

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

1 800 FLOWERS COM INC
Form 10-Q
February 10, 2006

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 January 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

11-3117311

(State or other jurisdiction of
incorporation or organization)

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

One Old Country Road, Carle Place, New York 11514

(Address of principal executive offices) (Zip code)

(516) 237-6000

(Registrant's telephone number, including area code)

1600 Stewart Avenue, Westbury, New York 11590

(Former name, former address and former fiscal year, if
changed since last report)

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes (X) No ()

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:

28,222,698

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

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

36,858,465

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

1-800-FLOWERS.COM, Inc.

TABLE OF CONTENTS

		INDEX	Page

Part I.	Financial Information		
Item 1.	Consolidated Financial Statements:		
	Consolidated Balance Sheets - January 1, 2006 (Unaudited) and July 3, 2005		1
	Consolidated Statements of Income (Unaudited) - Three and Six Months Ended January 1, 2006 and December 26, 2004		2
	Consolidated Statements of Cash Flows (Unaudited) - Three and Six Months Ended January 1, 2006 and December 26, 2004		3
	Notes to Consolidated Financial Statements (Unaudited)		4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations		12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk		19
Item 4.	Controls and Procedures		19
Part II.	Other Information		
Item 1.	Legal Proceedings		20
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds		20
Item 3.	Defaults upon Senior Securities		20
Item 4.	Submission of Matters to a Vote of Security Holders		20
Item 5.	Other Information		21
Item 6.	Exhibits		21
Signatures			22

PART I. - FINANCIAL INFORMATION

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

ITEM 1. - CONSOLIDATED FINANCIAL STATEMENTS

1-800-FLOWERS.COM, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share data)

	January 1, 2006
	(unaudited)
Assets	
Current assets:	
Cash and equivalents	\$60,872
Short-term investments	-
Receivables, net	15,536
Inventories	38,967
Deferred income taxes	7,149
Prepaid and other	6,027
Total current assets	128,551
Property, plant and equipment, net	56,555
Goodwill	66,692
Other intangibles, net	15,580
Deferred income taxes	17,161
Other assets	6,647
Total assets	\$291,186
Liabilities and stockholders' equity	
Current liabilities:	
Accounts payable and accrued expenses	\$93,053
Current maturities of long-term debt and obligations under capital leases	2,243
Total current liabilities	95,296
Long-term debt and obligations under capital leases	2,388
Other liabilities	2,606
Total liabilities	100,290
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, 29,781,118 and 29,888,603 shares issued at January 1, 2006 and July 3, 2005, respectively	298
Class B common stock, \$.01 par value, 200,000,000 shares authorized, 42,138,465 and 42,144,465 shares issued at January 1, 2006 and July 3, 2005, respectively	421
Additional paid-in capital	259,910
Retained deficit	(55,488)
Deferred compensation	-
Treasury stock, at cost-1,562,850 and 1,380,850 Class A shares at January 1, 2006 and July 3, 2005, respectively and 5,280,000 Class B shares	(14,245)
Total stockholders' equity	190,896
Total liabilities and stockholders' equity	\$ 291,186

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

See accompanying notes.

1

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

	Three Months Ended	
	January 1, 2006	December 26, 2004
Net revenues	\$277,829	\$230,014
Cost of revenues	152,837	127,402
Gross profit	124,992	102,612
Operating expenses:		
Marketing and sales	87,874	72,841
Technology and development	4,797	3,292
General and administrative	10,357	7,954
Depreciation and amortization	3,809	3,770
Total operating expenses	106,837	87,857
Operating income	18,155	14,755
Other income (expense):		
Interest income	141	275
Interest expense	(113)	(124)
Other	(143)	21
Total other income (expense), net	(115)	172
Income before income taxes	18,040	14,927
Income taxes	(7,704)	(6,223)
Net income	\$10,336	\$8,704
Basic and diluted net income per common share	\$0.16	\$0.13
Weighted average shares used in the calculation of net income per common share		
Basic	65,065	66,061
Diluted	66,395	67,637

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

See accompanying notes.

2

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

	Six Months January 1, 2006

Operating activities:	
Net income	\$3,710
Reconciliation of net income to net cash provided by operations:	
Depreciation and amortization	7,333
Deferred income taxes	3,070
Stock based compensation	1,997
Bad debt expense	160
Other non-cash items	166
Changes in operating items, excluding the effects of acquisitions:	
Receivables	(4,455)
Inventories	(8,190)
Prepaid and other	264
Accounts payable and accrued expenses	33,334
Other assets	(1,576)
Other liabilities	54

Net cash provided by operating activities	35,867
Investing activities:	
Purchase of investments	-
Sale of investments	6,695
Acquisition, net of cash acquired	(4,959)
Capital expenditures, net of non-cash expenditures	(13,083)
Other	86

Net cash used in investing activities	(11,261)
Financing activities:	
Acquisition of treasury stock	(1,324)
Proceeds from employee stock options/purchase plan	179
Repayment of notes payable and bank borrowings	(1,815)
Payment of capital lease obligations	(735)

Net cash used in financing activities	(3,695)

Net change in cash and equivalents	20,911
Cash and equivalents:	
Beginning of period	39,961

End of period

\$60,872
=====

See accompanying notes.

