that May Affect Future Results

Our disclosure and analysis in this report contain forward-looking information about the Company's financial results and estimates, business prospects that involve substantial risks and uncertainties. From time to time, we also may provide oral or written forward-looking statements in other materials we release to the public. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as "will," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "forecast" and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance, new products and product categories, the outcome of contingencies, such as legal proceedings, and financial results. Among the factors that could cause actual results to differ materially are the following:

- o the Company's ability:
  - o to achieve solid, sustainable revenue growth;
  - o to maintain and enhance its online shopping web sites to attract

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- customers;
- o to successfully introduce new products and product categories;
- o to successfully integrate acquisitions, including the acquisition of Fannie May Confections Brands, Inc.;
- o to cost effectively acquire and retain customers;
- o to compete against existing and new competitors;
- o to manage expenses associated with necessary general and administrative and technology investments;
- o to cost efficiently manage inventories; and
- o to grow its revenues and leverage its operating infrastructure to enhance profitability;
- o general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products; and
- o competition from existing and potential new competitors.

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

We 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 July 2, 2006 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 1, of that filing under the heading "Risk Factors that May Affect Future Results". 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. While the Company currently does not use interest rate derivative instruments to manage exposure to interest rate changes, in order to finance the acquisition of Fannie May Confections, on May 1, 2006, the Company entered into a \$135.0 million secured credit facility. The credit facility includes an \$85.0 million term loan and a \$50.0 million revolving facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio.

### ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the

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effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, these disclosure controls and procedures are effective in alerting them in a timely manner to material information required to be disclosed in the Company's periodic reports filed with the SEC. There were no changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the three months ended October 1, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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### PART II. - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

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

#### ITEM 1A. RISK FACTORS.

There have been no material changes from the risk factors disclosed in Part 1, Item 1, of the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 2006.

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

Not applicable.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

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## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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## 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: 11/10/2006  
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/s/ James F. McCann  
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James F. McCann  
Chief Executive Officer  
Chairman of the Board of Directors  
(Principal Executive Officer)

Date: 11/10/2006  
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/s/ William E. Shea  
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William E. Shea  
Senior Vice President Finance and  
Administration (Principal Financial  
and Accounting Officer)

