

1 800 FLOWERS COM INC  
Form 10-K  
September 14, 2012

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

**FORM 10-K**

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the fiscal year ended July 1, 2012**

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Commission File No. 0-26841**

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

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**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)

Securities registered pursuant to Section 12(b) of the Act:

| <b>Title of each class</b>                       | <b>Name of each Exchange on which registered</b> |
|--|--|
| Class A common stock, par value \$0.01 per share | The Nasdaq Stock Market, Inc.                    |

Securities registered pursuant to Section 12(g) of the Act: **None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes  No

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

|   |  |   |   |
|---|--|---|---|
| Large accelerated filer <input type="radio"/> | Accelerated filer <input checked="" type="radio"/> | Non-accelerated filer <input type="radio"/>   | Smaller reporting company <input type="radio"/> |
|   |  | (Do not check if a smaller reporting company) |   |

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, December 30, 2011, was approximately \$54,318,000. The registrant has no non-voting common stock.

**27,730,635**

(Number of shares of class A common stock outstanding as of September 7, 2012)

**36,858,465**

(Number of shares of class B common stock outstanding as of September 7, 2012)

### DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Definitive Proxy Statement for the 2012 Annual Meeting of Stockholders (the Definitive Proxy Statement) are incorporated by reference into Part III of this Report.

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**FORM 10-K**  
**For the fiscal year ended July 1, 2012**  
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**PART I**

**Item 1. BUSINESS**

**The Company**

1-800-FLOWERS.COM, Inc. is the world's leading florist and gift shop. For more than 35 years, 1-800-FLOWERS® (1-800-356-9377 or www.1800flowers.com) has been helping deliver smiles for our customers with gifts for every occasion, including fresh flowers and the finest selection of plants, gift baskets, gourmet foods, confections, candles, balloons and plush stuffed animals. As always, our 100% Smile Guarantee backs every gift. 1-800-FLOWERS.COM's Mobile Flower & Gift Center was named winner of the Mobile Shopping Summit's "Best Mobile Site of 2011." 1-800-FLOWERS.COM was also rated number one vs. competitors for customer satisfaction by STELLAService and named by the E-Tailing Group as one of only nine online retailers out of 100 benchmarked to meet the criteria for Excellence in Online Customer Service. 1-800-FLOWERS.COM has been honored in Internet Retailer's "Hot 100: America's Best Retail Web Sites" for 2011. The Company's BloomNet® international floral wire service (www.mybloomnet.net) provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably.

The 1-800-FLOWERS.COM "Gift Shop" also includes gourmet gifts such as popcorn and specialty treats from The Popcorn Factory® (1-800-541-2676 or www.thepopcornfactory.com); cookies and baked gifts from Cheryl's® (1-800-443-8124 or www.cheryls.com); premium chocolates and confections from Fannie May® confections brands (www.fanniemay.com and www.harrylondon.com); gift baskets and towers from 1-800-Baskets.com® (www.1800baskets.com); delicious cut-fruit arrangements from FruitBouquets.com (www.fruitbouquets.com); wine gifts from Winetasting.com® (www.winetasting.com); ultra- premium meats from Stockyards.com (www.stockyards.com); as well as exquisite, customizable invitations and personal stationery from FineStationery.com (www.finestationery.com). The Company's Celebrations® brand (www.celebrations.com) is a new premier online destination for fabulous party ideas and planning tips. 1-800-FLOWERS.COM, Inc. is involved in a broad range of corporate social responsibility initiatives including continuous expansion and enhancement of its environmentally-friendly "green" programs as well as various philanthropic and charitable efforts.

On September 6, 2011, the Company, through the Winetasting Network subsidiary, completed the sale of certain assets of its non-strategic wine fulfillment services business in order to focus on its core Direct-to-Consumer wine business. During the fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets categories, and on January 25, 2010, completed the sale of this business. Consequently, the Company has classified the results of operations of its Home & Children's Gifts segment and its wine fulfillment services business, which had previously been included within its Gourmet Foods & Gift Baskets category, as discontinued operations for all periods presented; refer to the Consolidated Financial Statements "Discontinued Operations" for a further discussion.

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

References in this Annual Report on Form 10-K to "1-800-FLOWERS.COM" and the "Company" refer to 1-800-FLOWERS.COM, Inc. and its subsidiaries. The Company's principal offices are located at One Old Country Road, Suite 500, Carle Place, NY 11514 and its telephone number at that location is (516) 237-6000.

**The Origins of 1-800-FLOWERS.COM**

The Company's operations began in 1976 when James F. McCann, its Chairman and Chief Executive Officer, acquired a single retail florist in New York City, which he subsequently expanded to

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a 14-store chain. Thereafter, the Company modified its business strategy to take advantage of the rapid emergence of toll-free calling. The Company acquired the right to use the toll-free telephone number 1-800-FLOWERS, adopted it as its corporate identity and began to aggressively build a national brand around it. The Company believes it was one of the first companies to embrace this new way of conducting business.

In order to support the growth of its toll-free business and to provide superior customer service, the Company developed an operating infrastructure that incorporated the best available technologies. Over time, the Company implemented a sophisticated transaction processing system that facilitated rapid order entry and fulfillment, an advanced telecommunications system and multiple customer service centers to handle increasing call volume.

To enable the Company to deliver products reliably nationwide on a same-day or next-day basis and to market pre-selected, high-quality floral products, the Company created BloomNet®, a nationwide network including independent local florists selected for their high-quality products, superior customer service and order fulfillment and delivery capabilities.

The Company's online presence has enabled it to expand the number and types of products it can effectively offer to its customers. As a result, the Company has developed relationships with customers who purchase products for both a broad range of celebratory gifting occasions as well as for everyday personal use. The Company has broadened its product offering to include products that a customer could expect to find in a high-end florist shop, including a wide assortment of cut flowers and plants, candy, balloons, plush toys, giftware, gourmet gift baskets, and fruit bouquet arrangements. The Company has also significantly expanded its presence in the gourmet food and gift baskets category, which the Company has identified as having significant revenue and earnings growth potential, through a combination of organic initiatives and strategic acquisitions.

**The Company's Strategy**

1-800-FLOWERS.COM's objective is to become the leading authority on thoughtful gifting, to serve an expanding range of our customers' celebratory needs, thereby helping our customers express themselves and connect with the important people in their lives. The Company will continue to build on the trusted relationships with our customers by providing them with ease of access, tasteful and appropriate gifts, and superior service.

The Company believes that 1-800-FLOWERS.COM is one of the most recognized brands in the floral and gift industry. The strength of its brand has enabled the Company to extend its product offerings beyond the floral category into complementary products, which include gourmet popcorn, cookies and related baked and snack food products, premium chocolate and confections, wine gifts, gourmet gift baskets, and fruit bouquet arrangements. This extension of gift offerings helps our customers in all of their celebratory occasions, and will enable the Company to increase the number of purchases and the average order value by existing customers who have come to trust the 1-800-FLOWERS.COM brand, as well as continue to attract new customers.

The Company believes its brands are characterized by:

***Convenience.*** All of the Company's product offerings can be purchased either via the web and wireless devices, or via the Company's toll-free telephone numbers, 24 hours a day, seven days a week, for those customers who prefer a personal gift advisor to assist them. The Company offers a variety of delivery options, including same-day or next-day service throughout the world.

***Quality.*** High-quality products are critical to the Company's continued brand strength and are integral to the brand loyalty that it has built over the years. The Company offers its customers a 100% satisfaction guarantee on all of its products.

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**Delivery Capability.** The Company has developed a market-proven fulfillment infrastructure that allows delivery on a same-day, next-day and any-day basis. Key to the Company's fulfillment capability is an innovative "hybrid" model which combines BloomNet (comprised of independent florists operating retail flower shops, Company-owned stores, and franchised stores), with its manufacturing and distribution centers located in Delaware, Florida, Illinois, Nevada, New York and Ohio, and third-party vendors who ship directly to the Company's customers.

**Selection.** Over the course of a year, the Company offers more than 6,500 varieties of fresh-cut flowers, floral and fruit arrangements and plants, and more than 4,800 SKUs of gifts, gourmet foods and gift baskets, cookies, chocolates and wines.

**Customer Service.** The Company strives to ensure that customer service, whether online, wireless, via the telephone, or in one of its retail stores is of the highest caliber. The Company operates a customer service center at its headquarters in New York, while also utilizing a network of home agents and outsourcers to provide helpful assistance on everything from advice on product selection to the monitoring of the fulfillment and delivery process.

As part of the Company's continuing effort to serve the thoughtful gifting needs of its customers, and leverage its business platform, where appropriate, the Company intends to expand the breadth of the 1-800-Flowers.com brand. The Company intends to accomplish this through organic growth, and where appropriate, through acquisition of complementary businesses. In keeping with this strategy, in August 2011, the Company acquired Flowerama of America, Inc. (Flowerama), a franchisor and operator of retail flower shops under the Flowerama trademark. In May 2011, the Company purchased selected assets of Fine Stationery, Inc., a retailer of personalized stationery, invitations and announcements, and in March 2011, acquired selected assets of Mrs. Beasley's Bakery, LLC, a baker and marketer of cakes, muffins and gourmet gift baskets. In March 2009, the Company purchased selected assets of Geerlings & Wade, Inc., a retailer of wine and related products. In July 2008, the Company acquired selected assets of Napco Marketing Corp., a wholesale merchandiser and marketer of products designed primarily for the floral industry which complements the product line already offered by BloomNet. In April 2008, the Company acquired DesignPac Gifts, LLC, a designer, assembler and distributor of wholesale gourmet gift baskets, gourmet food towers and gift sets, including a broad range of branded and private label components, which in turn facilitated the Company's ability to launch its direct-to-consumer gift baskets brand 1-800-Baskets.com in November 2009 by leveraging 1-800-Flowers.com strong brand equity, online traffic and customer database along with the product design, sourcing and confecting capabilities of DesignPac. In May 2006, the Company acquired Fannie May Confections Brands, Inc., a manufacturer and direct retailer of premium chocolates and confections, through its Fannie May®, Harry London® and Fanny Farmer® brands. In March 2005, the Company acquired Cheryl & Co., a manufacturer and direct marketer of premium cookies and related baked gift items, and, in November 2004, The Winetasting Network, a distributor and direct-to-consumer marketer of wine, now marketed under the winetasting.com URL. In May 2002, the Company acquired The Popcorn Factory, a manufacturer and direct marketer of giftable premium popcorn and related food gift products, marking the start of the Company's expansion into food gifts. These acquisitions have enabled the Company to develop its gourmet food and gift baskets product line, which the Company has identified as having significant growth and earnings potential.

As a complement to the Company's own brands and product lines, the Company has formed strategic relationships with brands such as Lenox®, Waterford®, Crabtree & Evelyn®, Yankee Candle®, Junior's® Cheesecakes, Norman Love® and Starbucks®. The Company also continues to develop signature products in order to provide its customers with differentiated products and further its position as a destination for all of their gifting needs. During fiscal 2010, the Company terminated its exclusive three year merchandising and marketing relationship with Martha Stewart Living Omnimedia, which included Martha Stewart for 1-800-Flowers.com, a co-branded line of fresh, seasonal flower

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arrangements and plants which began in April of fiscal 2008, thus ending the program with one year remaining on the original agreement.

As a provider of gifts to consumers and wholesalers for resale to consumers, the Company is subject to changes in consumer confidence and the economic conditions that impact our customers. Demand for the Company's products is affected by the financial health of our customers, which is influenced by macro economic issues such as unemployment, fuel and energy costs, weakness in the housing market and unavailability of consumer credit. During the recent economic downturn, the demand for our products, and accordingly our financial results, compared to pre-recessionary levels, has been adversely affected by the reduction in consumer spending.

During fiscal 2012 the Company continued to recover from the effects of the recession which began in fiscal 2009, building on last year's improved financial performance. As a result of cost reductions and productivity improvements, marketing efficiency and merchandising innovation, the Company has been able to make significant annual improvements in EBITDA compared to the low point of the recession during fiscal 2010. A key tenet of the Company's strategy during this period was to stabilize the Consumer Floral operations and minimize business risk during the current recessionary period. In order to improve earnings during this recessionary period, the Company took a more conservative view of the economy, and its expectations of demand, in order to minimize the risk of investing marketing and operating spend for revenue growth too early in the economic recovery cycle. This strategy was designed to protect earnings growth that was expected to be achieved through operational improvements and business resizing programs, including a rationalization of marketing spending, but driven by more effective campaigns, that focused on the Company's ability to "wow" our customers with differentiated, non-commoditized higher value products. While the economic recovery continues at a slow pace, with the possibility of a "double-dip" recession looming as a result of continued high unemployment, energy and commodity prices, the Company believes that its sales "bottomed-out" in the first half of fiscal 2011, as it then began to experience modest year-over-year revenue growth.

Tempered by the continued economic uncertainty, during fiscal 2013, the Company expects to grow revenues across all three of its business segments with consolidated revenue growth for the year anticipated to be in the mid-single-digit range. Also, based on continued improvements in gross profit margin and operating leverage, the Company anticipates achieving double-digit year-over-year increases in EBITDA and EPS.

The Company's fiscal 2013 guidance is based on the positive trends both top and bottom-line that the Company has seen over the past two years, balanced by the continued uncertainty in the global economy. The Company plans to continue to focus on managing those aspects of the business where it can drive growth and enhanced results, including:

merchandising and marketing initiatives featuring truly original products that have helped drive increased average order value and gross profit margins,

efforts in manufacturing, sourcing and shipping that have helped absorb rising commodity and fuel costs and enhanced operating cost leverage, and

investments in innovation for the future, including its industry leading efforts in Social and Mobile arenas, BloomNet and franchising programs in Consumer Floral and Fannie May.

The Company believes these efforts, and others underway, will help continue the positive trends seen in the business as the Company deepens its relationships with its customers, helping them deliver smiles, and build shareholder value.



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The Company will continue to focus on the three principles that it believes will drive long-term profitable growth:

*Know and Take Care of Our Customer* by providing the right products and the best services to help them express themselves and deliver smiles. This is evidenced in 1-800-FLOWERS.COM recent number one ranking vs. competitors for customer service by STELLAService as well as being named by the E-Tailing Group as one of only nine online retailers out of 100 benchmarked to meet the criteria for Excellence in Online Customer Service.

*Maintain and enhance our Financial Strength and Flexibility* by seeking ways to reduce our operating costs while strengthening our balance sheet and adding flexibility to our capital structure. During fiscal 2010, the Company completed the sale of its non-strategic Home and Children's Gifts business and used the proceeds to further pay down term debt, strengthening its balance sheet and revising its bank credit facility to provide additional flexibility; and in the first quarter of fiscal 2012, completed the sale of certain assets of its WinetastingNetwork wine fulfillment services business.

*Continue to Innovate and Invest for the Future* in new technology opportunities such as mobile e-commerce, where the Company was awarded the 2010 "Best Mobile App for E-commerce" by DPAC (Digiday's Publishing & Advertising Awards) and the 2010 Mobile App of the Year Award in the "Best Shopping" category by RIS (Retail Info Systems). In addition, 1-800-FLOWERS.COM has been honored in Internet Retailer's "Hot 100: America's Best Retail Web Sites" for 2011 and was one of only five retailers to receive the 2011 Customer Innovation Award from Avaya for transforming the business through innovative use of business communications and collaboration technologies.

