

1 800 FLOWERS COM INC  
Form 10-Q  
May 05, 2011

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 27, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_ to \_\_\_

Commission File No. 0-26841

1-800-FLOWERS.COM, Inc.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State of  
incorporation)

11-3117311  
(I.R.S. Employer  
Identification No.)

One Old Country Road, Carle Place, New York 11514  
(Address of principal executive offices)(Zip code)

(516) 237-6000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes (X) No ( )

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes ( ) No ( )

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

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Large accelerated filer ( )

Accelerated filer (X)

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

Smaller reporting company ( )

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

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

27,150,683

(Number of shares of Class A common stock outstanding as of May 2, 2011)

36,858,465

(Number of shares of Class B common stock outstanding as of May 2, 2011)

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

## TABLE OF CONTENTS

## INDEX

	Page	
Part I.	Financial Information	
Item 1.	Consolidated Financial Statements:	
	Consolidated Balance Sheets – March 27, 2011 (Unaudited) and June 27, 2010	1
	Consolidated Statements of Operations (Unaudited) – Three and Nine Months Ended March 27, 2011 and March 28, 2010	2
	Consolidated Statements of Cash Flows (Unaudited) – Nine Months Ended March 27, 2011 and March 28, 2010	3 4
Item 2.	Notes to Consolidated Financial Statements (Unaudited) Management’s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	25 26
Part II.	Controls and Procedures Other Information	
Item 1.	Legal Proceedings	27
Item 1A.	Risk Factors	27
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 3.	Defaults upon Senior Securities	28
Item 4.	(Removed and Reserved)	28
Item 5.	Other Information	28
Item 6.	Exhibits	28
Signatures		29



PART I. – FINANCIAL INFORMATION  
ITEM 1. – CONSOLIDATED FINANCIAL STATEMENTS

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

	March 27, 2011	June 27, 2010
	(unaudited)	
Assets		
Current assets:		
Cash and equivalents	\$16,824	\$27,843
Receivables, net	20,331	13,943
Inventories	52,528	45,121
Deferred tax assets	6,099	5,109
Prepaid and other	8,483	5,662
Total current assets	104,265	97,678
Property, plant and equipment, net	48,719	51,324
Goodwill	41,519	41,211
Other intangibles, net	40,373	41,042
Deferred tax assets	14,877	19,265
Other assets	5,042	5,566
Total assets	\$254,795	\$256,086
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$60,628	\$59,914
Current maturities of long-term debt and capital leases	16,893	14,801
Total current liabilities	77,521	74,715
Long-term debt and capital leases	33,166	45,707
Other liabilities	2,800	3,038
Total liabilities	113,487	123,460
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	-	-
Class A common stock, \$.01 par value, 200,000,000 shares authorized 32,671,798 and 32,492,266 shares issued at	327	325

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March 27, 2011 and June 27, 2010, respectively		
Class B common stock, \$.01 par value, 200,000,000 shares authorized 42,138,465 shares issued at March 27, 2011 and June 27, 2010	421	421
Additional paid-in capital	288,421	285,515
Retained deficit	(114,747 )	(120,477 )
Accumulated other comprehensive loss, net of tax	(189 )	(334 )
Treasury stock, at cost – 5,521,115 and 5,465,046 Class A shares at March 27, 2011 and June 27, 2010, respectively		
and 5,280,000 Class B shares	(32,925 )	(32,824 )
Total stockholders' equity	141,308	132,626
Total liabilities and stockholders' equity	\$254,795	\$256,086

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	March 27, 2011	March 28, 2010	March 27, 2011	March 28, 2010
Net revenues	\$ 162,779	\$ 155,513	\$ 502,702	\$ 502,283
Cost of revenues	99,574	96,100	297,084	299,453
Gross profit	63,205	59,413	205,618	202,830
Operating expenses:				
Marketing and sales	43,812	46,729	124,578	128,181
Technology and development	5,179	4,183	14,846	13,264
General and administrative	12,930	11,297	37,641	38,504
Depreciation and amortization	5,230	5,482	15,651	15,771
Total operating expenses	67,151	67,691	192,716	195,720
Operating income (loss)	(3,946 )	(8,278 )	12,902	7,110
Other income (expense):				
Interest income	26	93	68	134
Interest expense	(880 )	(1,212 )	(3,389 )	(4,744 )
Total other income (expense), net	(854 )	(1,119 )	(3,321 )	(4,610 )
Income (loss) from continuing operations before income taxes	(4,800 )	(9,397 )	9,581	2,500
Income tax expense (benefit) from continuing operations	(2,124 )	(3,468 )	3,851	1,362
Income (loss) from continuing operations	(2,676 )	(5,929 )	5,730	1,138
Loss from discontinued operations before income taxes	-	(1,712 )	-	(555 )
Income tax benefit from discontinued operations	-	(345 )	-	(150 )
Loss from discontinued operations	-	(1,367 )	-	(405 )
Net income (loss)	\$ (2,676 )	\$ (7,296 )	\$ 5,730	\$ 733
Basic and diluted net income (loss) per common share:				
From continuing operations	\$ (0.04 )	\$ (0.09 )	\$ 0.09	\$ 0.02
From discontinued operations	-	(0.02 )	-	(0.01 )
Net income (loss) per common share	\$ (0.04 )	\$ (0.11 )	\$ 0.09	\$ 0.01
Weighted average shares used in the calculation of net income (loss) per common share				
Basic	63,999	63,687	63,953	63,571
Diluted	63,999	63,687	65,083	64,037

See accompanying Notes to Consolidated Financial Statements.