3

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

Note 1 - Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by 1-800-FLOWERS.COM, Inc. and subsidiaries (the "Company") in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended January 1, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending July 2, 2006.

The balance sheet information at July 3, 2005 has been derived from the audited financial statements at that date.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 3, 2005.

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 and six months ended January 1, 2006 and December 26, 2004, the Company's comprehensive income was equal to the respective net income for each of the periods presented.

Note 2 - Net Income Per Common Share

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

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

	Three Months Ended		Si
	January 1, 2006	December 26, 2004	Januar 2006
	(in thousands, except per		
Numerator:			
Net income	\$10,336	\$8,704	\$3,7
Denominator:			
Weighted average shares outstanding	65,065	66,061	65,0
Effect of dilutive securities:			
Employee stock options	1,297	1,576	1,2
Employee restricted stock awards	33	-	
	1,330	1,576	1,3
Adjusted weighted-average shares and assumed conversions	66,395	67,637	66,3
Net income per common share:			
Basic and diluted	\$0.16	\$0.13	\$0.0

4

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

Note 3 - Stock-Based Compensation

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 9 of the Company's 2005 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.

Prior to July 4, 2005, as permitted under SFAS No. 123, the Company accounted for its stock option plans following the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no stock-based compensation had been reflected in net income for stock options, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant and the related number of shares granted was fixed at that point in time.

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

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (R), "Share-Based Payment." This Statement revised SFAS No. 123 by eliminating the option to account for employee stock options under APB No. 25 and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (the "fair-value-based" method).

Effective July 4, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method. Under this transition method, compensation cost recognized in the three and six months ended January 1, 2006 includes amounts of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, July 4, 2005 (based on grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and previously presented in the pro-forma footnote disclosures), and (b) compensation cost for all stock-based payments granted subsequent to July 3, 2005 (based on the grant-date fair value estimated in accordance with the new provision of SFAS No. 123(R)). In accordance with the modified prospective method, results for prior periods have not been restated. Prior to the Company's adoption of SFAS No. 123(R), benefits of tax deduction in excess of recognized compensation costs were reported as operating cash flows. SFAS No. 123(R) requires excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. There were no significant excess tax benefits for the six-month period ended January 1, 2006.

The following table summarizes the effect of adopting SFAS No. 123(R) as of July 4, 2005:

	Three Months Ended January 1, 2006	Six Mo End January
	-----	-----
Stock-option compensation expense recognized (*):	(in thousands, except per share)	
Marketing and sales	\$332	\$63
Technology and development	142	26
General and administrative	473	89
	-----	-----
Total	947	1,79
Related deferred income tax expense	196	37
	-----	-----
Decrease in net income	\$751	\$1,42
	=====	=====
Impact on basic and diluted net income per common share	(\$0.01)	(\$0.0
	=====	=====

(*) excludes the amortization of restricted stock awards in the amount of \$113 and \$200 for the three and six months ended January 1, 2006, respectively. (\$68 and \$120, net of tax for the three and six months ended January 1, 2006, respectively).

Compensation expense related to the amortization of restricted stock awards was recognized prior to the implementation of SFAS No. 123(R). Total stock based compensation expense, which includes both expense from

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (unaudited)

stock options and restricted stock awards, totaled \$1.1 million and \$2.0 million (\$0.8 million and \$1.5 million, net of tax) during the three and six months ended January 1, 2006, respectively.

Under the modified prospective application method, results for prior periods have not been restated to reflect the effects of implementing SFAS No. 123(R). The following pro-forma information, as required by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123," is presented for comparative purposes and illustrates the effect on net income and net income per common share for the periods presented as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation prior to July 4, 2005:

	Three Months Ended December 26, 2004	Six Months Ended December 26, 2004

(in thousands except per share data)		
Net income - As reported	\$8,704	\$5,994
Less: Stock option compensation expense (*)	1,996	3,690
	-----	-----
Net income - Pro forma	\$6,708	\$2,304
	=====	=====
Net income per share:		
Basic and diluted - As reported	\$0.13	\$0.09
	=====	=====
Basic and diluted - Pro forma	\$0.10	\$0.03
	=====	=====

(*) no restricted stock awards were made prior to January 2005

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 were as follows:

	Three Months Ended		Six Months Ended	
	January 1, 2006	December 26, 2004	January 1, 2006	December 2004

Weighted average fair value of options granted	\$3.09	\$4.65	\$3.11	\$4.65
Expected volatility	46%	61%	46%	61%
Expected life	5.3 yrs	5.0 yrs	5.3 yrs	5.0 yrs
Risk-free interest rate	4.47%	3.86%	4.45%	3.75%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%

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

The expected volatility of the option is determined using historical volatilities based on historical stock prices. The expected life of options granted in fiscal 2005 was based on the Company's historical share option exercise experience. Due to minimal exercising of stock options, in fiscal 2006, 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 U.S. government issues with a 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%.