**Business Categories**

The Company operates in the following three business segments: Consumer Floral, Gourmet Food and Gift Baskets, and BloomNet Wire Service. The Consumer Floral segment includes the operations of the Company's flagship brand, 1-800-Flowers.com, Flowerama, Celebrations, and FineStationery.com, while the Gourmet Food and Gift Baskets segment includes the operations of Fannie May Confections Brands, Cheryl's (which includes Mrs. Beasley's), The Popcorn Factory, Winetasting.com, Stockyards.com, DesignPac and 1-800-Baskets. The BloomNet Wire Service segment includes the operations of BloomNet, BloomNet Technologies, BloomNet Products and Napco.

On September 6, 2011, the Company, through the Winetasting Network subsidiary, completed the sale of certain assets of its non-strategic wine fulfillment services business in order to focus on its core Direct-to-Consumer wine business. During the fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets categories, and on January 25, 2010, completed the sale of this business. Consequently, the Company has classified the results of operations of its Home & Children's Gifts segment and its wine fulfillment services business, which had previously been included within its Gourmet Foods & Gift Baskets category, as discontinued operations for all periods presented.

**The Company's Products and Service Offerings**

The Company offers a wide range of products including fresh-cut flowers, floral and fruit arrangements and plants, gifts, popcorn, gourmet foods and gift baskets, cookies, chocolates, candy and wine. In order to maximize sales opportunities, products are not exclusive to certain brands, and may be sold across business categories. In addition to selecting its core products, the Company's merchandising team works closely with manufacturers and suppliers to select and design products that meet the seasonal, holiday and other special needs of its customers.

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The Company's differentiated and value-added product offerings create the opportunity to have a relationship with customers who purchase items not only for gift-giving occasions but also for everyday consumption. The Company's merchandising team works closely with manufacturers and suppliers to select and design its floral, gourmet foods and gift baskets, as well as other gift-related products that accommodate our customers' needs to celebrate a special occasion or convey a sentiment. As part of this continuing effort, the Company intends to continue to develop differentiated products and signature collections that customers have embraced and come to expect, while eliminating marginal performers from its product offerings.

In each of the last three fiscal years, virtually all of the Company's revenues have been derived from domestic sources. The Company's product selection consists of:

**Flowers and Plants.** The Company offers fresh-cut flowers and floral and fruit arrangements for all occasions and holidays, available for same-day delivery. The Company provides its customers with a choice of florist designed products, including traditional floral and gift offerings and the Company's new line of fruit arrangements under the brand Fruit Bouquets® ([www.fruitbouquets.com](http://www.fruitbouquets.com)), flowers delivered through its Fresh From Our Growers® program, and unique floral creations from our floral artisans. The Company also offers a wide variety of popular plants to brighten the home and/or office, and accent gardens and landscapes.

**Gourmet Foods and Gift Baskets.** The Company manufactures premium cookies and baked gift items under the Cheryl's and Mrs. Beasley's brands, which are delivered in beautiful and innovative gift baskets and containers, providing customers with a variety of assortments to choose from. The Popcorn Factory brand pops premium popcorn and specialty snack products, while Fannie May Confections Brands manufactures premium chocolate and candy under the Fannie May, Fannie Farmer, Harry London and various private label brand names. During the second quarter of fiscal 2010, the Company launched a co-branded website which featured the 1-800-BASKETS.COM® brand, a collection of gourmet gift baskets confectioned by DesignPac. Additionally, through its [winetasting.com](http://winetasting.com) business, the Company offers its customers an array of different wines from around the world. Currently, restrictions exist in many states regarding interstate shipment of wine. As such, these items are only available in selected states. The Company also licenses the Stockyards name through which it sells premium meats, which complements its wine offerings. Many of the Company's gourmet products are packaged in seasonal, occasion specific or decorative tins, fitting the "giftable" requirement of individual customers, while also adding the capability to customize the tins with corporate logos and other personalized features for the Company's corporate customers' gifting needs.

**BloomNet Products and Services.** The Company's BloomNet business provides its members with products and services, including: (i) clearinghouse services, consisting of the settlement of orders between sending florists (including the 1-800-Flowers.com brand) and receiving florists, (ii) advertising, in the form of member directories, including the industry's first on-line directory, (iii) communication services, by which BloomNet florists are able to send and receive orders and communicate between members, using Bloomlink®, the Company's proprietary electronic communication system, (iv) other services including web hosting and point of sale, and (v) wholesale products, which consist of branded and non-branded floral supplies, enabling member florists to reduce their costs through 1-800-Flowers purchasing leverage, while also ensuring that member florists will be able to fulfill 1-800-Flowers.com brand orders based on recipe specifications. While maintaining industry-high quality standards for its 1-800-Flowers.com brand customers, the Company offers florists a compelling value proposition, offering products and services that its florists need to grow their business and to enhance profitability.

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**Marketing and Promotion**

The Company's marketing and promotion strategy is designed to strengthen the 1-800-FLOWERS.COM brands, increase customer acquisition, build customer loyalty, and encourage repeat purchases. The Company's goal is to make its brands synonymous with thoughtful gifting and helping our customers to send smiles everyday. To do this, the Company intends to invest in its brands and acquisition of new customers through the use of selective on and off-line media, direct marketing, public relations and strategic Internet relationships, while cost-effectively capitalizing on the Company's large and loyal customer base.

The Company's strong appeal and brand recognition provide it with significant marketing opportunities. For example, the Company was featured in an episode of the CBS TV hit reality show *Undercover Boss*, providing a great opportunity for all of its brands to receive broad national exposure in front of an estimated 15 million viewers, while our "Imagine the Smiles" program recognizes and celebrates members of our local communities, who are deserving of a smile.

**Enhance its Customer Relationships.** The Company intends to deepen its relationship with its customers and be their trusted resource to fulfill their need for quality, tasteful gifts. It plans to encourage more frequent and extensive use of its branded web sites, by continuing to provide product-related content and interactive features which will enable the Company to reach its customers during non-holiday periods, thereby increasing everyday purchases for birthdays, anniversaries, weddings, and sympathy. Examples of these efforts include the Company's social media community on Facebook, and Celebration's series of books which enhance engagement through customer generated content. In addition, through customer panel research, the 1-800-Flowers.com brand recently introduced a number of new signature products designed to increase everyday purchases, including the successful introduction of the "a DOG-able " collection, a variety of dog-shaped floral arrangements, and the "Cupcake in Bloom ", a cupcake shaped arrangement of fresh carnations through the 1-800-Flowers brand, which builds upon the successful "Birthday Cake" and "Happy Hour" collections. As of July 1, 2012, the Company's total database of unique customers numbered approximately 39.5 million.

In order to attract new customers and to increase purchase frequency and average order value of existing customers, the Company markets and promotes its brands and products as follows:

**Strategic Online Relationships.** The Company promotes its products through strategic relationships with leading Internet portals, search engines, and mobile and online networks. The Company's online relationships include, among others, social media sites such as Facebook, Twitter, and Pinterest, as well as Google, AOL, Yahoo!, and Microsoft.

**Affiliate and Co-Marketing Promotions.** In addition to securing alliances with frequently visited web sites, the Company has developed an affiliate network that includes thousands of web sites operated by third parties. Affiliate participation may be terminated by them or by the Company at any time. These web sites earn commissions on purchases made by customers referred from their sites to the Company's web site. In order to expand the reach of its marketing programs and stretch its marketing dollars, the Company has established a number of co-marketing relationships and promotions to advertise its products.

**E-mails.** The Company is able to capitalize on its customer database of approximately 39.5 million unique customers by utilizing cost-effective, targeted e-mails to notify customers of product promotions, remind them of upcoming gifting occasions and convey other marketing messages.

**Direct Mail and Catalogs.** The Company uses its direct mail promotions and catalogs to increase the number of new customers and to increase purchase frequency of its existing customers. Through the use of catalogs, the Company can utilize its extensive customer database to effectively cross-promote its products. In addition to providing a direct sale mechanism, these catalogs drive on-line

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sales and will attract additional customers to the Company's web sites. For the year ended July 1, 2012, the Company mailed in excess of 19 million branded catalogs.

**Off-line Media.** The Company utilizes off-line media, including television, radio and print to market its brands and products. Off-line media allows the Company to reach a large number of customers and to target particular market segments.

***The Company's Web Sites***

The Company offers floral, fruit, plant, gift baskets, gourmet foods, chocolate and candies, plush and specialty gift products through its co-branded 1-800-FLOWERS.COM ([www.1800flowers.com](http://www.1800flowers.com)) and 1-800-BASKETS.COM ([www.1800baskets.com](http://www.1800baskets.com)) web site. Customers can come to the Company's web sites directly or be linked by one of the Company's portal providers, search engine, or affiliate relationships. These include AOL (keyword:flowers), Yahoo!, Microsoft and Google, as well as thousands of online affiliate program members and social media sites such as Facebook. The Company also offers premium chocolates and confections from Fannie May Fine Chocolates ([www.fanniemay.com](http://www.fanniemay.com) and [www.harrylondon.com](http://www.harrylondon.com)), premium popcorn and specialty food products through The Popcorn Factory ([www.thepopcornfactory.com](http://www.thepopcornfactory.com)), exceptional baked cookies and baked gifts from Cheryl's ([www.cheryls.com](http://www.cheryls.com)), and wine gifts from [winetasting.com](http://winetasting.com) ([www.winetasting.com](http://www.winetasting.com)) web sites. The Company's Fine Stationery.com site ([www.finestationery.com](http://www.finestationery.com)) offers customers a vast array of unique, customizable invitations, announcements and greeting cards. More than 65% of online revenues are derived from traffic coming directly to one of the Company's Universal Resource Locators ("URL's").

The Company's web sites allow customers to easily browse and purchase its products, promote brand loyalty and encourage repeat purchases by providing an inviting customer experience. The Company's web sites offer customers detailed product information, complete with photographs, personalized shopping services, including search and order tracking, contests, sweepstakes, gift-giving suggestions and reminder programs, party tips and planning, and information about special events and offers. The Company has designed its web sites to be fast, secure and easy to use and allows customers to order products with minimal effort. During fiscal 2012, the Company launched a multi-branded web-site, enabling its customers to access all of its family of brands through "tabs" on certain URLs ([www.1800flowers.com](http://www.1800flowers.com) and [www.1800baskets.com](http://www.1800baskets.com)).

**Technology Infrastructure**

The Company believes it has been and continues to be a leader in implementing new technologies and systems to give its customers the best possible shopping experience, whether online or over the telephone. Through the use of customized software applications, the Company is able to retrieve, sort and analyze customer information to enable it to better serve its customers and target its product offerings. The Company's online and telephonic orders are fed directly from the Company's secure web sites, or with the assistance of a gift advisor, into a transaction processing system which captures the required customer and recipient information. The system then routes the order to the appropriate Company distribution center or, for florist fulfilled or drop-shipped items, selects a florist or other vendor to fulfill the customer's order and electronically transmits the necessary information using BloomLink®, the Company's proprietary communication system, assuring timely delivery. In addition, the Company's gift advisors have electronic access to this system, enabling them to assist in order fulfillment and subsequently track other customer and/or order information.

The Company's technology infrastructure, primarily consisting of the Company's web sites, transaction processing, manufacturing and warehouse management, customer databases and telecommunications systems, is built and maintained for reliability, security, scalability and flexibility. To minimize the risk of service interruptions from unexpected component or telecommunications failure,

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maintenance and upgrades, the Company has built full back-up and system redundancies into those components of its systems that have been identified as critical.

**Fulfillment and Manufacturing Operations**

The Company's customers primarily place their orders either online or over the telephone. The Company's development of a hybrid fulfillment system, which enables the Company to offer same-day, next-day and any-day delivery, combines the use of BloomNet (comprised of independent florists operating retail flower shops, franchise florist shops and a small number of Company-owned stores), with the Company-owned distribution centers and brand-name vendors who ship directly to the Company's customers. While providing a significant competitive advantage in terms of delivery options, the Company's fulfillment system also has the added benefit of reducing the Company's capital investments in inventory and infrastructure. All of the Company's products are backed by a 100% satisfaction guarantee, and the Company's business is not dependent on any single third-party supplier.

To ensure reliable and efficient communication of online and telephonic orders to its BloomNet members and third party gift vendors, the Company developed BloomLink®, a proprietary and secure internet-based communications system which is available to all BloomNet members and third-party gift vendors. The Company also has the ability to arrange for international delivery of floral products through independent wire services and direct relationships.

Fulfillment and manufacturing of products is as follows:

**Flowers and Plants.** A majority of the Company's floral orders are fulfilled by one of the Company's BloomNet members, allowing the Company to deliver its floral and fruit bouquet products on a same-day or next-day basis to ensure freshness and to meet its customers' need for immediate gifting. In addition, the Company is better positioned to ensure consistent product quality and presentation and offer a greater variety of arrangements, which creates a better experience for its customers and gift recipients. The Company selects retail florists for BloomNet based upon the florist's design staff, facilities, quality of floral processing, and delivery capabilities and allocates orders to members within a geographical area based on historical performance of the florist in fulfilling orders, and the number of BloomNet florists currently serving the area. The Company regularly monitors BloomNet florists' performance and adherence to the Company's quality standards to ensure proper fulfillment.

The Company's relationships with its BloomNet members are non-exclusive. Many florists, including many BloomNet florists, also are members of other floral fulfillment organizations. The BloomNet agreements generally are cancelable by either party with ten days notification and do not guarantee any orders, dollar amounts or exclusive territories from the Company to the florist. In certain instances, the Company is required to fulfill orders through non-BloomNet members, and transmits these orders to the fulfilling florist using the communication system of an independent wire service or via telephone.

In addition to its florist designed product, the Company offers its customers an alternative to florist designed products through its Fresh From Our Growers® program, and by providing for a full array of products from bouquets to unique floral arrangements designed by our floral artisans.

As of July 1, 2012, the Company operates a floral retail store located in New York. In addition, the Company has 224 franchised stores, located within the United States. The Company-owned store is used to test new products and marketing programs.

**Gourmet Foods and Gift Baskets.** In order to take advantage of improved margins, better control quality and to offer premium branded signature products in the Gourmet Food and Gift Baskets product category, the Company has acquired several gourmet food retailers with manufacturing operations. The Company's premium chocolates are manufactured and distributed from its

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189,000 square foot production facility in Akron, Ohio, and the Company's cookie and baked gifts are fulfilled from its 176,000 square foot baking and distribution center in Obetz, Ohio, while its premium popcorn and related snack products are shipped from the Company's 148,000 square foot manufacturing and distribution center located in Lake Forest, Illinois. As a result of the divestiture of the Company's wine fulfillment business in September 2011, the Company's wine gift products are fulfilled by a third-party. Gift basket confection and fulfillment for both wholesale and 1-800-Baskets.com is handled by DesignPac, through its 249,000 square foot distribution center located in Melrose Park, IL. As of July 1, 2012, the Company operates 72 Fannie May/Harry London and 10 Cheryl's retail stores. In addition, Fannie May has 22 franchised stores, located within the United States.