2

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

	Nine Months Ended	
	March 27, 2011	March 28, 2010
Operating activities:		
Net income	\$5,730	\$733
Reconciliation of net income to net cash provided by operating activities:		
Loss/impairment from discontinued operation	-	4,015
Operating activities of discontinued operations	-	10,534
Depreciation and amortization	15,651	15,515
Amortization of deferred financing costs	360	256
Deferred taxes	3,332	5,258
Bad debt expense	1,316	1,470
Stock-based compensation	2,857	2,907
Other non-cash items	7	302
Changes in operating items, excluding the effects of acquisitions:		
Receivables	(7,704 )	(13,401 )
Inventories	(7,054 )	844
Prepaid and other	(2,823 )	(1,084 )
Accounts payable and accrued expenses	714	198
Other assets	(558 )	(1,292 )
Other liabilities	(25 )	219
Net cash provided by operating activities	11,803	26,474
Investing activities:		
Acquisitions	(1,450 )	-
Proceeds from sale of business	-	10,066
Capital expenditures	(11,038 )	(10,100 )
Purchase of investment	-	(598 )
Other, net	184	239
Investing activities of discontinued operations	-	(78 )
Net cash used in investing activities	(12,304 )	(471 )
Financing activities:		
Acquisition of treasury stock	(101 )	(672 )
Proceeds from exercise of employee stock options	49	-
Proceeds from bank borrowings	40,000	49,000
Repayment of notes payable and bank borrowings	(49,000 )	(64,262 )
Debt issuance costs	(17 )	-
Repayment of capital lease obligations	(1,449 )	(1,608 )
Net cash used in financing activities	(10,518 )	(17,542 )

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Net change in cash and equivalents	(11,019 )	8,461
Cash and equivalents:		
Beginning of period	27,843	29,562
End of period	\$16,824	\$38,023

See accompanying Notes to Consolidated Financial Statements.

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 nine months ended March 27, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending July 3, 2011.

The balance sheet information at June 27, 2010 has been derived from the audited financial statements at that date, but does not include all information or notes necessary for a complete presentation.

Accordingly, the information in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 27, 2010.

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

Use of Estimates

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

Comprehensive Income (Loss)

For the three and nine months ended March 27, 2011 and March 28, 2010, the Company’s comprehensive income was as follows:

	Three Months Ended		Nine Months Ended	
	March 27, 2011	March 28, 2010	March 27, 2011	March 28, 2010
	(in thousands)			
Net income (loss)	\$(2,676)	\$(7,296)	\$5,730	\$733
Change in fair value of cash flow hedge, net of tax	44	(41)	128	(320)
Comprehensive income (loss)	\$(2,632)	\$(7,337)	\$5,858	\$413

Recent Accounting Pronouncements

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

4

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

### Reclassifications

Certain balances in the prior fiscal year have been reclassified to conform with the presentation in the current fiscal year. During the second quarter of fiscal 2010, the Company launched its 1-800-Baskets brand. Products within this business are now being managed within the Gourmet Food & Gift Baskets segment. Gift basket products, formerly included in the Consumer Floral reportable segment are now included in the Gourmet Food & Gift Baskets segment. These changes have been reflected in the Company's segment reporting for all periods presented.

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

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

	Three Months Ended		Nine Months Ended	
	March 27, 2011	March 28, 2010	March 27, 2011	March 28, 2010
	(in thousands, except per share data)			
Numerator:				
Income (loss) from continuing operations	\$(2,676)	\$(5,929)	\$5,730	\$1,138
Denominator:				
Weighted average shares outstanding	63,999	63,687	63,953	63,571
Effect of dilutive securities:				
Employee stock options (1)	-	-	-	8
Employee restricted stock awards	-	-	1,130	458
	-	-	1,130	466
Adjusted weighted-average shares and assumed conversions	63,999	63,687	65,083	64,037
Basic and diluted net income (loss) from continuing operations per common share	\$(0.04)	\$(0.09)	\$0.09	\$0.02

Basic net income (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive common equivalent shares (consisting of employee stock options and unvested restricted stock awards) outstanding during the period. Diluted net loss per share excludes the effect of potential common shares (consisting primarily of employee stock options and unvested restricted stock awards) as their inclusion would be antidilutive.

(1)

The effect of options to purchase 6.8 million and 7.1 million shares during the three and nine months ended March 27, 2011 and 8.2 million and 8.4 million shares during the three and nine months ended March 28, 2010, respectively, were excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.

Note 3 – Stock-Based Compensation

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 12 to the consolidated financial statements included in the Company's 2010 Annual Report on Form 10-K, that provides for the grant to eligible employees, consultants and directors of stock options, share appreciation rights (SARs), restricted shares, restricted share units, performance shares, performance units, dividend equivalents, and other stock-based awards.