6

The following table summarizes stock option activity during the six months ended January 1, 2006:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at July 3, 2005	9,477,461	\$8.35	
Granted	837,500	\$6.58	
Exercised	(42,047)	\$5.32	
Forfeited	(255,856)	\$10.41	
Outstanding at January 1, 2006	10,017,058	\$8.15	6.2 years
Options vested or expected to vest at January 1, 2006	9,536,239	\$8.15	6.2 years
Exercisable at January 1, 2006	6,494,805	\$8.79	5.2 years

As of January 1, 2006, the total future compensation cost related to nonvested options not yet recognized in the statement of income was \$7.8 million and the weighted average period over which these awards are expected to be recognized was 2.4 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). In fiscal 2005, the Company recorded the grant date fair value of unvested shares of Restricted Stock as unearned stock-based compensation ("Deferred Compensation"). In accordance with SFAS No. 123(R), in fiscal 2006, the Company reclassified the balance of Deferred Compensation against additional paid-in capital, and reduced its shares of Class A Common Stock issued accordingly.

The following table summarizes the activity of non-vested restricted stock during the six months ended January 1, 2006:

Shares	Weighted Average Grant Date Fair Value
--------	--

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

Non-vested at July 3, 2005	155,919	\$8.39
Granted	150,649	\$6.71
Vested	-	-
Forfeited	(8,313)	\$8.41
	-----	-----
Non-vested at January 1, 2006	298,255	\$7.54
	=====	

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of January 1, 2006, there was \$1.6 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over a weighted-average period of 3.3 years.

7

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 Wind & Weather

On October 31, 2005, the Company acquired Wind & Weather, a Fort Bragg, California based direct marketer of weather-themed gifts, with annual revenues of approximately \$14.4 million during its most recent 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 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 is currently relocating the operations of Wind & Weather to its Madison, Virginia facility.

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. This will result in potential adjustments to the carrying value of Wind & Weather's recorded assets and liabilities, the establishment of

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

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

	Wind & Weather Purchase Price Allocation (Preliminary)
----- (in thousands)	
Current assets	\$4,014
Property, plant and equipment	68
Intangible assets	1,750
Goodwill	3,246
Other non-current assets	20

Total assets acquired	9,098

Current liabilities	3,810
Non-current liabilities	39

Total liabilities assumed	3,849

Net assets acquired	\$5,249
	=====

Of the \$1.8 million of acquired intangible assets related to the Wind & Weather acquisition, \$1.0 million was assigned to trademarks that are not subject to amortization, while the remaining acquired intangibles of \$0.8 million were allocated primarily to customer lists which are being amortized over the assets' preliminarily determinable useful life of 5 years.

Acquisition of Cheryl & Co.

On March 28, 2005, the Company acquired all of the outstanding common stock of Cheryl & Co., a Westerville, Ohio-based manufacturer and direct marketer of premium cookies and related baked gift items, with annual revenues of approximately \$33 million during its most recent year ended January 29, 2005. The purchase price of approximately \$41.1 million, including acquisition costs, was funded utilizing the Company's available cash and investment balance, and included \$6.3 million used to retire Cheryl & Co.'s outstanding debt.

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

Acquisition of The Winetasting Network

On November 15, 2004, the Company acquired all of the outstanding common stock of The Winetasting Network, a Napa, California based distributor and direct-to-consumer wine marketer. The purchase price of approximately \$9.7 million, including acquisition costs, was funded utilizing the Company's available cash and investment balance and included \$2.4 million used to retire The Winetasting Network's long-term debt.

Pro forma Results of Operation

The following unaudited pro forma consolidated financial information has been prepared as if the acquisitions of Wind & Weather, Cheryl & Co. and The Winetasting Network 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		Six Months Ended	
	January 1, 2006	December 26, 2004	January 1, 2006	December 26, 2004
Net revenues	\$278,863	\$262,276	\$393,428	\$365,414
Operating income	\$18,158	\$21,825	\$6,844	\$15,890
Net income	\$10,327	\$12,464	\$3,577	\$9,039
Net income per common share				
Basic	\$0.16	\$0.19	\$0.05	\$0.14
Diluted	\$0.16	\$0.18	\$0.05	\$0.13

Note 5 - Goodwill and Intangible Assets

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

	January 1, 2006
	(in thousands)
Goodwill - beginning of year	\$63,219
Acquisition of Wind and Weather	3,246
Other	227
	\$66,692
Goodwill - end of period	\$66,692