**Seasonality**

The Company's quarterly results may experience seasonal fluctuations. Due to the Company's expansion into non-floral products, the Thanksgiving through Christmas holiday season, which falls within the Company's second fiscal quarter, generates the highest proportion of the Company's annual revenues. In addition, as the result of a number of major floral gifting occasions, including Mother's Day and Administrative Professionals Week, revenues also rise during the Company's fiscal fourth quarter. Finally, results during the Company's fiscal first quarter are negatively impacted by the lack of major gift-giving holidays, and the disproportionate amount of overhead incurred during this slow period.

Accordingly, a disproportionate amount of operating cash flows are generated in the Company's fiscal second and fourth quarters. In preparation for the Company's second quarter holiday season, the Company significantly increases its inventories, and therefore, corresponding cash requirements, which traditionally have been financed by cash flows from operations and bank lines of credit, which are highest during the latter part of the Company's fiscal first quarter, peaking within its second fiscal quarter. The Company has historically repaid all revolving bank lines of credit with cash generated from operations, prior to the end of the Company's fiscal second quarter. Additionally, the variability in the timing of the Easter Holiday also impacts the Company's comparative quarterly results. The Easter Holiday was in the Company's fourth quarter during fiscal 2011 and 2012, but will fall in the third quarter of fiscal 2013.

**Competition**

The growing popularity and convenience of e-commerce has continued to give rise to established businesses on the Internet. In addition to selling their products over the Internet, many of these retailers sell their products through a combination of channels by maintaining a web site, a toll-free phone number and physical locations. Additionally, several of these merchants offer an expanding variety of products and some are attracting an increasing number of customers. Certain mass merchants have expanded their offerings to include competing products and may continue to do so in the future. These mass merchants, as well as other potential competitors, may be able to:

undertake more extensive marketing campaigns for their brands and services;

adopt more aggressive pricing policies; and

make more attractive offers to potential employees, distributors and retailers.

In addition, the Company faces intense competition in each of its individual product categories. In the floral industry, there are various providers of floral products, none of which is dominant in the industry. The Company's competitors include:

retail floral shops, some of which maintain toll-free telephone numbers and web sites;

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online floral retailers;

catalog companies that offer floral products;

floral telemarketers and wire services; and

supermarkets, mass merchants and specialty retailers with floral departments.

Similarly, the plant, gift basket, gourmet foods and wine categories are highly competitive. Each of these categories encompasses a wide range of products, is highly fragmented and is served by a large number of companies, none of which is dominant. Products in these categories may be purchased from a number of outlets, including mass merchants, telemarketers, retail specialty shops, online retailers and mail-order catalogs.

The Company believes the strength of its brands, product selection, customer relationships, technology infrastructure and fulfillment capabilities position it to compete effectively against its current and potential competitors in each of its product categories. However, increased competition could result in:

price reductions, decreased revenues and lower profit margins;

loss of market share; and

increased marketing expenditures.

These and other competitive factors may adversely impact the Company's business and results of operations.

**Government Regulation and Legal Uncertainties**

The Internet continues to evolve and there are laws and regulations directly applicable to e-commerce. Legislatures are also considering an increasing number of laws and regulations pertaining to the Internet, including laws and regulations addressing:

user privacy;

pricing;

content;

connectivity;

intellectual property;

distribution;

taxation;

liabilities;

antitrust; and

characteristics and quality of products and services.

Further, the growth and development of the market for online services may prompt more stringent consumer protection laws that may impose additional burdens on those companies conducting business online. The adoption of any additional laws or regulations may impair the growth of the Internet or commercial online services. This could decrease the demand for the Company's services and increase its cost of doing business. Moreover, the applicability to the Internet of existing laws regarding issues like property ownership, taxes, libel and personal privacy is uncertain. Any new legislation or regulation that has an adverse impact on the Internet or the application of existing laws and regulations to the



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Internet could have a material adverse effect on the Company's business, financial condition and results of operations.

States or foreign countries might attempt to regulate the Company's business or levy additional sales or other taxes relating to its activities. Because the Company's products and services are available over the Internet anywhere in the world, multiple jurisdictions may claim that the Company is required to do business as a foreign corporation in one or more of those jurisdictions. Failure to qualify as a foreign corporation in a jurisdiction where the Company is required to do so could subject it to taxes and penalties. States or foreign governments may charge the Company with violations of local laws.

**Intellectual Property and Proprietary Rights**

The Company regards its service marks, trademarks, trade secrets, domain names and similar intellectual property as critical to its success. The Company has applied for or received trademark and/or service mark registration for, among others, "1-800-FLOWERS.COM", "1-800-FLOWERS", "1-800-Baskets", "GreatFood.com", "The Popcorn Factory", "TheGift.com", "Geerlings & Wade", "Cheryl's", "Mrs. Beasley's", "Celebrations", "Flowerama", "FineStationery.com", "DesignPac", "Napco", "Fannie May" and "Harry London". The Company also has rights to numerous domain names, including; www.1800flowers.com, www.800flowers.com, www.1800baskets.com, www.flowers.com, www.greatfood.com, www.stockyards.com, www.thepopcornfactory.com, www.ambrosiawine.com, www.winetasting.com, www.finestationery.com, www.cheryls.com, www.fanniemay.com, www.harrylondon.com, www.geerwade.com, www.celebrations.com, www.flowerama.com, www.designpac.com, www.mybloomnet.net, and www.napcoimports.com. In addition, the Company has developed transaction processing and operating systems as well as marketing data, and customer and recipient information databases.

The Company relies on trademark, unfair competition and copyright law, trade secret protection and contracts such as confidentiality and license agreements with its employees, customers, vendors and others to protect its proprietary rights. Despite the Company's precautions, it may be possible for competitors to obtain and/or use the Company's proprietary information without authorization or to develop technologies similar to the Company's and independently create a similarly functioning infrastructure. Furthermore, the protection of proprietary rights in Internet-related industries is uncertain and still evolving. The laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. The Company's means of protecting its proprietary rights in the United States or abroad may not be adequate.

The Company intends to continue to license technology from third parties, including Oracle, SAS, Microsoft, IBM, Verizon and AT&T, for its communications technology and the software that underlies its business systems. The market is evolving and the Company may need to license additional technologies to remain competitive. The Company may not be able to license these technologies on commercially reasonable terms or at all.

Third parties have in the past infringed or misappropriated the Company's intellectual property or similar proprietary rights. The Company believes infringements and misappropriations will continue to occur in the future. The Company intends to police against infringement and misappropriation. However, the Company cannot guarantee it will be able to enforce its rights and enjoin the alleged infringers from their use of confusingly similar trademarks, service marks, telephone numbers and domain names.

In addition, third parties may assert infringement claims against the Company. The Company cannot be certain that its technologies or its products and services do not infringe valid patents, trademarks, copyrights or other proprietary rights held by third parties. The Company may be subject to legal proceedings and claims from time to time relating to its intellectual property and the intellectual property of others in the ordinary course of its business. Intellectual property litigation is expensive and time-consuming and could divert management resources away from running the Company's business.

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**Employees**

As of July 1, 2012, the Company had a total of approximately 2,200 full and part-time employees. During peak periods, the Company substantially increases the number of customer service, manufacturing and retail and fulfillment personnel. The Company's personnel are not represented under collective bargaining agreements and the Company considers its relations with its employees to be good.

**Item 1A. Risk Factors**

*Cautionary Statements Under the Private Securities Litigation Reform Act of 1995*

Our disclosures and analysis in this Form 10-K contain some forward-looking statements that set forth anticipated results based on management's plans and assumptions. From time to time, we also provide forward-looking statements in other statements we release to the public as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions; the effectiveness of our marketing programs; the performance of our existing products and services; our ability to attract and retain customers and expand our customer base; our ability to enter into or renew online marketing agreements; our ability to respond to competitive pressures; expenses, including shipping costs and the costs of marketing our current and future products and services; the outcome of contingencies, including legal proceedings in the normal course of business; and our ability to integrate acquisitions.

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 risk, uncertainties and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you 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 10-Q and 8-K reports to the SEC. Also note we provide the following cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995.

*The financial and credit markets have been and continue to experience unprecedented disruption, which may have an adverse effect on our customers' spending patterns and in turn our business, financial condition and results of operations.* Consumer spending patterns are difficult to predict and are sensitive to the general economic climate, the consumer's level of disposable income, consumer debt, and overall consumer confidence. The ongoing global financial crisis affecting the banking system and financial markets has resulted in a low level of consumer confidence. During the past few years, the volatility and disruption in the financial markets have reached unprecedented levels. This financial crisis has impacted and may continue to impact our business in a number of ways. Included among these current and potential future negative impacts are reduced demand and lower prices for our products and services. We are currently operating in challenging macroeconomic conditions, which may continue during fiscal 2013.

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*The Company's operating results may fluctuate, and this fluctuation could cause financial results to be below expectations.* The Company's operating results may fluctuate from period to period for a number of reasons. In budgeting the Company's operating expenses for the foreseeable future, the Company makes assumptions regarding revenue trends; however, some of the Company's operating expenses are fixed in the short term. Sales of the Company's products are seasonal, concentrated in the fourth calendar quarter, due to the Thanksgiving and Christmas-time holidays, and the second calendar quarter, due to Mother's Day and Administrative Professionals' Week. In anticipation of increased sales activity during these periods, the Company hires a significant number of temporary employees to supplement its permanent staff and the Company increases its inventory levels. If revenues during these periods do not meet the Company's expectations, it may not generate sufficient revenue to offset these increased costs and its operating results may suffer.

*The Company's quarterly operating results may significantly fluctuate and you should not rely on them as an indication of its future results.* The Company's future revenues and results of operations may significantly fluctuate due to a combination of factors, many of which are outside of management's control. The most important of these factors include:

seasonality;

the retail economy;

the timing and effectiveness of marketing programs;

the timing of the introduction of new products and services;

the Company's ability to find and maintain reliable sources for certain of its products;

the timing and effectiveness of capital expenditures;

the Company's ability to enter into or renew online marketing agreements; and

competition.

The Company may be unable to reduce operating expenses quickly enough to offset any unexpected revenue shortfall. If the Company has a shortfall in revenue without a corresponding reduction to its expenses, operating results may suffer. The Company's operating results for any particular quarter may not be indicative of future operating results. You should not rely on quarter-to-quarter comparisons of results of operations as an indication of the Company's future performance. It is possible that results of operations may be below the expectations of public market analysts and investors, which could cause the trading price of the Company's Class A common stock to fall.

*Consumer spending on flowers, gifts and other products sold by the Company may vary with general economic conditions.* If general economic conditions continue to deteriorate and the Company's customers have less disposable income, consumers may spend less on its products and its quarterly operating results may suffer.

*During peak periods, the Company utilizes temporary employees and outsourced staff, who may not be as well-trained or committed to its customers as its permanent employees, and if they fail to provide the Company's customers with high quality customer service the customers may not return, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.* The Company depends on its customer service department to respond to its customers should they have questions or problems with their orders. During peak periods, the Company relies on its permanent employees, as well as temporary employees and outsourced staff to respond to customer inquiries. These temporary employees and outsourced staff may not have the same level of commitment to the Company's customers or be as well trained as its permanent employees. If the Company's

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customers are dissatisfied with the quality of the customer service they receive, they may not shop with the Company again, which could have a material adverse effect on its business, financial condition, results of operations and cash flows.

*If the Company's customers do not find its expanded product lines appealing, revenues may not grow and net income may decrease.* The Company's business historically has focused on offering floral and floral-related gift products. Although the Company has been successful in its expanded product lines including fruit bouquets, plants, gift baskets, popcorn, gourmet food and wine and unique or specialty gifts, it expects to continue to incur significant costs in marketing these products. If the Company's customers do not continue to find its product lines appealing, the Company may not generate sufficient revenue to offset its related costs and its results of operations may be negatively impacted.

*If the Company fails to develop and maintain its brands, it may not increase or maintain its customer base or its revenues.* The Company must continue to develop and maintain the 1-800-FLOWERS.COM brands to expand its customer base and its revenues. In addition, the Company has introduced and acquired other brands in the past, and may continue to do so in the future. The Company believes that the importance of brand recognition will increase as it expands its product offerings. Many of the Company's customers may not be aware of the Company's non-floral products. If the Company fails to advertise and market its products effectively, it may not succeed in establishing its brands and may lose customers leading to a reduction of revenues.

The Company's success in promoting and enhancing the 1-800-FLOWERS.COM brands will also depend on its success in providing its customers high-quality products and a high level of customer service. If the Company's customers do not perceive its products and services to be of high quality, the value of the 1-800-FLOWERS.COM brands would be diminished and the Company may lose customers and its revenues may decline.

*A failure to establish and maintain strategic online relationships that generate a significant amount of traffic could limit the growth of the Company's business.* Although the Company expects a significant portion of its online customers will continue to come directly to its website, it will also rely on third party web sites, search engines and affiliates with which the Company has strategic relationships for traffic. If these third-parties do not attract a significant number of visitors, the Company may not receive a significant number of online customers from these relationships and its revenues from these relationships may decrease or remain flat. There continues to be strong competition to establish or maintain relationships with leading Internet companies, and the Company may not successfully enter into additional relationships, or renew existing ones beyond their current terms. The Company may also be required to pay significant fees to maintain and expand existing relationships. The Company's online revenues may suffer if it does not enter into new relationships or maintain existing relationships or if these relationships do not result in traffic sufficient to justify their costs.

*If local florists and other third-party vendors do not fulfill orders to the Company's customers' satisfaction, customers may not shop with the Company again.* In many cases, floral orders placed by the Company's customers are fulfilled by local independent florists, a majority of which are members of BloomNet. The Company does not directly control any of these florists. In addition, many of the non-floral products sold by the Company are manufactured and delivered to its customers by independent third-party vendors. If customers are dissatisfied with the performance of the local florist or other third-party vendors, they may not utilize the Company's services when placing future orders and its revenues may decrease.

*If a florist discontinues its relationship with the Company, the Company's customers may experience delays in service or declines in quality and may not shop with the Company again.* Many of the Company's arrangements with local florists for order fulfillment may be terminated by either party with 10 days notice. If a florist discontinues its relationship with the Company, the Company will be

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required to obtain a suitable replacement located in the same geographic area, which may cause delays in delivery or a decline in quality, leading to customer dissatisfaction and loss of customers.

*If a significant number of customers are not satisfied with their purchase, the Company will be required to incur substantial costs to issue refunds, credits or replacement products.* The Company offers its customers a 100% satisfaction guarantee on its products. If customers are not satisfied with the products they receive, the Company will either replace the product for the customer or issue the customer a refund or credit. The Company's net income would decrease if a significant number of customers request replacement products, refunds or credits and the Company is unable to pass such costs onto the supplier.

*Increased shipping costs and labor stoppages may adversely affect sales of the Company's products.* Many of the Company's products are delivered to customers either directly from the manufacturer or from the Company's fulfillment centers located in Florida, Illinois, Nevada, New York and Ohio. The Company has established relationships with Federal Express, UPS and other common carriers for the delivery of these products. If these carriers were to increase the prices they charge to ship the Company's goods, and the Company passes these increases on to its customers, its customers might choose to buy comparable products locally to avoid shipping charges. In addition, these carriers may experience labor stoppages, which could impact the Company's ability to deliver products on a timely basis to our customers and adversely affect its customer relationships.

*If the Company fails to continuously improve its web site, it may not attract or retain customers.* If potential or existing customers do not find the Company's web site a convenient place to shop, the Company may not attract or retain customers and its sales may suffer. To encourage the use of the Company's web site, it must continuously improve its accessibility, content and ease of use. Customer traffic and the Company's business would be adversely affected if competitors' web sites are perceived as easier to use or better able to satisfy customer needs.