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

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

	Three Months Ended		Nine Months Ended	
	March 27, 2011	March 28, 2010	March 27, 2011	March 28, 2010
	(in thousands)			
Stock options	\$296	\$244	\$881	\$1,290
Restricted stock awards	804	451	1,976	1,617
Total	1,100	695	2,857	2,907
Deferred income tax benefit	(388)	(222)	(992)	(924)
Stock-based compensation expense, net	\$712	\$473	1,865	\$1,983

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

	Three Months Ended		Nine Months Ended	
	March 27, 2011	March 28, 2010	March 27, 2011	March 28, 2010
	(in thousands)			
Marketing and sales	\$424	\$278	\$1,116	\$1,197
Technology and development	198	139	534	601
General and administrative	478	278	1,207	1,109
Total	1,100	\$695	2,857	\$2,907

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

	Three Months Ended		Nine Months Ended	
	March 27, 2011	March 28, 2010	March 27, 2011	March 28, 2010
Weighted average fair value of options granted	\$1.73	\$1.18	\$1.19	\$1.71
Expected volatility	69.4%	65.2%	68.0%	62.7%
Expected life	5.9 yrs	5.6 yrs	7.5 yrs	5.6 yrs
Risk-free interest rate	2.02%	2.47%	1.28%	2.45%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

The following table summarizes stock option activity during the nine months ended March 27, 2011:

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	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at June 27, 2010	6,890,089	\$ 6.50		
Granted	1,279,500	\$ 1.80		
Exercised	(20,000 )	\$ 2.44		
Forfeited	(1,238,073)	\$ 3.90		
Outstanding at March 27, 2011	6,911,516	\$ 6.10	4.4 years	\$ 1,870
Options vested or expected to vest at March 27, 2011	6,535,896	\$ 6.34	4.1 years	\$ 1,417
Exercisable at March 27, 2011	4,598,164	\$ 7.86	2.7 years	\$ 59



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

As of March 27, 2011, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$2.0 million and the weighted average period over which these awards are expected to be recognized was 4.4 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 (Restricted Stock Awards). The following table summarizes the activity of non-vested restricted stock awards during the nine months ended March 27, 2011:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at June 27, 2010	1,661,811	\$ 4.35
Granted	2,604,464	\$ 1.80
Vested	(159,532 )	\$ 8.05
Forfeited	(252,408 )	\$ 3.69
Non-vested at March 27, 2011	3,854,335	\$ 2.51

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of March 27, 2011, there was \$5.2 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.1 years.

#### Note 4 – Acquisition of Selected Assets of Mrs. Beasley’s

The Company accounts for business combinations using the purchase method of accounting. Under the purchase method of accounting for business combinations, the 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 entity is reflected in the Company’s consolidated financial statements from date of acquisition.

On March 9, 2011, the Company acquired selected assets of Mrs. Beasley’s Bakery, LLC (Mrs. Beasley’s), a baker and marketer of cakes, muffins and gourmet gift baskets for cash consideration of approximately \$1.4 million. The acquisition included inventory and certain manufacturing equipment, which was consolidated within the Company’s baked goods manufacturing facilities. This acquisition expands the breadth of the Company’s baked goods and gourmet gift baskets product line. Revenue and operating results of the acquired business were insignificant to the Company’s consolidated operating results during the three and nine month periods ended March 27, 2011. Revenues associated with the acquired business is expected to approximate \$4.0 million annually.



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

The Company is in the process of finalizing its allocation of the purchase price to individual assets acquired and liabilities assumed as a result of the acquisition of Mrs. Beasley's. This will result in potential adjustments to the carrying value of Mrs. Beasley's 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. The following table summarizes the allocation of purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition of Mrs. Beasley's:

	Mrs. Beasley's Purchase Price Allocation (in thousands)
Current assets	\$ 353
Property, plant and equipment	204
Intangible assets	585
Goodwill	308
Total assets acquired	1,450
Total liabilities assumed	-
Net assets acquired	\$ 1,450

#### 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:

	March 27, 2011	June 27, 2010
	(in thousands)	
Finished goods	\$27,573	\$23,611
Work-in-Process	16,240	13,390
Raw materials	8,715	8,120
	\$52,528	\$45,121

#### Note 6 – Goodwill and Intangible Assets

The carrying amount of goodwill is as follows:

	1-800-Flowers.com Consumer Floral	BloomNet Wire Service	Gourmet F o o d and Gift Baskets ( i n thousands)	Total
Balance at June 27, 2010	\$ 5,728	\$-	\$35,483	\$41,211
Acquisition of Mrs. Beasley's	-	-	308	308
Balance at March 27, 2011	\$ 5,728	\$-	\$35,791	\$41,519

8

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

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

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

	Amortization Period	March 27, 2011			June 27, 2010		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
(in thousands)							
Intangible assets with determinable lives							
Investment in licenses	14 - 16 years	\$ 5,314	\$ 5,314	\$ -	\$ 5,314	\$ 5,314	\$ -
Customer lists	3 - 10 years	15,729					