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

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

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

		January 1, 2006			
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount
Amortization Period					
(in thousands)					
Intangible assets with determinable lives					
Investment in licenses	14 - 16 years	\$4,927	\$3,600	\$1,327	\$4,927
Customer lists	3 - 6 years	\$5,390	1,412	3,978	4,640
Other	5 - 8 years	555	194	361	555
		10,872	5,206	5,666	10,122
Trademarks with indefinite lives					
		9,914	-	9,914	8,846
Total identifiable intangible assets		\$20,786	\$5,206	\$15,580	\$18,968

Estimated amortization expense is as follows: remainder of fiscal 2006 - \$0.7 million, fiscal 2007 - \$1.2 million, fiscal 2008 - \$1.1 million, fiscal 2009 - \$1.1 million, fiscal 2010 - \$1.0 million, fiscal 2011 - \$0.5 million and thereafter - \$0.1 million.

Note 6 - Long-Term Debt

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

	January 2006
Commercial notes and revolving credit lines	\$3,61
Seller financed acquisition obligations	2
Obligations under capital leases	99
	4,63
Less current maturities of long-term debt and obligations under capital leases	2,24
	\$2,38

=====

In order to fund working capital requirements during its most recent holiday selling season and to support outstanding letters of credit, as well as temporarily finance the acquisition of Wind & Weather referred to in Note 4, on October 27, 2005, the Company established a second line of credit in the amount of \$20.0 million, bringing its total available credit facilities to \$25.0 million. The credit facilities, which are collateralized by the Company's working capital, bear interest equal to the applicable LIBOR Index plus 1.50% per annum. At January 1, 2006, there were no amounts outstanding under its credit facilities.

10

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

Note 7 - 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 and six months ending January 1, 2006 was 42.7% and 47.4%, respectively, compared to 41.7% and 41.5% during the comparative three and six month periods ended December 26, 2004, respectively. The effective tax rate during the three and six months ended January 1, 2006 includes the impact of stock-based compensation recognized in accordance with SFAS No. 123(R), and resulted in an increase in the effective annual income tax rate of approximately 5.5%, resulting primarily from the associated book/tax differences in accounting for incentive stock options.

Note 8 - 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.

11

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

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

Forward Looking Statements

Certain of the matters and subject areas discussed in this Quarterly Report on Form 10-Q contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical information provided herein are forward-looking statements and may contain information about financial results, economic conditions, trends and known uncertainties based on the Company's current expectations, assumptions, estimates and projections about its business and the Company's industry. These forward-looking statements involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those more fully described under the caption "Risk Factors that May Affect Future Results" within the Company's Annual Report on Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. The Company undertakes no obligation to publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Overview

For more than 25 years, 1-800-FLOWERS.COM Inc. - "Your Florist of Choicesm" - 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 shipped from our growers to your door fresh. Customers can shop 1-800-FLOWERS.COM 24 hours a day, 7 days a week via the phone or Internet (1-800-356-9377 or www.1800flowers.com) or by visiting a Company-operated or franchised store. Gift advisors 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 garden merchandise from Plow & Hearth(R) (1-800-627-1712 or www.plowandhearth.com); premium popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or www.thepopcornfactory.com); exceptional cookies and baked gifts from Cheryl&Co.(R) (1-800-443-8124 or www.cherylandco.com); gourmet foods from GreatFood.com(R) (www.greatfood.com); children's gifts from HearthSong(R) (www.hearthsong.com) and Magic Cabin(R) (www.magiccabin.com) and wine gifts from the WineTasting Network(R) (www.ambrosiawine.com and www.winetasting.com). 1-800-FLOWERS.COM, Inc. stock is traded on the NASDAQ market under ticker symbol FLWS.

Results of Operations

Net Revenues

Three Months Ended

January 1,

December 26,

January

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

	2006	2004	% Change	2006
	(in thousands)			
Net revenues:				
Online	\$133,362	\$107,686	23.8%	\$195,
Telephonic	125,122	109,570	14.2%	163,
Retail/fulfillment	19,345	12,758	51.6%	31,
Total net revenues	\$277,829	\$230,014	20.8%	\$390,

Net revenues consist primarily of the selling price of the merchandise, service or outbound shipping charges, less discounts, returns and credits. The Company's revenue growth of 20.8% and 19.3% during the three and six months ended January 1, 2006 resulted primarily from the acquisitions of Cheryl & Co., a manufacturer and direct marketer of cookies and baked gifts, which was acquired in fiscal April 2005, and Wind & Weather, a direct marketer of weather-themed gifts, acquired in fiscal November 2005. Revenue growth excluding the impact of acquisitions, was 6.0% and 7.0%, during the three and six months ended January 1, 2006, reflecting: (i) the Company's strong brand name recognition, (ii) continued leveraging of its

12

existing customer base, and (iii) increased spending on its marketing and selling programs, designed to improve customer acquisition and accelerate top-line growth.