*Competition in the floral, plant, gift basket, gourmet food and wine, and specialty gift industries is intense and a failure to respond to competitive pressure could result in lost revenues.* There are many companies that offer products in these categories. In the floral category, the Company's competitors include:

retail floral shops, some of which maintain toll-free telephone numbers, and web sites;

online floral retailers;

catalog companies that offer floral products;

floral telemarketers and wire services; and

supermarkets, mass merchants and specialty gift retailers with floral departments.

*Similarly, the plant, gift basket, gourmet food, cookie, candy, wine, and specialty gift categories are highly competitive.* Each of these categories encompasses a wide range of products and is highly fragmented. Products in these categories may be purchased from a number of outlets, including mass merchants, retail shops, online retailers and mail-order catalogs.

Competition is intense and the Company expects it to increase. Increased competition could result in:

price reductions, decreased revenue and lower profit margins;

loss of market share; and

increased marketing expenditures.



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These and other competitive factors could materially and adversely affect the Company's results of operations.

*If the Company does not accurately predict customer demand for its products, it may lose customers or experience increased costs.* In the past, the Company did not need to maintain a significant inventory of products. However, as the Company expands the volume of non-floral products offered to its customers, the Company will be required to increase inventory levels and the number of products maintained in its warehouses. If the Company overestimates customer demand for its products, excess inventory and outdated merchandise could accumulate, tying up working capital and potentially resulting in reduced warehouse capacity and inventory losses due to damage, theft and obsolescence. If the Company underestimates customer demand, it may disappoint customers who may turn to its competitors. Moreover, the strength of the 1-800-FLOWERS.COM brands could be diminished due to misjudgments in merchandise selection.

*If the supply of flowers for sale becomes limited, the price of flowers could rise or flowers may be unavailable and the Company's revenues and gross margins could decline.* A variety of factors affect the supply of flowers in the United States and the price of the Company's floral products. If the supply of flowers available for sale is limited due to weather conditions, farm closures, economic conditions, or other factors, prices for flowers could rise and customer demand for the Company's floral products may be reduced, causing revenues and gross margins to decline. Alternatively, the Company may not be able to obtain high quality flowers in an amount sufficient to meet customer demand. Even if available, flowers from alternative sources may be of lesser quality and/or may be more expensive than those currently offered by the Company.

Most of the flowers sold in the United States are grown by farmers located abroad, primarily in Colombia, Ecuador and Holland, and the Company expects that this will continue in the future. The availability and price of flowers could be affected by a number of factors affecting these regions, including:

import duties and quotas;

agricultural limitations and restrictions to manage pests and disease;

changes in trading status;

economic uncertainties and currency fluctuations;

severe weather;

work stoppages;

foreign government regulations and political unrest; and

trade restrictions, including United States retaliation against foreign trade practices.

*The Company's franchisees may damage its brands or increase its costs by failing to comply with its franchise agreements or its operating standards.* The Company's franchise business is governed by its Uniform Franchise Disclosure Document, franchise agreements and applicable franchise law. If the Company's franchisees do not comply with its established operating standards or the terms of the franchise agreements, the 1-800-FLOWERS.COM brands may be damaged. The Company may incur significant additional costs, including time-consuming and expensive litigation, to enforce its rights under the franchise agreements. Additionally, the Company is the primary tenant on certain leases, which the franchisees sublease from the Company. If a franchisee fails to meet its obligations as subtenant, the Company could incur significant costs to avoid default under the primary lease. Furthermore, as a franchiser, the Company has obligations to its franchisees. Franchisees may challenge

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the performance of the Company's obligations under the franchise agreements and subject it to costs in defending these claims and, if the claims are successful, costs in connection with their compliance.

*If third parties acquire rights to use similar domain names or phone numbers or if the Company loses the right to use its phone numbers, its brands may be damaged and it may lose sales.* The Company's Internet domain names are an important aspect of its brand recognition. The Company cannot practically acquire rights to all domain names similar to www.1800flowers.com, or its other brands, whether under existing top level domains or those issued in the future. If third parties obtain rights to similar domain names, these third parties may confuse the Company's customers and cause its customers to inadvertently place orders with these third parties, which could result in lost sales and could damage its brands.

Likewise, the phone number that spells 1-800-FLOWERS is important to the Company's brand and its business. While the Company has obtained the right to use the phone numbers 1-800-FLOWERS, 1-888-FLOWERS and 1-877-FLOWERS, as well as common toll-free "FLOWERS" misdials, it may not be able to obtain rights to use the FLOWERS phone number as new toll-free prefixes are issued, or the rights to all similar and potentially confusing numbers. If third parties obtain the phone number which spells "FLOWERS" with a different prefix or a toll-free number similar to FLOWERS, these parties may also confuse the Company's customers and cause lost sales and potential damage to its brands. In addition, under applicable FCC rules, ownership rights to phone numbers cannot be acquired. Accordingly, the FCC may rescind the Company's right to use any of its phone numbers, including 1-800-FLOWERS (1-800-356-9377).

*A lack of security over the Internet may cause Internet usage to decline and cause the Company to expend capital and resources to protect against security breaches.* A significant barrier to electronic commerce over the Internet has been the need for secure transmission of confidential information and transaction information. Internet usage could decline if any well-publicized compromise of security occurred. Additionally, computer "viruses" may cause the Company's systems to incur delays or experience other service interruptions. Such interruptions may materially impact the Company's ability to operate its business. If a computer virus affecting the Internet in general is highly publicized or particularly damaging, the Company's customers may not use the Internet or may be prevented from using the Internet, which would have an adverse effect on its revenues. As a result, the Company may be required to expend capital and resources to protect against or to alleviate these problems.

*The Company's business could be injured by significant credit card, debit card and gift card fraud.* Customers typically pay for their on-line or telephone orders with debit or credit cards as well as a portion of their orders using gift cards. The Company's revenues and gross margins could decrease if it experienced significant credit card, debit card and gift card fraud. Failure to adequately detect and avoid fraudulent credit card, debit card and gift card transactions could cause the Company to lose its ability to accept credit cards or debit cards as forms of payment and/or result in charge-backs of the fraudulently charged amounts and/or significantly decrease revenues. Furthermore, widespread credit card, debit card and gift card fraud may lessen the Company's customers' willingness to purchase products through the Company's web sites or toll-free telephone numbers. For this reason, such failure could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

*Unexpected system interruptions caused by system failures may result in reduced revenues and harm to the Company's brand.* In the past, particularly during peak holiday periods, the Company has experienced significant increases in traffic on its web site and in its toll-free customer service centers. The Company's operations are dependent on its ability to maintain its computer and telecommunications systems in effective working order and to protect its systems against damage from



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fire, natural disaster, power loss, telecommunications failure or similar events. The Company's systems have in the past, and may in the future, experience:

system interruptions;

long response times; and

degradation in service.

The Company's business depends on customers making purchases on its systems. Its revenues may decrease and its reputation could be harmed if it experiences frequent or long system delays or interruptions or if a disruption occurs during a peak holiday season.

*If the Company's telecommunications providers do not adequately maintain the Company's telephone service, the Company may experience system failures and its revenues may decrease.* The Company is dependent on telecommunication providers to provide telephone services to its customer service centers. Although the Company maintains redundant telecommunications systems, if these providers experience system failures or fail to adequately maintain the Company's systems, the Company may experience interruptions and its customers might not continue to utilize its services. If the Company loses its telephone service, it will be unable to generate revenue. The Company's future success depends upon these third-party relationships because it does not have the resources to maintain its telephone service without these or other third parties. Failure to maintain these relationships or replace them on financially attractive terms may disrupt the Company's operations or require it to incur significant unanticipated costs.

*The Company's operating results may suffer due to economic, political and social unrest or disturbances.* Like other American businesses, the Company is unable to predict what long-term effect acts of terrorism, war, or similar unforeseen events may have on its business. The Company's results of operations and financial condition could be adversely impacted if such events cause an economic slowdown in the United States, or other negative effects that cannot now be anticipated.

*If the Company is unable to hire and retain key personnel, its business may suffer.* The Company's success is dependent on its ability to hire, retain and motivate highly qualified personnel. In particular, the Company's success depends on the continued efforts of its Chairman and Chief Executive Officer, James F. McCann, and its President, Christopher G. McCann, as well as its senior management team which help manage its business. The loss of the services of any of the Company's executive management or key personnel or its inability to attract qualified additional personnel could cause its business to suffer and force it to expend time and resources in locating and training additional personnel.

*Many governmental regulations may impact the Internet, which could affect the Company's ability to conduct business.* Any new law or regulation, or the application or interpretation of existing laws, may decrease the growth in the use of the Internet or the Company's web site. The Company expects there will be an increasing number of laws and regulations pertaining to the Internet in the United States and throughout the world. These laws or regulations may relate to liability for information received from or transmitted over the Internet, online content regulation, user privacy, taxation and quality of products and services sold over the Internet. Moreover, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment, personal privacy and other issues is uncertain and developing. This could decrease the demand for the Company's products, increase its costs or otherwise adversely affect its business.

*Regulations imposed by the Federal Trade Commission may adversely affect the growth of the Company's Internet business or its marketing efforts.* The Federal Trade Commission has proposed regulations regarding the collection and use of personal identifying information obtained from

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individuals when accessing web sites, with particular emphasis on access by minors. These regulations may include requirements that the Company establish procedures to disclose and notify users of privacy and security policies, obtain consent from users for collection and use of information and provide users with the ability to access, correct and delete personal information stored by the Company. These regulations may also include enforcement and redress provisions. Moreover, even in the absence of those regulations, the Federal Trade Commission has begun investigations into the privacy practices of other companies that collect information on the Internet. One investigation resulted in a consent decree under which an Internet company agreed to establish programs to implement the principles noted above. The Company may become a party to a similar investigation, or the Federal Trade Commission's regulatory and enforcement efforts, or those of other governmental bodies, may adversely affect its ability to collect demographic and personal information from users, which could adversely affect its marketing efforts.

*Unauthorized use of the Company's intellectual property by third parties may damage its brands.* Unauthorized use of the Company's intellectual property by third parties may damage its brands and its reputation and may likely result in a loss of customers. It may be possible for third parties to obtain and use the Company's intellectual property without authorization. Third parties have in the past infringed or misappropriated the Company's intellectual property or similar proprietary rights. The Company believes infringements and misappropriations will continue to occur in the future. Furthermore, the validity, enforceability and scope of protection of intellectual property in Internet-related industries is uncertain and still evolving. The Company has been unable to register certain of its intellectual property in some foreign countries and furthermore, the laws of some foreign countries are uncertain or do not protect intellectual property rights to the same extent as do the laws of the United States.

*Defending against intellectual property infringement claims could be expensive and, if the Company is not successful, could disrupt its ability to conduct business.* The Company has been unable to register certain of its intellectual properties in some foreign countries, including, "1-800-Flowers.com", "1-800-Flowers" and "800-Flowers". The Company cannot be certain that the products it sells, or services it offers, do not or will not infringe valid patents, trademarks, copyrights or other intellectual property rights held by third parties. The Company may be a party to legal proceedings and claims relating to the intellectual property of others from time to time in the ordinary course of its business. The Company may incur substantial expense in defending against these third-party infringement claims, regardless of their merit. Successful infringement claims against the Company may result in substantial monetary liability or may materially disrupt its ability to conduct business.

*The Company does not collect sales or consumption taxes in some jurisdictions.* In addition to the Company's retail store operations, the Company collects sales or other similar taxes in states where the Company's ecommerce channel has applicable nexus. Our customer service and fulfillment networks, and any further expansion of those networks, along with other aspects of our evolving business, may result in additional sales and use tax obligations. Currently, U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales taxes with respect to remote sales. However, an increasing number of states have considered or adopted laws that attempt to impose obligations on out-of-state retailers to collect taxes on their behalf. A successful assertion by one or more states that we should collect sales or other taxes where we do not do so could result in substantial tax liabilities, including for past sales, penalties and interest, as well as decrease our ability to compete with traditional retailers, and otherwise harm our business.

*A failure to integrate our acquisitions may cause the results of the acquired company, as well as the results of the Company to suffer.* The Company has opportunistically acquired a number of companies over the past several years. Additionally the Company may look to acquire additional companies in the future. As part of the acquisition process, the Company embarks upon a project management effort to

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integrate the acquisition onto our information technology systems and management processes. If we are unsuccessful in integrating our acquisitions, the results of our acquisitions may suffer, management may have to divert valuable resources to oversee and manage the acquisitions, the Company may have to expend additional investments in the acquired company to upgrade personnel and/or information technology systems and the results of the Company may suffer.

*Product liability claims may subject the Company to increased costs.* Several of the products the Company sells, including perishable food and alcoholic beverage products may expose it to product liability claims in the event that the use or consumption of these products results in personal injury or property damage. Although the Company has not experienced any material losses due to product liability claims to date, it may be a party to product liability claims in the future and incur significant costs in their defense. Product liability claims often create negative publicity, which could materially damage the Company's reputation and its brands. Although the Company maintains insurance against product liability claims, its coverage may be inadequate to cover any liabilities it may incur.

*The wine industry is subject to governmental regulation.* The alcoholic beverage industry is subject to extensive specialized regulation under state and federal laws and regulations, including the following matters: licensing; the payment of excise taxes; advertising, trade and pricing practices; product labeling; sales to minors and intoxicated persons; changes in officers, directors, ownership or control; and, relationships among product producers, importers, wholesalers and retailers. While the Company believes that it is in material compliance with all applicable laws and regulations, in the event that it should be determined that the Company is not in compliance with any applicable laws or regulations, the Company could become subject to cease and desist orders, injunctive proceedings, civil fines, license revocations and other penalties which could have a material adverse effect on the Company's business and its results of operations.

In addition, the alcoholic beverage industry is subject to potential legislation and regulation on a continuous basis including in such areas as direct and Internet sales of alcohol. Certain states still prohibit the sale of alcohol into their jurisdictions from out of state wineries and/or retailers. There can be no assurance that new or revised laws or regulations, increased licensing fees, specialized taxes or other regulatory requirements will not have a material adverse effect on the Company's business and its results of operations. While, to date, the Company has been able to obtain and retain licenses necessary to sell wine at retail, the failure to obtain renewals or otherwise retain such licenses in one or more of the states in which the Company operates would have a material adverse effect on the Company's business and its results of operations. The Company's growth strategy for its wine business includes expansion into additional states; however, there can be no assurance that the Company will be successful in obtaining the required permits or licenses in any additional states. From time to time, the Company may introduce new marketing initiatives, which may be expected to undergo regulatory scrutiny. There can be no assurance that such initiatives will not be stymied by regulatory criticism.

*The Company is dependent on common carriers to deliver its wine shipments.* The Company uses UPS and FedEx to deliver its wine shipments. If UPS or FedEx were to terminate delivery services for alcoholic beverages in certain states, as it did in 1999 in Florida, Nevada and Connecticut, the Company would likely incur significantly higher shipping rates that would have a material adverse effect on the Company's business and its results of operations. If any state prohibits or limits intrastate shipping of alcoholic beverages by third party couriers, the Company would likely incur significantly higher shipping rates that would have a material adverse effect on the Company's business and its results of operations.