The Company fulfilled approximately 4,285,000 and 5,881,000 orders through its combined telephonic and online sales channels during the three and six months ended January 1, 2006, an increase of 17.9% and 16.7% respectively over the prior year periods. Order volume through the Company's online sales channel, which contributed 51.6% and 54.5% of total combined telephonic and online revenues during the three and six months ended January 1, 2006, compared to 49.6% and 52.2% in the prior year period, increased by 23.8% and 21.7% respectively, as a result of additional marketing efforts through search engines and affiliates, and the continued migration of customers from the Company's telephonic sales channel. During the three and six months ended January 1, 2006, revenue generated through the Company's telephonic sales channel increased by 14.2% and 11.1% respectively, driven primarily by the sales of Cheryl & Co., which was acquired in fiscal April 2005 and Wind & Weather, which was acquired in fiscal November 2005. The Company's combined telephonic and online average order value of \$60.33 and \$61.08 during the three and six months ended January 1, 2006, was consistent with the same periods of the prior year.

During the three and six months ended January 1, 2006, non-floral gift products accounted for 70.3% and 61.2% respectively of total combined telephonic and online net revenues, compared to 66.3% and 57.8% during the same period of the prior year, primarily as a result of the shift in product mix due to the Company's recent acquisitions.

Retail and fulfillment revenues for the three and six months ended January 1, 2006 increased in comparison to the same period of the prior year, primarily as a result of: (i) the retail and wholesale bakery product revenue from Cheryl & Co., (ii) incremental winery services revenue generated by The Winetasting Network, acquired in November 2004 and (iii) increased membership and sales of product and service offerings to the Company's BloomNet(TM) network.

During the second half of fiscal 2005, the Company implemented plans designed to

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

extend the Company's leadership position in the floral and thoughtful gift marketplace, through increased marketing spend intended to drive customer acquisition, particularly in the floral gift category, and to further extend its popular gourmet and sweetshop offerings through internal growth and acquisition of complementary product lines. Over the last several quarters, the Company has seen the success of these programs, driving revenue growth through both organic growth and through the expansion of its Food, Wine and Gift Basket collections, providing our customers with a broad range of gifting options necessary to compete in an increasingly fast paced online world. The second half of the Company's fiscal year features far more floral gifting holidays which will enable the Company to achieve continued strong growth for the balance of the year, during which time, the Company will continue its expanded level of media presence and depth of its marketing programs, and further expand its BloomNet business-to-business floral operations. While the Company believes that these investments have impacted the Company's earnings growth over the short term, over the longer term, the Company believes that this strategy will enable it to achieve sustainable double digit revenue growth and provide further leverage within its business model and therefore improved profitability.

Gross Profit

	Three Months Ended			Six Months Ended	
	January 1, 2006	December 26, 2004	% Change	January 1, 2006	December 26, 2004
	(in thousands)				
Gross profit	\$124,992	\$102,612	21.8%	\$171,018	\$147,818
Gross margin %	45.0%	44.6%		43.8%	43.8%

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 merchandise operations, as well as facility costs on properties that are sublet to the Company's franchisees. Gross profit increased during the three and six months ended January 1, 2006, in comparison to the same period of the prior year, as a result of increased revenues across all sales channels, as well as improved gross margin percentage, up 40 basis points over the prior year. This improvement, despite higher carrier fuel surcharges and increased promotional pricing due to the competitive nature of the year-end holiday shopping period, was the result of pricing initiatives and product mix, which was favorably impacted by the additions of the Cheryl & Co. and Wind & Weather product lines, which have higher gross margins.

13

During fiscal 2006, although varying by quarter due to seasonal changes in product mix, the Company expects that its gross margin percentage will continue to improve, primarily through the growth of its higher margin non-floral gifts lines, including the recent acquisitions of Cheryl & Co. and Wind & Weather, as well as through improved product sourcing, pricing initiatives and customer service and fulfillment enhancements which are expected to mitigate continued pressure on shipping costs.

Marketing and Sales Expense

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

	Three Months Ended			January 1, 2006
	January 1, 2006	December 26, 2004	% Change	
			(in thousands)	
Marketing and sales	\$87,874	\$72,841	20.6%	\$126,098
Percentage of net revenues	31.6%	31.7%		32.3%

Marketing and sales expense consists primarily of advertising and promotional expenditures, catalog costs, online portal and search agreements, 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. Although the Company's revenues grew by 20.8% during the three months ended January 1, 2006, the Company spent behind a higher growth target, particularly in its floral gift category due to increasing competition from last minute providers of non-floral gifts. During the three and six months ended January 1, 2006, marketing and sales expenses increased over the prior year, as a result of: (i) the Company's efforts to increase new customer acquisition and accelerate top-line growth through increased marketing efforts both online and through broadcast advertising, (ii) personnel required to expand its BloomNet(TM) business-to-business floral operations, (iii) incremental costs associated with the recent acquisitions, including the Winetasting Network, Cheryl & Co. and Wind & Weather, which, while contributing to revenue growth and achieving higher gross product margins, also incur higher marketing costs, and (iv) the impact of adopting SFAS No. 123(R), "Share-Based Payment" - refer below to Recent Accounting Pronouncements for further details. During the three and six month periods ended January 1, 2006, the Company added 1,332,000 and 1,839,000 new customers, increases of 8.8% and 9.2% over the same periods of the prior year. Customer retention efforts resulted in 1,369,000 and 1,896,000 existing customers placing orders during the three and six months ended January 1, 2006, representing increases of 6.1% and 7.0%, respectively, in comparison to the same periods of the prior year. Of the 2,701,000 and 3,735,000 customers who placed orders during the three and six months ended January 1, 2006, approximately 50.7% were repeat customers, compared to 51.3% in the prior year periods.

During the remainder of fiscal 2006, the Company expects to maintain its higher level of marketing and sales spending in order to continue its higher rate of new customer acquisition, while also leveraging its already significant customer base through cost effective, customer retention initiatives. Such spending will continue to be in online search and affiliate relationships, as well as in direct marketing and broadcast advertising programs. In addition, the Company plans to continue to add personnel to grow its BloomNet(TM) membership and support the anticipated growth of its recently acquired businesses. As a result, over the short term the Company expects that marketing and sales expense, as a percentage of revenue, will remain consistent when compared to the prior year.

Technology and Development Expense

Three Months Ended

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

	January 1, 2006	December 26, 2004	% Change	January 1, 2006

	(in thousands)			
Technology and development	\$4,797	\$3,292	45.7%	\$9,566
Percentage of net revenues	1.7%	1.4%		2.4%

Technology and development expense consists primarily of payroll and operating expenses of the Company's information technology group, costs associated with its Web sites, including hosting, design, content development and maintenance and support costs related to the Company's order entry, customer service, fulfillment and database systems. During the three and six months ended January 1, 2006, technology and development expense increased as a result of the incremental expenses associated with the acquisitions of the Winetasting Network, Cheryl & Co., and Wind & Weather, as well as for increases in the cost

14

of maintenance and license agreements required to support the Company's technology platform, and the impact of adopting SFAS No. 123(R), "Share-Based Payment" - refer below to Recent Accounting Pronouncements for further details. During the three and six months ended January 1, 2006, the Company expended \$8.8 million and \$18.0 million respectively, on technology and development, of which \$4.0 million and \$8.4 million, has been capitalized.

Although over the longer term, the Company believes that it will continue to demonstrate its ability to leverage its IT platforms, during the remainder of fiscal 2006, the Company intends to improve the technology infrastructure of its wine gift business, and cookies and baked gifts business, as well as integrate its Wind & Weather product line into its existing technology platforms, and therefore expects that technology and development spending as a percentage of net revenues will be consistent with, or increase slightly over the prior year.

General and Administrative Expense

	Three Months Ended			
	January 1, 2006	December 26, 2004	% Change	January 1, 2006

	(in thousands)			
General and administrative	\$10,357	\$7,954	30.2%	\$20,993
Percentage of net revenues	3.7%	3.5%		5.4%

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 increased during the three and six months ended January 1, 2006 in comparison to the prior year, primarily as a result of the following: (i) incremental expenses associated with the Company's acquired businesses, (ii) expenses associated with the Company's corporate headquarters relocation, which was completed in the

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

second quarter of fiscal 2006, (iii) increased costs associated with the Company's BloomNet business-to-business expansion, and (iv) the impact of adopting SFAS No. 123(R), "Share-Based Payment" - refer below to Recent Accounting Pronouncements for further details.

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 the acquisitions Cheryl & Co. and Wind & Weather and the seasonal nature of these businesses, this leverage is largely offset for the remainder of fiscal 2006. As such, the Company expects that its general and administrative expenses as a percentage of net revenue during the remainder of fiscal 2006 will be consistent with fiscal 2005.

Depreciation and Amortization Expense

	Three Months Ended			January 1, 2006
	January 1, 2006	December 26, 2004	% Change	
	(in thousands)			
Depreciation and amortization	\$3,809	\$3,770	1.0%	\$7,333
Percentage of net revenues	1.4%	1.6%		1.9%

Depreciation and amortization expense during the three months and six months ended January 1, 2006 decreased as a percentage of revenue in comparison to their respective prior year periods, reflecting the impact of the Company's declining rate of capital additions, and the leverage of the Company's existing infrastructure.

Although the Company believes that continued investment in its infrastructure, primarily in the areas of technology and development, including the improvement of the technology platform of the Company's wine and cookies businesses, are critical to attaining its strategic objectives, the Company expects that depreciation and amortization for the remainder of fiscal 2006 will continue to decrease as a percentage of net revenues in comparison to prior years.