*There are various health issues regarding wine consumption.* Since 1989, federal law has required health-warning labels on all alcoholic beverages. Although an increasing number of research studies suggest that health benefits may result from the moderate consumption of wine, these suggestions have been widely challenged and a number of groups advocate increased governmental action to restrict

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consumption of alcoholic beverages. Restrictions on the sale and consumption of wine or increases in the taxes imposed on wine in response to concerns regarding health issues may have a material adverse effect on the Company's business and operating results. There can be no assurance that there will not be legal or regulatory challenges to the industry as a whole, and any such legal or regulatory challenge may have a material adverse effect on the Company's business and results of operations.

*The price at which the Company's Class A common stock will trade may be highly volatile and may fluctuate substantially.* The stock market has from time to time experienced price and volume fluctuations that have affected the market prices of securities, particularly securities of companies with Internet operations. As a result, investors may experience a material decline in the market price of the Company's Class A common stock, regardless of the Company's operating performance. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. The Company may become involved in this type of litigation in the future. Litigation of this type is often expensive and diverts management's attention and resources and could have a material adverse effect on the Company's business and its results of operations.

**Additional Information**

The Company's internet address is [www.1800flowers.com](http://www.1800flowers.com). We make available, through the investor relations tab located on our website at [www.1800flowersinc.com](http://www.1800flowersinc.com), access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. All such filings on our investor relations website are available free of charge. (The information posted on the Company's website is not incorporated into this Annual Report of Form 10-K.)

A copy of this annual report on Form 10-K is available without charge upon written request to: Investor Relations, 1-800-FLOWERS.COM, Inc., One Old Country Road, Suite 500, Carle Place, NY 11514. In addition, the SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

**Item 1B. Unresolved Staff Comments**

We have received no written comments regarding our current or periodic reports from the staff of the SEC that were issued 180 days or more preceding the end of our fiscal year ended July 1, 2012 that remain unresolved.

Table of Contents**Item 2. PROPERTIES**

| Location           | Type                        | Principal Use                                     | Square Footage | Ownership |
|--------------------|-----------------------------|---|----------------|-----------|
| Commerce, CA       | Office                      | Administrative                                    | 1,000          | leased    |
| Napa, CA           | Office                      | Administrative and customer service               | 2,100          | leased    |
| Wilmington, DE     | Office and warehouse        | Distribution, administrative and customer service | 27,000         | leased    |
| Jacksonville, FL   | Office and warehouse        | Distribution and administrative                   | 180,000        | owned     |
| Lake Forest, IL    | Office, plant and warehouse | Manufacturing, distribution and administrative    | 148,000        | leased    |
| Melrose Park, IL   | Office and warehouse        | Distribution, administrative and customer service | 249,000        | leased    |
| Reno, NV           | Warehouse                   | Distribution                                      | 50,000         | leased    |
| Carle Place, NY    | Office                      | Headquarters and customer service                 | 92,000         | leased    |
| Cedar Falls, IA    | Office                      | Administrative                                    | 3,300          | leased    |
| Akron, OH          | Office, plant and warehouse | Manufacturing, distribution and administrative    | 189,000        | leased    |
| Maple Heights, OH  | Warehouse                   | Distribution                                      | 283,000        | leased    |
| Obetz, OH          | Warehouse                   | Distribution                                      | 176,000        | leased    |
| Westerville, OH    | Office, plant and warehouse | Manufacturing, distribution and administrative    | 150,000        | owned     |
| Albany, NY(*)      | Warehouse                   | Distribution                                      | 42,000         | leased    |
| Ardmore, OK(**)    | Office                      | Customer service                                  | 24,000         | leased    |
| Chicago, IL(***)   | Office                      | Administrative and customer service               | 18,000         | leased    |
| Bethpage, NY(****) | Warehouse                   | Distribution                                      | 35,000         | leased    |

(\*) Facility was closed in December 2010.

(\*\*) Facility was closed during August 2008 and lease term expired November 30, 2010.

(\*\*\*) Facility was closed during July 2010.

(\*\*\*\*) Facility was closed in December 2011.

In addition to the above properties, the Company leases approximately 244,000 square feet for owned or franchised retail stores and local fulfillment centers with lease terms typically ranging from 5 to 20 years. Some of its leases provide for a minimum rent plus a percentage rent based upon sales after certain minimum thresholds are achieved. The leases generally require the Company to pay insurance, utilities, real estate taxes and repair and maintenance expenses. In general, our properties are well maintained, adequate and suitable for their purposes.

**Item 3. LEGAL PROCEEDINGS**

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

On November 10, 2010, a purported class action complaint was filed in the United States District Court for the Eastern District of New York naming the Company (along with Trilegiant Corporation, Inc., Affinion, Inc. and Chase Bank USA, N.A.) as defendants in an action purporting to assert claims against the Company alleging violations arising under the Connecticut Unfair Trade Practices Act among other statutes, and for breach of contract and unjust enrichment in connection with certain post-transaction marketing practices in which certain of the Company's subsidiaries previously engaged in with certain third-party vendors. On March 6, 2012 and March 15, 2012, two additional purported



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class action complaints were filed in the United States District Court for the District of Connecticut naming the Company and numerous other parties as defendants in actions purporting to assert claims substantially similar to those asserted in the lawsuit filed on November 10, 2010. In each case, plaintiffs seek to have the respective case certified as a class action and seek restitution and other damages, each in an amount in excess of \$5.0 million. On April 26, 2012, the two Connecticut cases were consolidated with a third case previously pending in the United States District Court for the District of Connecticut in which the Company is not a party. The Company intends to defend each of these actions vigorously.

There are no assurances that additional legal actions will not be instituted in connection with the Company's former post-transaction marketing practices involving third party vendors nor can we predict the outcome of any such legal action. At this time, we are unable to estimate a possible loss or range of possible loss for the aforementioned actions for various reasons, including, among others: (i) the damages sought are indeterminate, (ii) the proceedings are in the very early stages and the court has not yet ruled as to whether the classes will be certified, and (iii) there is uncertainty as to the outcome of pending motions. As a result of the foregoing, we have determined that the amount of possible loss or range of loss is not reasonably estimable. However, legal matters are inherently unpredictable and subject to significant uncertainties, some of which may be beyond our control.

**Item 4. MINE SAFETY DISCLOSURES**

**Not applicable.**

**EXECUTIVE OFFICERS OF THE REGISTRANT**

The following individuals were serving as executive officers of the Company and certain of its subsidiaries on September 14, 2012:

| <b>Name</b>           | <b>Age</b> | <b>Position with the Company</b>  |
|-----------------------|------------|---|
| James F. McCann       | 61         | Chairman of the Board and Chief Executive Officer                                   |
| Christopher G. McCann | 51         | Director, President, 1-800-Flowers.com, Inc. and President, Floral Group            |
| Stephen J. Bozzo      | 57         | Senior Vice President and Chief Information Officer                                 |
| Gerard M. Gallagher   | 59         | Senior Vice President of Business Affairs, General Counsel, and Corporate Secretary |
| Mark L. Nance         | 62         | President, BloomNet   |
| William E. Shea       | 53         | Senior Vice President, Treasurer, and Chief Financial Officer                       |
| David Taiclet         | 49         | President of Gourmet Foods and Gift Baskets   |

**James F. McCann** has served as the Company's Chairman of the Board and Chief Executive Officer since inception. Mr. McCann has been in the floral industry since 1976 when he began a retail chain of flower shops in the New York metropolitan area. Mr. McCann is a member of the board of directors of Willis Holdings Group. James F. McCann is the brother of Christopher G. McCann, a Director and the President of the Company.

**Christopher G. McCann** has been the Company's President since September 2000 and prior to that had served as the Company's Senior Vice President. Mr. McCann has been a Director of the Company since inception. In June 2010, Mr. McCann was also named President of the Floral Group, which consists of the Consumer Floral and BloomNet Wire Service businesses. Mr. McCann is a member of the Board of Trustees of Marist College. Christopher G. McCann is the brother of James F. McCann, the Company's Chairman of the Board and Chief Executive Officer.

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**Stephen J. Bozzo** has been the Company's Chief Information Officer since May 2007. Prior to joining the Company, Mr. Bozzo served as Chief Information Officer for the International Division of MetLife Insurance Company since 2001. Mr. Bozzo's business background includes senior executive positions at Bear Stearns Inc. as Managing Director-Principle, AIG as Senior Vice President, Telecommunications and Technical Services and Chase Manhattan Bank, where he was Senior Vice President, Global Telecommunications.

**Gerard M. Gallagher** has been the Company's Senior Vice President, General Counsel and Corporate Secretary since August 1999 and has been providing legal services to the Company since its inception. Mr. Gallagher is the founder and a managing partner in the law firm Gallagher, Walker, Bianco and Plataras, based in Mineola, New York, specializing in corporate, litigation and intellectual property matters since 1993. Mr. Gallagher is duly admitted to practice before the New York State Courts and the United States District Courts of both the Eastern District and Southern District of New York.

**Mark L. Nance** has been President of BloomNet since August 2006. Before holding his current position, Mr. Nance was a Senior Vice President, Sales and Marketing for BloomNet after joining us in December 2004. Before joining us, Mr. Nance was an Executive Vice President and General Manager with Teleflora, LLC from November 2000 until June 2004 and held various senior level positions at American Floral Services, Inc. from 1983 to 2000.

**William E. Shea** has been the Company's Senior Vice President of Finance and Administration and Chief Financial Officer since September 2000. Before holding his current position, Mr. Shea was Vice President of Finance and Corporate Controller after joining the Company in April 1996. From 1980 until joining the Company, Mr. Shea was a certified public accountant with Ernst & Young LLP.

**David Taiclet** has been the Company's President of Gourmet Foods and Gift Baskets since June 2009. Mr. Taiclet served as Chief Executive Officer of the Fannie May Confections Brands from April 2006 to June 2009. Prior thereto and commencing in January 1995, Mr. Taiclet was a Co-Founder of a business that ultimately became known as Fannie May Confections Brands, Inc. (formerly Alpine Confections, Inc.), a multi-branded and multi-channel retailer, manufacturer, and distributor of confectionery and specialty food products. From May 1991 to January 1995, Mr. Taiclet served in a variety of management positions with Cargill, Inc, including the Strategy and Business Development Group. Cargill, Inc. is an international marketer, processor and distributor of food, financial and industrial products. Mr. Taiclet also served four years of active duty in the U.S. Army, attaining the rank of Captain.



Table of Contents**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

1-800-FLOWERS.COM's Class A common stock trades on The NASDAQ Global Select Market under the ticker symbol "FLWS." There is no established public trading market for the Company's Class B common stock. The following table sets forth the reported high and low sales prices for the Company's Class A common stock for each of the fiscal quarters during the fiscal years ended July 1, 2012 and July 3, 2011.

|  | High    | Low     |
|--|---------|---------|
| Year ended July 1, 2012                |         |         |
| July 4, 2011 - October 2, 2011         | \$ 3.42 | \$ 2.10 |
| October 3, 2011 - January 1, 2012      | \$ 2.95 | \$ 2.08 |
| January 2, 2012 - April 1, 2012        | \$ 3.13 | \$ 2.20 |
| April 2, 2012 - July 1, 2012           | \$ 3.63 | \$ 2.76 |
| Year ended July 3, 2011                |         |         |
| June 28, 2010 - September 26, 2010     | \$ 2.56 | \$ 1.52 |
| September 27, 2010 - December 26, 2010 | \$ 2.75 | \$ 1.67 |
| December 27, 2010 - March 27, 2011     | \$ 3.22 | \$ 2.18 |
| March 28, 2011 - July 3, 2011          | \$ 3.84 | \$ 2.26 |

**Rights of Common Stock**

Holders of Class A common stock generally have the same rights as the holders of Class B common stock, except that holders of Class A common stock have one vote per share and holders of Class B common stock have 10 votes per share on all matters submitted to the vote of stockholders. Holders of Class A common stock and Class B common stock generally vote together as a single class on all matters presented to the stockholders for their vote or approval, except as may be required by Delaware law. Class B common stock may be converted into Class A common stock at any time on a one-for-one share basis. Each share of Class B common stock will automatically convert into one share of Class A common stock upon its transfer, with limited exceptions.

**Holders**

As of September 1, 2012, there were approximately 308 stockholders of record of the Company's Class A common stock, although the Company believes that there is a significantly larger number of beneficial owners. As of September 1, 2012, there were approximately 14 stockholders of record of the Company's Class B common stock.

**Dividend Policy**

Although the Company has never declared or paid any cash dividends on its Class A or Class B common stock, the Company anticipates that it will generate increasing free cash flow in excess of its capital investment requirements. Although the Company has no current intent to do so, the Company may choose, at some future date, to use some portion of its cash for the purpose of cash dividends.

**Resales of Securities**

36,838,802 shares of Class A and Class B common stock are "restricted securities" as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market

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from time to time only if registered or if they qualify for an exemption from registration under Rule 144 or 701 under the Securities Act. As of September 1, 2012, all of such shares of the Company's common stock could be sold in the public market pursuant to and subject to the limits set forth in Rule 144. Sales of a large number of these shares could have an adverse effect on the market price of the Company's Class A common stock by increasing the number of shares available on the public market.

**Purchases of Equity Securities by the Issuer**

On January 21, 2008, the Company's Board of Directors authorized an increase to its stock repurchase plan, which when added to the \$8.7 million remaining on its earlier authorization, increased the amount available to repurchase to \$15.0 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of July 1, 2012, \$8.5 million remains authorized but unused.

Under this program, as of July 1, 2012, the Company had repurchased 3,703,626, shares of common stock for \$17.8 million, of which \$3.3 million (1,133,913 shares), \$0.5 million (168,207 shares), and \$0.9 million (342,821 shares) were repurchased during the fiscal years ending July 1, 2012, July 3, 2011 and June, 27, 2010, respectively.

The following table sets forth, for the months indicated, the Company's purchase of common stock during the fiscal year ended July 1, 2012, which includes the period July 4, 2011 through July 1, 2012:

| Period  | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|----------------------------------|------------------------------|--|--|
| (in thousands, except average price paid per share) |                                  |                              |  |  |
| 7/4/11 - 7/31/11                                    |                                  | \$                           |  | \$ 11,825  |
| 8/1/11 - 8/28/11                                    | 7.6                              | \$ 2.43                      | 7.6  | \$ 11,807  |
| 8/29/11 - 10/2/11                                   |                                  | \$                           |  | \$ 11,807  |
| 10/3/11 - 10/30/11                                  | 399.5                            | \$ 2.73                      | 399.5  | \$ 10,715  |
| 10/31/11 - 11/27/11                                 |                                  | \$                           |  | \$ 10,715  |
| 11/28/11 - 1/1/12                                   |                                  | \$                           |  | \$ 10,715  |
| 1/2/12 - 1/29/12                                    | 0.9                              | \$ 2.92                      | 0.9  | \$ 10,712  |
| 1/30/12 - 2/26/12                                   |                                  | \$                           |  | \$ 10,712  |
| 2/27/12 - 4/1/12                                    | 281.8                            | \$ 2.88                      | 281.8  | \$ 9,900   |
| 4/2/12 - 4/29/12                                    | 2.6                              | \$ 2.97                      | 2.6  | \$ 9,892   |
| 4/30/12 - 5/27/12                                   | 228.5                            | \$ 3.01                      | 228.5  | \$ 9,203   |
| 5/28/12 - 7/1/12                                    | 212.9                            | \$ 3.07                      | 212.9  | \$ 8,548   |
| <b>Total</b>  | <b>1,133.9</b>                   | <b>\$ 2.89</b>               | <b>1,133.9</b>   |  |

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**Item 6. SELECTED FINANCIAL DATA**

The selected consolidated statement of operations data for the years ended July 1, 2012, July 3, 2011 and June 27, 2010 and the consolidated balance sheet data as of July 1, 2012 and July 3, 2011, have been derived from the Company's audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated statement of operations data for the years ended June 28, 2009 and June 29, 2008, and the selected consolidated balance sheet data as of June 27, 2010, June 28, 2009, and June 29, 2008, are derived from the Company's audited consolidated financial statements which are not included in this Annual Report on Form 10-K.

The following tables summarize the Company's consolidated statement of operations and balance sheet data. The Company acquired Flowerama in August 2011, selected assets of Fine Stationery, Inc. in May 2011 and Mrs. Beasley's Bakery LLC in March 2011. The following financial data reflects the results of operations of these subsidiaries since their respective dates of acquisition. On September 6, 2011, the Company, through the Winetasting Network subsidiary, completed the sale of certain assets of its non-strategic wine fulfillment services business in order to focus on its core Direct-to-Consumer wine business. During the fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets categories, and on January 25, 2010, completed the sale of this business. Consequently, the Company has classified the results of operations of its Home & Children's Gifts segment and its wine fulfillment services business, which had previously been included within its Gourmet Foods & Gift Baskets category, as discontinued operations for all periods presented. This information should be read together with the discussion in "Management's Discussion and

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Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and notes to those statements included elsewhere in this Annual Report on Form 10-K.

|  | Years ended                           |                 |                   |                     |                  |
|--|---------------------------------------|-----------------|-------------------|---------------------|------------------|
|  | July 1,<br>2012                       | July 3,<br>2011 | June 27,<br>2010  | June 28,<br>2009(1) | June 29,<br>2008 |
|  | (in thousands, except per share data) |                 |                   |                     |                  |
| <b>Consolidated Statement of Operations Data:</b>                                      |                                       |                 |                   |                     |                  |
| Net revenues:  |                                       |                 |                   |                     |                  |
| E-commerce   | \$ 515,205                            | \$ 485,378      | \$ 469,968        | \$ 498,519          | \$ 584,174       |
| Other  | 201,052                               | 186,227         | 183,402           | 205,004             | 141,604          |
| <b>Total net revenues</b>  | <b>716,257</b>                        | <b>671,605</b>  | <b>653,370</b>    | <b>703,523</b>      | <b>725,778</b>   |
| Cost of revenues   | 422,298                               | 395,161         | 390,623           | 425,074             | 416,200          |
| <b>Gross profit</b>  | <b>293,959</b>                        | <b>276,444</b>  | <b>262,747</b>    | <b>278,449</b>      | <b>309,578</b>   |
| Operating expenses:  |                                       |                 |                   |                     |                  |
| Marketing and sales  | 182,512                               | 173,531         | 171,231           | 174,525             | 181,509          |
| Technology and development   | 20,479                                | 20,168          | 17,666            | 20,655              | 19,181           |
| General and administrative   | 51,972                                | 49,360          | 48,866            | 48,690              | 50,369           |
| Depreciation and amortization  | 19,576                                | 20,271          | 20,287            | 19,748              | 16,582           |
| Goodwill and intangible impairment   |                                       |                 |                   | 90,940              |                  |
| <b>Total operating expenses</b>  | <b>274,539</b>                        | <b>263,330</b>  | <b>258,050</b>    | <b>354,558</b>      | <b>267,641</b>   |
| Gain on sale of stores   | 3,789                                 |                 |                   |                     |                  |
| Operating income (loss)  | 23,209                                | 13,114          | 4,697             | (76,109)            | 41,937           |
| Interest expenses, net   | (2,312)                               | (4,077)         | (5,752)           | (9,296)             | (4,164)          |
| Income (loss) from continuing operations before income taxes                           | 20,897                                | 9,037           | (1,055)           | (85,405)            | 37,773           |
| Income tax expense (benefit) from continuing operations                                | 7,771                                 | 3,517           | 199               | (21,318)            | 14,103           |
| Income (loss) from continuing operations   | 13,126                                | 5,520           | (1,254)           | (64,087)            | 23,670           |
| Income (loss) from discontinued operations, net of tax                                 | 4,520                                 | 202             | (2,966)           | (33,480)            | (2,616)          |
| <b>Net income (loss)</b>   | <b>\$ 17,646</b>                      | <b>\$ 5,722</b> | <b>\$ (4,220)</b> | <b>\$ (97,567)</b>  | <b>\$ 21,054</b> |
| Net income (loss) per common share (basic):  |                                       |                 |                   |                     |                  |
| From continuing operations   | \$ 0.20                               | \$ 0.09         | \$ (0.02)         | \$ (1.01)           | \$ 0.38          |
| From discontinued operations   | 0.07                                  | 0.00            | (0.05)            | (0.53)              | (0.04)           |
| <b>Net income (loss) per common share (basic)</b>                                      | <b>\$ 0.27</b>                        | <b>\$ 0.09</b>  | <b>\$ (0.07)</b>  | <b>\$ (1.53)</b>    | <b>\$ 0.33</b>   |
| Net income (loss) per common share (diluted):  |                                       |                 |                   |                     |                  |
| From continuing operations   | \$ 0.20                               | \$ 0.08         | \$ (0.02)         | \$ (1.01)           | \$ 0.36          |
| From discontinued operations   | 0.07                                  | 0.00            | (0.05)            | (0.53)              | (0.04)           |
| <b>Net income (loss) per common share (diluted)</b>                                    | <b>\$ 0.27</b>                        | <b>\$ 0.09</b>  | <b>\$ (0.07)</b>  | <b>\$ (1.53)</b>    | <b>\$ 0.32</b>   |
| Weighted average shares used in the calculation of net income (loss) per common share: |                                       |                 |                   |                     |                  |
| Basic  | 64,697                                | 64,001          | 63,635            | 63,565              | 63,074           |
| <b>Diluted</b>   | <b>66,239</b>                         | <b>65,153</b>   | <b>63,635</b>     | <b>63,565</b>       | <b>65,458</b>    |



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|   | July 1,<br>2012 | July 3,<br>2011(1) | As of<br>June 27,<br>2010(1) | June 28,<br>2009(1) | June 29,<br>2008 |
|---|-----------------|--------------------|------------------------------|---------------------|------------------|
|   | (in thousands)  |                    |                              |                     |                  |
| <b>Consolidated Balance Sheet Data:</b>         |                 |                    |                              |                     |                  |
| Cash and equivalents and short-term investments | \$ 28,854       | \$ 21,442          | \$ 27,843                    | \$ 29,562           | \$ 12,124        |
| Working capital                                 | 29,721          | 17,303             | 22,963                       | 43,679              | 33,416           |
| Total assets                                    | 268,848         | 259,075            | 256,936                      | 286,977             | 371,338          |
| Long-term liabilities                           | 17,080          | 32,242             | 48,745                       | 73,945              | 63,739           |
| Total stockholders' equity                      | 161,748         | 142,511            | 133,476                      | 134,633             | 231,465          |

(1)

The Company has revised its previously reported balance sheet data as of June 28, 2009, and for subsequent periods, as presented herein, and its statement of operations, also presented herein, for the year ended June 28, 2009 in order to correct certain previously reported amounts. The Company believes the effects of the prior period adjustments are qualitatively and quantitatively not material to the respective balances adjusted and had no impact on the 2012, 2011 or 2010 statements of operations or cash flows. The Company has concluded that the amounts, if corrected in fiscal 2012, would have been material to the consolidated financial statements as of and for the year ended July 1, 2012. These errors primarily related to the accounting for deferred tax liabilities on non-amortizable intangibles, including goodwill, arising from certain historical acquisitions prior to fiscal 2007. These errors in the deferred tax accounts subsequently impacted the goodwill impairment charge recorded by the Company in fiscal 2009. The Company also identified an issue related to the treatment of deferred tax liabilities on basis differences related to fixed assets which were recorded in error during fiscal years 2009 and prior. The adjustment to correct the error resulted in a decrease to net loss, and thus, a decrease in the Company's retained deficit of approximately \$0.8 million on the June 28, 2009 Consolidated Statements of Stockholders' Equity, with a corresponding adjustment to increase goodwill by approximately \$6.6 million and increase deferred tax liabilities by approximately \$5.8 million. Correcting prior year financial statements for these immaterial errors will not require previously filed reports to be amended and as such the Company has corrected the error by making adjustments to prior comparative financial information presented herein.

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**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

**Description of Business**

1-800-FLOWERS.COM, Inc. is the world's leading florist and gift shop. For more than 35 years, 1-800-FLOWERS® (1-800-356-9377 or www.1800flowers.com) has been helping deliver smiles for our customers with gifts for every occasion, including fresh flowers and the finest selection of plants, gift baskets, gourmet foods, confections, candles, balloons and plush stuffed animals. As always, our 100% Smile Guarantee backs every gift. 1-800-FLOWERS.COM's Mobile Flower & Gift Center was named winner of the Mobile Shopping Summit's "Best Mobile Site of 2011." 1-800-FLOWERS.COM was also rated number one vs. competitors for customer satisfaction by STELLAService and named by the E-Tailing Group as one of only nine online retailers out of 100 benchmarked to meet the criteria for Excellence in Online Customer Service. 1-800-FLOWERS.COM has been honored in Internet Retailer's "Hot 100: America's Best Retail Web Sites" for 2011. The Company's BloomNet® international floral wire service (www.mybloomnet.net) provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably.

The 1-800-FLOWERS.COM "Gift Shop" also includes gourmet gifts such as popcorn and specialty treats from The Popcorn Factory® (1-800-541-2676 or www.thepopcornfactory.com); cookies and baked gifts from Cheryl's® (1-800-443-8124 or www.cheryls.com); premium chocolates and confections from Fannie May® confections brands (www.fanniemay.com and www.harrylondon.com); gift baskets and towers from 1-800-Baskets.com® (www.1800baskets.com); delicious cut-fruit arrangements from FruitBouquets.com (www.fruitbouquets.com); wine gifts from Winetasting.com® (www.winetasting.com); ultra- premium meats from Stockyards.com (www.stockyards.com); as well as exquisite, customizable invitations and personal stationery from FineStationery.com (www.finestationery.com). The Company's Celebrations® brand (www.celebrations.com) is a new premier online destination for fabulous party ideas and planning tips. 1-800-FLOWERS.COM, Inc. is involved in a broad range of corporate social responsibility initiatives including continuous expansion and enhancement of its environmentally-friendly "green" programs as well as various philanthropic and charitable efforts.

On September 6, 2011, the Company, through the Winetasting Network subsidiary, completed the sale of certain assets of its non-strategic wine fulfillment services business in order to focus on its core Direct-to-Consumer wine business. During the fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets categories, and on January 25, 2010, completed the sale of this business. Consequently, the Company has classified the results of operations of its Home & Children's Gifts segment and its wine fulfillment services business, which had previously been included within its Gourmet Foods & Gift Baskets category, as discontinued operations for all periods presented.

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

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As a provider of gifts to consumers and wholesalers for resale to consumers, the Company is subject to changes in consumer confidence and the economic conditions that impact our customers. Demand for the Company's products is affected by the financial health of our customers, which is influenced by macro economic issues such as unemployment, fuel and energy costs, weakness in the housing market and unavailability of consumer credit. During the recent economic downturn, the demand for our products, and accordingly our financial results, compared to pre-recessionary levels, has been adversely affected by the reduction in consumer spending.

During fiscal 2012 the Company continued to recover from the effects of the recession which began in fiscal 2009, building on last year's improved financial performance. As a result of cost reductions and productivity improvements, marketing efficiency and merchandising innovation, the Company has been able to make significant annual improvements in EBITDA compared to the low point of the recession during fiscal 2010. A key tenet of the Company's strategy during this period was to stabilize the Consumer Floral operations and minimize business risk during the current recessionary period. In order to improve earnings during this recessionary period, the Company took a more conservative view of the economy, and its expectations of demand, in order to minimize the risk of investing marketing and operating spend for revenue growth too early in the economic recovery cycle. This strategy was designed to protect earnings growth that was expected to be achieved through operational improvements and business resizing programs, including a rationalization of marketing spending, but driven by more effective campaigns, that focused on the Company's ability to "wow" our customers with differentiated, non-commoditized higher value products. While the economic recovery continues at a slow pace, with the possibility of a "double-dip" recession looming as a result of continued high un-employment, energy and commodity prices, the Company believes that its sales "bottomed-out" in the first half of fiscal 2011, as it then began to experience modest year-over-year revenue growth.

Tempered by the continued economic uncertainty, during fiscal 2013, the Company expects to grow revenues across all three of its business segments with consolidated revenue growth for the year anticipated to be in the mid-single-digit range. Also, based on continued improvements in gross profit margin and operating leverage, the Company anticipates achieving double-digit year-over-year increases in EBITDA and EPS.

The Company's fiscal 2013 guidance is based on the positive trends both top and bottom-line that the Company has seen over the past two years, balanced by the continued uncertainty in the global economy. The Company plans to continue to focus on managing those aspects of the business where it can drive growth and enhanced results, including:

merchandising and marketing initiatives featuring truly original products that have helped drive increased average order value and gross profit margins,

efforts in manufacturing, sourcing and shipping that have helped absorb rising commodity and fuel costs and enhanced operating cost leverage, and

investments in innovation for the future, including its industry leading efforts in Social and Mobile arenas, BloomNet and franchising programs in Consumer Floral and Fannie May.

The Company believes these efforts, and others underway, will help continue the positive trends seen in the business as the Company deepens its relationships with its customers, helping them deliver smiles, and build shareholder value.