15

Other Income (Expense)

	Three Months Ended			January 1, 2006
	January 1, 2006	December 26, 2004	% Change	
	(in thousands)			
Interest income	\$141	\$275	(48.7%)	\$356
Interest expense	(113)	(124)	8.9%	(197)

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

Other	(143)	21	(781.0%)	(137)
	-----	-----		-----
	(\$115)	\$172	(166.9%)	\$22
	=====	=====		=====

Other income (expense) consists primarily of interest income earned on the Company's investments and available cash balances, offset by interest expense, primarily attributable to the Company's capital leases and other long-term debt, as well as its revolving line of credit. The decrease in other income (expense) during the three and six months ended January 1, 2006 was primarily attributable to lower interest income, resulting from a decrease in average cash balances, due to the acquisitions of the Winetasting Network in November 2004, Cheryl & Co. in fiscal April 2005 and most recently Wind & Weather in fiscal November 2005, as well as the Company's stock buy-back programs and losses resulting from the closure of several retail floral stores, offset in part by lower interest expense due to maturing debt and capital lease obligations.

Income Taxes

During the three and six months ended January 1, 2006, the Company recorded income taxes of \$7.7 million and \$3.3 million, respectively. The Company's effective tax rate for the three and six months ending January 1, 2006 was 42.7% and 47.4%, respectively, compared to 41.7% and 41.5% during the comparative periods of the prior year. The effective tax rate during the three and six months ended January 1, 2006 includes the impact of stock-based compensation recognized in accordance with SFAS No. 123(R), and resulted in an increase in the effective annual income tax rate of approximately 5.5%, resulting primarily from the associated book/tax differences in accounting for incentive stock options.

Liquidity and Capital Resources

At January 1, 2006, the Company had working capital of \$33.3 million, including cash and equivalents of \$60.9 million, compared to working capital of \$41.7 million, including cash and equivalents and short-term investments of \$46.6 million, at July 3, 2005.

Net cash provided by operating activities of \$35.9 million for the six months ended January 1, 2006 was primarily attributable to the Company's net income and non-cash charges of depreciation and amortization, deferred income taxes and stock-based compensation as well as changes in working capital, including increase in accounts payable and accrued expenses, as a result of timing of vendor payments related to the Christmas holiday, offset in part by increases in accounts receivable due to the timing of the Christmas holiday, as well as increases in inventories due to purchases for the upcoming floral Holidays.

Net cash used in investing activities of \$11.3 million for the six months ended January 1, 2006 was primarily attributable to capital expenditures related to the Company's technology infrastructure as well as the acquisition of Wind & Weather in fiscal November 2005, offset in part by net proceeds from the sale of the Company's short-term investments.

Net cash used in financing activities of \$3.7 million for the six months ended January 1, 2006, resulted primarily from cash used to repurchase 182,000 shares of the Company's Class A common stock, which were placed in treasury, for approximately \$1.3 million, as well as the repayment of amounts outstanding under the Company's credit facilities and long-term capital lease obligations, offset in part by the net proceeds received upon the exercise of employee stock options.

The Company has historically utilized cash generated from operations to meet its

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

cash requirements, including all operating, investing and debt repayment activities. In order to fund working capital requirements during its most recent holiday selling season and to support outstanding letters of credit, as well as temporarily finance the acquisition of Wind & Weather, on October 27, 2005, the Company established a second line of credit in the amount of \$20.0 million, bringing its total available credit facilities to \$25.0 million. The credit facilities, which are collateralized by the Company's working capital, bear

16

interest equal to the applicable LIBOR Index plus 1.50% per annum. At January 1, 2006, there were no amounts outstanding under its credit facilities, and based upon its current business, the Company does not expect to draw down on the facility except during its fiscal second quarter as required by pre-holiday inventory requirements.

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

	Payments due by period			
	Total	Less than 1 year	(in thousands) 1 - 3 years	
Long-term debt	\$3,943	\$1,540	\$1,518	
Capital lease obligations	1,090	932	158	
Operating lease obligations	61,241	8,818	16,083	8
Sublease obligations	8,027	2,277	3,375	1
Purchase commitments (*)	14,025	12,525	1,500	
Total	\$88,326	\$26,092	\$22,634	\$11

(*) 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 January 1, 2006, the Company had repurchased 1.5 million shares of common stock for \$11.1 million, of which 182,000 shares of common stock for \$1.3 million was repurchased during the six months ending January 1, 2006.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial statements and results of operations are based upon the consolidated financial statements of 1-800-FLOWERS.COM, Inc., which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues 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

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

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, affects the Company's more significant judgments and estimates used in preparation of its consolidated financial statements.

Revenue Recognition

Net revenues are generated by online, telephonic and retail fulfillment operations 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.

Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

17

Inventory

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

Goodwill and Other Intangible Assets

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

The Company periodically evaluates acquired businesses for potential impairment indicators. 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 are 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

With the implementation of SFAS No. 123(R) effective July 4, 2005, stock-based compensation changes our financial statements as detailed in Note 3 to the

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

financial statements. Determining the amount and distribution of expense for stock-based compensation, as well as the associated impact to the balance sheet and statement of cash flows, requires the Company to develop estimates of the fair value of stock-based compensation expenses. The most significant factors of that expense require estimates or projections including the expected volatility, expected lives and estimate forfeiture rates of employee stock options, and are determined based on historical measurements and expected outcomes, and the Company's interpretation of regulatory guidance.

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 the Company will be able to generate sufficient taxable income so that these assets will be realized. The factors that the Company considers 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 December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (R), "Share-Based Payment." This Statement revised SFAS No. 123 by eliminating the option to account for employee stock options under APB No. 25 and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (the "fair-value-based" method).

Effective July 4, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method. Under this transition method, compensation cost recognized in the three and six months ended January 1, 2006, includes amounts of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, July 4, 2005 (based on grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and previously presented in the pro-forma footnote disclosures), and (b) compensation cost for all stock-based payments granted subsequent to July 3, 2005 (based on the grant-date fair value estimated in accordance with the new provision of SFAS No. 123(R)). In accordance with the modified prospective method, results for prior periods have not been restated. Prior to the Company's adoption of SFAS No. 123(R), benefits of tax deduction in excess of recognized compensation costs were reported as operating cash flows. SFAS No. 123(R) requires excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. There was no significant excess tax benefits for the six-month period ended January 1, 2006.

18

The following table summarizes the effect of adopting SFAS No. 123(R) as of July 4, 2005:

Three months
ended
January 1, 2006

Six months
ended
January 1,

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

Stock-option compensation expense recognized (*):	(in thousands, except per share)	
Marketing and sales	\$332	\$630
Technology and development	142	269
General and administrative	473	898
Total	947	1,797
Related deferred income tax expense	196	371
Decrease in net income	\$751	\$1,426
Impact on basic and diluted net income per common share	(\$0.01)	(\$0.02)

(*) excludes the amortization of restricted stock awards in the amount of \$113 and \$200 for the three and six months ended January 1, 2006, respectively. (\$68 and \$120, net of tax for the three and six months ended January 1, 2006, respectively).

Compensation expense related to the amortization of restricted stock awards was recognized prior to the implementation of SFAS No. 123(R). Total stock based compensation expense, which includes both expense from stock options and restricted stock awards, totaled \$1.1 million and \$2.0 million for the three and six months respectively, (\$0.8 million and \$1.5 million, net of tax) during the three and six months ended January 1, 2006.

Refer to Note 3 - Stock-Based Compensation for further information regarding disclosure required in accordance with SFAS No. 123(R).

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 investment grade corporate and U.S. government securities. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, these disclosure controls and procedures are effective. 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 six months ended January 1, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is subject to legal proceedings and claims arising in the ordinary course of business. 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth, for the months indicated, the Company's purchase of common stock during the first half of fiscal 2006 which includes the period July 4, 2005 through January 1, 2006.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs

(in thousands, except average price paid per share)			
7/4/05 - 7/31/05	120.5	\$7.19	120.5
8/1/05 - 8/28/05	61.5	\$7.31	61.5
8/29/05 - 10/2/05	-	\$-	-
10/3/05 - 10/30/05	-	\$-	-
10/31/05 - 11/27/05	-	\$-	-
11/28/05 - 1/1/06	-	\$-	-

Total	182.0	\$7.23	182.0

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. All share purchases were made in open-market transactions. The average price paid per share is calculated on a settlement basis and excludes commission.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

The Company's Annual Meeting of Stockholders was held on December 2, 2005.

The following nominees were elected as directors, each to serve until the 2008 Annual Meeting or until their respective successors shall have been duly elected and qualified, by the vote set forth below:

Nominee	For

James F. McCann	350,106,539
Christopher G. McCann	350,156,077

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

The following Directors who were not nominees for election at this Annual Meeting will continue to serve on the Board of Directors of the Company: John J. Conefry, Jr., Leonard J. Elmore, Kevin O'Connor, Mary Lou Quinlan, Deven Sharma and Jeffrey Walker.

The proposal to ratify the selection of Ernst & Young LLP, independent public accountants, as auditors of the Company for the fiscal year ending July 3, 2006 was approved by the vote set forth below:

For	Against	-----
----- 350,017,537	----- 270,981	-----

20

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

(a) Exhibits.

10.34 Lease Agreement dated May 20, 2005 by and among Treeline Mineola, LLC and 1-800-FLOWERS.COM, INC. ("Company") for the Company's corporate headquarters located at One Old Country Road, Carle Place, New York 11514.

10.35 First Modification to the Lease Agreement dated November 16, 2005 by and among Treeline Mineola, LLC and 1-800-FLOWERS.COM, INC. ("Company") for the Company's corporate headquarters located at One Old Country Road, Carle Place, New York 11514.

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

32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

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

Date: February 10, 2006

/s/ James F. McCann

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

Date: February 10, 2006

/s/ William E. Shea

William E. Shea
Senior Vice President Finance and
Administration (Principal Financial
and Accounting Officer)