**Category Information**

The following table presents the contribution of net revenues, gross profit and category contribution margin from each of the Company's business segments, as well as consolidated EBITDA and Adjusted EBITDA. As noted previously, the Company's wine fulfillment services business, which



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had previously been included within its Gourmet Foods & Gift Baskets category, as well as the Home & Children's Gifts category has been classified as discontinued operations and therefore excluded from category information below.

| Net Revenues from Continuing Operations:             | July 1,                | % Change    | Years Ended       |             | June 27,          |
|--|------------------------|-------------|-------------------|-------------|-------------------|
|  | 2012                   |             | July 3,           | % Change    | 2010              |
|  | (dollars in thousands) |             |                   |             |                   |
| Net revenues from continuing operations:             |                        |             |                   |             |                   |
| Consumer Floral                                      | \$ 398,184             | 7.9%        | \$ 369,199        | 0.7%        | \$ 366,516        |
| BloomNet Wire Service                                | 82,582                 | 12.7%       | 73,282            | 18.4%       | 61,883            |
| Gourmet Food & Gift Baskets                          | 236,742                | 3.2%        | 229,390           | 1.7%        | 225,602           |
| Corporate(*)   | 773                    | (32.8)%     | 1,150             | 7.4%        | 1,071             |
| Intercompany eliminations                            | (2,024)                | (42.9)%     | (1,416)           | 16.8%       | (1,702)           |
| <b>Total net revenues from continuing operations</b> | <b>\$ 716,257</b>      | <b>6.6%</b> | <b>\$ 671,605</b> | <b>2.8%</b> | <b>\$ 653,370</b> |

| Gross Profit from Continuing Operations:             | July 1,                | % Change    | Years Ended       |             | June 27,          |
|--|------------------------|-------------|-------------------|-------------|-------------------|
|  | 2012                   |             | July 3,           | % Change    | 2010              |
|  | (dollars in thousands) |             |                   |             |                   |
| Gross profit:  |                        |             |                   |             |                   |
| Consumer Floral                                      | \$ 154,892             | 10.5%       | \$ 140,163        | 8.5%        | \$ 129,239        |
|  | 38.9%                  |             | 38.0%             |             | 35.3%             |
| BloomNet Wire Service                                | 38,737                 | 5.0%        | 36,877            | 5.7%        | 34,890            |
|  | 46.9%                  |             | 50.3%             |             | 56.4%             |
| Gourmet Food & Gift Baskets                          | 99,764                 | 0.9%        | 98,831            | 0.9%        | 97,935            |
|  | 42.1%                  |             | 43.1%             |             | 43.4%             |
| Corporate(*)   | 566                    | (1.3)%      | 573               | (16.1)%     | 683               |
| Intercompany eliminations                            |                        |             |                   |             |                   |
| <b>Total gross profit from continuing operations</b> | <b>\$ 293,959</b>      | <b>6.3%</b> | <b>\$ 276,444</b> | <b>5.2%</b> | <b>\$ 262,747</b> |
|  | 41.0%                  |             | 41.2%             |             | 40.2%             |

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| Adjusted EBITDA(**) from Continuing Operations:                                | July 1,                | % Change | Years Ended | % Change | June 27,  |
|--|------------------------|----------|-------------|----------|-----------|
|  | 2012                   |          | July 3,     |          | 2010      |
|  | (dollars in thousands) |          |             |          |           |
| Segment Contribution Margin(**):   |                        |          |             |          |           |
| Consumer Floral  | \$ 39,147              | 19.8%    | \$ 32,669   | 47.6%    | \$ 22,141 |
| BloomNet Wire Service  | 22,339                 | 10.6%    | 20,195      | 6.0%     | 19,051    |
| Gourmet Food & Gift Baskets(***)   | 29,789                 | 7.2%     | 27,776      | 2.3%     | 27,145    |
| Segment Contribution Margin Subtotal   | 91,275                 | 13.2%    | 80,640      | 18.0%    | 68,337    |
| Corporate(*)   | (48,490)               | (2.6)%   | (47,255)    | (9.0)%   | (43,353)  |
| EBITDA from continuing operations  | 42,785                 | 28.2%    | 33,385      | 33.6%    | 24,984    |
| Add: Stock-based compensation  | 4,850                  | 22.4%    | 3,961       | 20.1%    | 3,883     |
| EBITDA from continuing operations, excluding stock-based compensation          | 47,635                 | 27.6%    | 37,346      | 29.4%    | 28,867    |
| Adjusted for:  |                        |          |             |          |           |
| Gain on sale of stores(***)  | (3,789)                |          |             |          |           |
| Litigation settlement  |                        |          |             |          | 898       |
| Termination of Martha Stewart marketing agreement                              |                        |          |             |          | 1,931     |
| Termination of post sale 3 <sup>rd</sup> party marketing agreement             |                        |          |             |          | 1,039     |
| Adjusted EBITDA from continuing operations, excluding stock-based compensation | \$ 43,846              | 17.4%    | \$ 37,346   | 14.1%    | \$ 32,735 |

| Discontinued operations:                  | July 1,                | Years Ended | June 27,   |
|---|------------------------|-------------|------------|
|   | 2012                   | July 3,     | 2010       |
|   | (dollars in thousands) |             |            |
| Net revenues from discontinued operations | \$ 2,003               | \$ 18,184   | \$ 102,192 |
| Gross profit from discontinued operations | 405                    | 3,641       | 43,960     |
| EBITDA from discontinued operations       | (190)                  | 743         | 4,416      |

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

(\*\*) Performance is measured based on category contribution margin or category Adjusted EBITDA, reflecting only the direct controllable revenue and operating expenses of the segment. As such, management's measure of profitability for these segments does not include the effect of corporate overhead, described above, depreciation and amortization, other income (net), nor does it include one-time charges. Management utilizes EBITDA, and adjusted financial information, as a performance measurement tool because it considers such information a meaningful supplemental measure of its performance and believes it is frequently used by the investment community in the evaluation of companies with comparable market capitalization. The Company also uses EBITDA and adjusted financial information as one of the factors used



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

(\*\*\*)  
Gourmet Food & Gift Baskets category contribution margin during the fiscal year ended July 1, 2012, includes a \$3.8 million gain on the sale of 17 Fannie May retail stores, which are currently being operated as franchised locations.

Due to certain one-time charges, the following Non-GAAP reconciliation table has been included within MD&A.

**Reconciliation of Net Income (Loss) from Continuing Operations to EBITDA and Adjusted EBITDA from Continuing Operations:**

|  | July 1,<br>2012 | Years ended<br>July 3,<br>2011 | June 27,<br>2010 |
|--|-----------------|--------------------------------|------------------|
|  | (in thousands)  |                                |                  |
| Net income (loss) from continuing operations:                                  | \$ 13,126       | \$ 5,520                       | \$ (1,254)       |
| Add:   |                 |                                |                  |
| Interest expense, net  | 2,312           | 4,077                          | 5,752            |
| Depreciation and amortization  | 19,576          | 20,271                         | 20,287           |
| Income tax expense   | 7,771           | 3,517                          | 199              |
| EBITDA from continuing operations  | 42,785          | 33,385                         | 24,984           |
| Add: Stock-based compensation  | 4,850           | 3,961                          | 3,883            |
| EBITDA from continuing operations, excluding stock-based compensation          | 47,635          | 37,346                         | 28,867           |
| Adjusted for:  |                 |                                |                  |
| Gain on sale of stores(***)  | (3,789)         |                                |                  |
| Litigation settlement  |                 |                                | 898              |
| Termination of Martha Stewart marketing agreement                              |                 |                                | 1,931            |
| Termination of post sale 3 <sup>rd</sup> party marketing agreement             |                 |                                | 1,039            |
| Adjusted EBITDA from continuing operations, excluding stock-based compensation | \$ 43,846       | \$ 37,346                      | \$ 32,735        |

Table of Contents**Results of Operations**

The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to June 30. Fiscal years 2012 and 2010 consisted of 52 weeks which ended on July 1, 2012 and June 27, 2010, respectively, whereas fiscal year 2011 consisted of 53 weeks, which ended on July 3, 2011.

**Net Revenues**

|               | July 1,<br>2012        | % Change | Years Ended<br>July 3,<br>2011 | % Change | June 27,<br>2010 |
|---------------|------------------------|----------|--------------------------------|----------|------------------|
|               | (dollars in thousands) |          |                                |          |                  |
| Net revenues: |                        |          |                                |          |                  |
| E-Commerce    | \$ 515,205             | 6.1%     | \$ 485,378                     | 3.3%     | \$ 469,968       |
| Other         | 201,052                | 8.0%     | 186,227                        | 1.5%     | 183,402          |
|               | \$ 716,257             | 6.6%     | \$ 671,605                     | 2.8%     | \$ 653,370       |

Net revenues consist primarily of the selling price of the merchandise, service or outbound shipping charges, less discounts, returns and credits.

During the fiscal year ended July 1, 2012, revenues increased by 6.6% in comparison to the prior year as a result of growth across all segments. These improvements were due to growth within the Consumer Floral category, which increased 7.9% as a result of strong year over year growth during the Company's key floral holidays, including Valentines' Day, which benefited from the better date placement which fell on Tuesday in fiscal 2012 compared to Monday in fiscal 2011, and Mother's Day, driven by a higher average order value, as well as contributions from several small acquisitions, including Fine Stationery in May 2011 and Flowerama in August 2011. Further contributing to the revenue growth were: (i) an increase in shop-to-shop order volume and wholesale product sales within the BloomNet Wire Service category, (ii) higher sales from the Gourmet Food & Gift Baskets category, including contributions from Mrs. Beasley's, which was acquired in March 2011, and Stockyards.com, whose brandname the Company licensed in late November 2011, offset in part by the impact of the 53<sup>rd</sup> week in fiscal 2011, and the sale of 17 Fannie May stores which are currently being operated as franchised locations. Excluding the impact of the acquisitions and new license agreements noted above, net of the impact of the Fannie May store sales, and adjusting for the 53<sup>rd</sup> week in fiscal 2011, the Company's revenues increased by 5.2% during the fiscal year ended July 1, 2012.

During the fiscal year ended July 3, 2011 revenues increased by 2.8% over the prior year period, as a result of growth across all categories, including the Consumer Floral category, reversing the trend after two years of revenue declines.

E-commerce revenues (combined online and telephonic) increased by 6.1% and 3.3% during the years ended July 1, 2012 and July 3, 2011, respectively. The Company fulfilled approximately 8.3 million, 8.1 million and 8.4 million e-commerce orders during fiscal 2012, 2011 and 2010, respectively, while increasing the average order value to \$62.45 in fiscal 2012 compared to \$59.58 in fiscal 2011 and \$55.71 in fiscal 2010. Revenue growth was attributed to improved merchandising programs, including the development of innovative and original products such as the expanded line of a-DOG-ables, designed to "wow" our customers' gift recipients and our "Never Settle For Less" marketing campaigns, which also enabled the Company to reduce its promotional activities.

Other revenues, comprised of the Company's BloomNet Wire Service category, as well as the wholesale and retail channels of its Consumer Floral and Gourmet Food and Gift Baskets categories, increased by 8.0% and 1.5% during fiscal 2012 and fiscal 2011, respectively, in comparison to the prior year periods primarily as a result of the aforementioned sales growth in the BloomNet Wire Service

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business, as well as the contributions from Flowerama, a floral franchise operation purchased in August 2011.

Additionally, during the second quarter of fiscal 2012, the Company completed a 62-store franchise agreement between Fannie May and GB Chocolates. The agreement includes development rights for 45 new stores to be opened over the next three years in several mid-west states as well as specific cities in Florida and Ohio, as well as the sale of 17 existing Fannie May retail stores located in areas outside of its core Chicago market. While the sale of these stores reduced our revenues in comparison to prior year periods, it provides a platform for our franchisor to successfully complete its Fannie May development plan, while providing the Company with future revenue streams through franchise and area development fees and product sales.

The Consumer Floral category includes the operations of the 1-800-Flowers brand which derives revenue from the sale of consumer floral products through its e-commerce sales channels (telephonic and online sales) and royalties from its franchise operations, as well as the operations of Fine Stationery, an e-commerce retailer of personalized stationery, invitations and announcements. Net revenues during the fiscal years ended July 1, 2012 and July 3, 2011 increased by 7.9% and 0.7% over the respective prior year periods, due to a combination of increased order volumes and a higher average order value, driven by enhanced marketing and merchandising programs that encourage our customers to "wow" their gift recipients and "Never Settle For Less." Fiscal 2012 also benefited from the better Tuesday date placement of the Valentine's Day holiday, compared to Monday in fiscal 2011, and Sunday in fiscal 2010, as well as the revenue contributions of several small acquisitions, including Fine Stationery in May 2011 and Flowerama in August 2011, offset in part by the impact of the 53<sup>rd</sup> week in fiscal 2011. For the fiscal year ended July 1, 2012, revenue growth for the Consumer Floral category, excluding the impact of the above acquisitions and the 53<sup>rd</sup> week in fiscal 2011, was approximately 5.6%.

The BloomNet Wire Service category includes revenues from membership fees as well as other product and service offerings to florists. Net revenues during the fiscal years ended July 1, 2012 and July 3, 2011 increased by 12.7% and 18.4% over the respective prior years, primarily as a result of increased shop-to-shop order volume and wholesale product sales. While this order volume positively impacts revenues, at the present time, the impact on gross margin and contribution margin is significantly less than BloomNet's normal margin. However, BloomNet has begun to monetize this increased order volume through increasing membership, technology, services and product fees.

The Gourmet Food & Gift Baskets category includes the operations of 1-800-Baskets, Cheryl's (which includes Mrs. Beasley's), Fannie May Confections, The Popcorn Factory, Winetasting.com, Stockyards.com and DesignPac businesses. Revenue is derived from the sale of gift baskets, cookies, baked gifts, premium chocolates and confections, gourmet popcorn, wine gifts and prime steaks and chops through its e-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Cheryl's and Fannie May brand names, royalties from Fannie May franchise operations, as well as wholesale operations. Net revenue during the fiscal year ended July 1, 2012 and July 3, 2011, increased by 3.2% and 1.7%, respectively, in comparison to the prior years. Growth during the fiscal year ended July 1, 2012 was primarily due to: (i) e-commerce growth from 1-800-Baskets.com, Cheryl's and The Popcorn Factory brands, (ii) increased wholesale revenue from the Fannie May brand, and (iii) revenue contributions from the acquisitions of Mrs. Beasley's, a baker and marketer of cakes, muffins and gourmet gift baskets, acquired in March 2011, and Stockyards.com, a purveyor of USDA prime and choice meats, poultry and seafood, whose brandname the Company licensed in late November 2011. This growth was largely offset by reduced DesignPac wholesale basket volume during the December holiday season, and the impact of the conversion of 17 Fannie May retail stores into franchised operations. During the fiscal year ended July 1, 2012, revenue growth for the Gourmet Food & Gift Baskets category, excluding the impact of above acquisitions, the net effect of the sale of the Fannie May retail stores noted above, and the impact of the 53<sup>rd</sup> week in fiscal 2011,

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was approximately 2.5%. Net revenue during the fiscal year ended July 3, 2011 increased by 1.7% compared to the prior year period, primarily as a result of e-commerce sales growth from 1-800-Baskets.com and Cheryl's brands, partially offset by reduced wholesale volume from DesignPac.

For fiscal 2013, the Company expects to grow revenues across all three of its business segments with consolidated revenue growth for the year anticipated to be in the mid-single-digit range.

**Gross Profit**

|                        | Years Ended     |          |                 |          |                  |
|------------------------|-----------------|----------|-----------------|----------|------------------|
|                        | July 1,<br>2012 | % Change | July 3,<br>2011 | % Change | June 27,<br>2010 |
| (dollars in thousands) |                 |          |                 |          |                  |
| Gross profit           | \$ 293,959      |          | 6.3% \$ 276,444 |          | 5.2% \$ 262,747  |
| Gross margin %         | 41.0%           |          | 41.2%           |          | 40.2%            |

Gross profit consists of net revenues less cost of revenues, which is comprised primarily of florist fulfillment costs (primarily fees paid directly to florists), the cost of floral and non-floral merchandise sold from inventory or through third parties, and associated costs including inbound and outbound shipping charges. Additionally, cost of revenues include labor and facility costs related to direct-to-consumer and wholesale production operations.

Gross profit increased during the fiscal years ended July 1, 2012 and July 3, 2011, compared to the respective prior years, due to the above mentioned revenue growth across all categories. During fiscal 2012, the Company's gross margin percentage decreased 20 basis points, reflecting the impact of product mix and lower gross margins from the Company's BloomNet operations and wholesale baskets business within the Gourmet Food and Gift Basket category, partially offset by improvements within the Consumer Floral segment. During fiscal 2011, gross margins improved 100 basis points, resulting from improved merchandising programs and reduced promotional activities within the Company's Consumer Floral segment, which more than offset fuel and commodity cost increases, and the margin impact of the third-party marketing program which was discontinued in December 2009.

The Consumer Floral category gross profit increased by 10.5% and 8.5% during the fiscal years ended July 1, 2012 and July 3, 2011, respectively, as compared to the prior year periods, due to the higher revenue, as described above, as well as gross margin improvements, which increased 90 basis points and 270 basis points over the respectively prior year periods, due to the aforementioned improvements in merchandising and marketing programs and reductions in promotional activity. Additionally, gross profit during fiscal 2012 was favorably impacted by the incremental gross profit generated by the acquisitions of Fine Stationery and Flowerama, whereas, the fiscal 2011 improvement reflects the impact of the termination of the Martha Stewart marketing agreement during the fourth quarter of fiscal 2010.

The BloomNet Wire Service category gross profit increased by 5.0% and 5.7% during the fiscal years ended July 1, 2012 and July 3, 2011, respectively, in comparison to the prior years, due to the above mentioned revenue growth, while the gross margin percentage decreases reflect product mix, consisting of increased sales of lower margin wholesale orders and an increase in the proportion of shop-to-shop order volume. Although the shop-to-shop orders carry a lower gross margin percentage, the significant increase in order volume helps drive revenue and gross margin dollar growth, while the added orders provide increased leverage for sales of products and services. BloomNet expects to continue to monetize this increased order volume through increased membership, technology, services and product fees.

The Gourmet Food & Gift Baskets category gross profit increased by 0.9% during both the fiscal years ended July 1, 2012 and July 3, 2011, in comparison to the prior years, due to the above

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mentioned revenue increases, while the gross margin percentage decreased by 100 basis points and 30 basis points, respectively. The decrease in gross margin percentage during fiscal 2012 was driven primarily by lower gross margins from the wholesale basket business, as well as the impact of the sale of the Fannie May stores and increases in commodity and shipping costs. During fiscal 2011, the gross margin percentage decrease was a result of a change in sales mix, as well as increased fuel and commodity prices.

For fiscal 2013, the Company expects its gross margin percentage will improve in comparison to fiscal 2012 as a result of a reduction in promotional activity, as well as improvements in product sourcing, supply chain and manufacturing efficiencies.

**Marketing and Sales Expense**

|                     | Years Ended            |          | Years Ended     |          |
|---------------------|------------------------|----------|-----------------|----------|
|                     | July 1,<br>2012        | % Change | July 3,<br>2011 | % Change |
|                     | (dollars in thousands) |          |                 |          |
| Marketing and sales | \$ 182,512             | 5.2%     | \$ 173,531      | 1.3%     |
| Percentage of sales | 25.5%                  |          | 25.8%           | 26.2%    |

Marketing and sales expense consists primarily of advertising and promotional expenditures, catalog costs, online portal and search costs, retail store and fulfillment operations (other than costs included in cost of revenues) and customer service center expenses, as well as the operating expenses of the Company's departments engaged in marketing, selling and merchandising activities.

During the fiscal year ended July 1, 2012, marketing and sales expense increased by 5.2% compared to the prior year, as a result of: (i) increased advertising, primarily related to the 1-800-Flowers.com Consumer Floral brand during the key floral holidays, which helped to drive the improving revenue trends, (ii) increased labor due to several growth initiatives for franchising, BloomNet and the Mobile and Social commerce area, and incremental labor associated with the acquisitions of Mrs. Beasley's, Fine Stationery and Flowerama, as well as the operation of the Stockyards direct-to-consumer business, offset in part by the franchise conversion of 17 Fannie May retail stores, and (iii) higher facility costs, due to the aforementioned acquisitions and licensing arrangement. However, as a result of the Company's continued focus on improving its merchandising programs, refocusing marketing messages, and enhancing the efficiency of advertising efforts, marketing and sales expense, as a percentage of net revenues, decreased from 25.8% in fiscal 2011 to 25.5% in fiscal 2012.

During the fiscal year ended July 3, 2011, marketing and sales expense increased by 1.3% compared to the prior year period, as a result of: (i) an increase in compensation expense, due to performance based incentive compensation, reflecting the improved operating results, as well as new initiatives for franchising and store growth, and (ii) variable costs associated with the increase in revenue, offset by reductions in advertising spending. As a result of spending efficiencies achieved during the year, marketing and sales expense, as a percentage of net revenues, decreased from 26.2% in fiscal 2010 to 25.8% in fiscal 2011.

During the fiscal year ended July 1, 2012, the Company added approximately 2.0 million new e-commerce customers, compared to 2.3 million in each of the fiscal years in 2011 and 2010. Of the 4.6 million total customers who placed e-commerce orders during fiscal 2012, approximately 56% were repeat customers, compared to 52% in fiscal 2011 and 2010, reflecting the Company's effectiveness on deepening the relationship with its existing customers as their trusted source for gifts and services for all of their celebratory occasions.



Table of Contents**Technology and Development Expense**

|                            | July 1,<br>2012        | % Change | Years Ended<br>July 3,<br>2011 | % Change | June 27,<br>2010 |
|----------------------------|------------------------|----------|--------------------------------|----------|------------------|
|                            | (dollars in thousands) |          |                                |          |                  |
| Technology and development | \$ 20,479              | 1.5%     | \$ 20,168                      | 14.2%    | \$ 17,666        |
| Percentage of sales        | 2.9%                   |          | 3.0%                           |          | 2.7%             |

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 fiscal year ended July 1, 2012, technology and development expense increased by 1.5% over the prior year, as a result of the incremental costs associated with the recent acquisitions of Mrs. Beasley's, Fine Stationery and Flowerama; however, technology and development expense as a percentage of net revenue decreased 10 basis points during fiscal 2012, reflecting the Company's ability to leverage its technology platform.

During the fiscal year ended July 3, 2011, technology and development expense increased by 14.2% over the prior year, as a result of increased labor costs required to support and implement new website improvements, as well as from higher performance based incentive compensation expense in comparison to the prior year, partially offset by reductions in the cost of hosting the Company's technology platforms, as a result of footprint reductions and sourcing savings.

During the fiscal years ended July 1, 2012, July 3, 2011, and June 27, 2010 the Company expended \$32.8 million, \$32.4 million, and \$29.1 million, respectively, on technology and development, of which \$12.3 million, \$12.2 million, and \$11.4 million, respectively, has been capitalized.

**General and Administrative Expense**

|                            | July 1,<br>2012        | % Change | Years Ended<br>July 3,<br>2011 | % Change | June 27,<br>2010 |
|----------------------------|------------------------|----------|--------------------------------|----------|------------------|
|                            | (dollars in thousands) |          |                                |          |                  |
| General and administrative | \$ 51,972              | 5.3%     | \$ 49,360                      | 1.0%     | \$ 48,866        |
| Percentage of sales        | 7.3%                   |          | 7.3%                           |          | 7.5%             |

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 by 5.3% during the fiscal year ended July 1, 2012, over the prior year period, due to: (i) incremental costs associated with the acquisitions of Mrs. Beasley's, Fine Stationery and Flowerama, (ii) annual compensation rate increases, and (iii) an increase in expenses associated with franchise expansion plans, partially offset by reductions in bad debt expense.

During the fiscal year ended July 3, 2011, general and administrative expense increased by 1.0% over the prior year period, but decreased as a percentage of net revenues from 7.5% in fiscal 2010 to 7.3% in fiscal 2011, as a result of reduced health insurance costs due to plan redesign and reductions in legal fees associated with litigation which was settled in the prior year, offset by higher incentive compensation expense due to improved financial performance.

Table of Contents**Depreciation and Amortization**

|                               | July 1,<br>2012 | % Change | Years Ended     |          | June 27,<br>2010 |
|-------------------------------|-----------------|----------|-----------------|----------|------------------|
|                               |                 |          | July 3,<br>2011 | % Change |                  |
| (dollars in thousands)        |                 |          |                 |          |                  |
| Depreciation and amortization | \$ 19,576       | (3.4)%   | \$ 20,271       | (0.1)%   | \$ 20,287        |
| Percentage of sales           | 2.7%            |          | 3.0%            |          | 3.1%             |

Depreciation and amortization expense decreased by 3.4% and 0.1% during the fiscal years ended July 1, 2012 and July 3, 2011, respectively, over the prior year periods, a result of the Company's efforts over the last three years to reduce capital expenditures, as the Company continues to leverage its technology platform.

**Gain on Sale of Stores**

On November 21, 2011, the Company and GB Chocolates LLC (GB Chocolates) entered into an agreement whereby the Company sold 17 existing Fannie May stores, to be operated as franchised locations by GB Chocolates, for \$5.6 million, recognizing a gain on the sale of \$3.8 million. Upon completion of the sale, the Company also recognized initial franchise fees associated with these 17 stores in the amount of \$0.5 million. In conjunction with the sale of stores, the Company and GB Chocolates entered into an area development agreement whereby GB Chocolates will open a minimum of 45 new Fannie May franchise stores by December 2014. The agreement provides exclusive development rights for several Midwestern states, as well as specific cities in Florida and Ohio. The terms of the agreement include a non-refundable area development fee of \$0.9 million, store opening fees of \$0.5 million, assuming successful opening of 45 stores, and a non-performance promissory note in the amount of \$1.2 million, which becomes due and payable only if GB Chocolates does not open all 45 stores as set forth in the development agreement. The Company has deferred the recognition of the \$0.9 million area development fee associated with the 45 store area development agreement, and will recognize such fees in income on a pro-rata basis, when the conditions for revenue recognition under the area development agreement are met. Both store opening fees and area development fees are generally recognized upon the opening of a franchise store, or upon termination of the agreement between the Company and the franchisee. The Company recognized approximately \$0.2 million, of the \$1.2 million promissory note, based upon its assessment of the likelihood that the performance criteria under the agreement will be achieved.

**Interest Expense, net**

|                        | July 1,<br>2012 | % Change | Years Ended     |          | June 27,<br>2010 |
|------------------------|-----------------|----------|-----------------|----------|------------------|
|                        |                 |          | July 3,<br>2011 | % Change |                  |
| (dollars in thousands) |                 |          |                 |          |                  |
| Interest expense, net  | \$ (2,312)      | 43.3%    | \$ (4,077)      | 29.1%    | \$ (5,752)       |

Interest expense, net consists primarily of interest expense and amortization of deferred financing costs attributable to the Company's long-term debt and revolving line of credit, net of income earned on the Company's available cash balances.

Net borrowing costs decreased during the fiscal years ended July 1, 2012 and July 3, 2011, in comparison to the respective prior years, due to paydowns of amounts outstanding under the Company's term loans, as well as reduced borrowing rates. Additionally, the decrease in fiscal 2011 reflects the impact of the Company's write-off of \$0.3 million in deferred financing cost during the fourth quarter of fiscal 2010, as a result of the amending the Company's credit facility.

Table of Contents**Income Taxes**

During the fiscal years ended July 1, 2012, July 3, 2011 and June 27, 2010, the Company recorded income tax expense of \$7.8 million, \$3.5 million and \$0.2 million, respectively, resulting in an effective tax rate of 37.2%, 38.9% and 18.9%, respectively. The Company's effective tax rate for the fiscal years ended July 1, 2012 and June 27, 2010, differed from the U.S. federal statutory rate of 35% primarily due to the impact of state income taxes, non-deductible stock-based compensation, and goodwill amortization, partially offset by various tax credits. The Company's effective tax rate for the fiscal year ended July 3, 2011 differs from the U.S. federal statutory rate of 35% primarily due to the impact of state income taxes and non-deductible stock-based compensation, partially offset by tax settlements and various tax credits.

At July 1, 2012, the Company's federal net operating loss carryforwards were approximately \$3.3 million, which, if not utilized, will begin to expire in fiscal year 2025.

**Discontinued Operations**

On September 6, 2011, the Company, through the Winetasting Network subsidiary, completed the sale of certain assets of its non-strategic wine fulfillment services business in order to focus on its core Direct-to-Consumer wine business. During the fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets categories, and on January 25, 2010, completed the sale of this business. Consequently, the Company has classified the results of operations of its Home & Children's Gifts segment and its wine fulfillment services business, which had previously been included within its Gourmet Foods & Gift Baskets category, as discontinued operations for all periods presented.

Results for discontinued operations are as follows:

|  | Years Ended            |                 |                  |
|--|------------------------|-----------------|------------------|
|  | July 1,<br>2012        | July 3,<br>2011 | June 27,<br>2010 |
|  | (dollars in thousands) |                 |                  |
| Net revenues from discontinued operations                    | \$ 2,003               | \$ 18,184       | \$ 102,192       |
| Gross profit from discontinued operations                    | \$ 405                 | \$ 3,641        | \$ 43,960        |
| Income (loss) from discontinued operations, net of tax       | \$ (22)                | \$ 202          | \$ 2,096         |
| Gain (losses) on sale of discontinued operations, net of tax | \$ 4,542               |                 | \$ (5,062)       |
| Income (loss) from discontinued operations                   | \$ 4,520               | \$ 202          | \$ (2,966)       |

The Company's wine fulfillment services business derived its revenue from the warehousing and fulfillment of wine and wine related products, primarily on behalf of California wineries. The Home & Children's Gifts category included revenue from the sale of home decor and children's gifts.

On September 6, 2011, the Company completed the sale of certain assets of its non-strategic WinetastingNetwork wine fulfillment services business for \$12.0 million, in order to focus on its core Direct-to-Consumer wine business, recognizing a gain on the sale of \$4.5 million, net of taxes. On January 25, 2010, the Company completed the sale of the assets and certain related liabilities of its Home & Children's Gifts business. The sales price of the assets was \$17.0 million, subject to adjustments for changes in working capital (net proceeds amounted to \$10.5 million). Based upon the carrying value of the assets held for sale, the Company recorded a loss of \$5.1 million, net of tax during the fiscal year ended June 27, 2010.

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**Quarterly Results of Operations**

The following table provides unaudited quarterly consolidated results of operations for each quarter of fiscal years 2012 and 2011. The Company believes this unaudited information has been prepared substantially on the same basis as the annual audited consolidated financial statements and all necessary adjustments, consisting of only normal recurring adjustments, have been included in the amounts stated below to present fairly the Company's results of operations. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

|   | <b>Jul. 1,<br/>2012</b> | <b>Apr. 1,<br/>2012</b> | <b>Jan. 1,<br/>2012</b> | <b>Oct. 2,<br/>2011</b> | <b>Jul. 3,<br/>2011</b> | <b>Mar. 27,<br/>2011</b> | <b>Dec. 26,<br/>2010</b> | <b>Sep. 26,<br/>2010</b> |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|--------------------------|--------------------------|
| (in thousands, except per share data)   |                         |                         |                         |                         |                         |                          |                          |                          |
| <b>Net revenues:</b>  |                         |                         |                         |                         |                         |                          |                          |                          |
| E-commerce (telephonic/online)  | \$ 139,095              | \$ 132,190              | \$ 165,130              | \$ 78,790               | \$ 142,060              | \$ 117,506               | \$ 154,599               | \$ 71,213                |
| Other   | 40,462                  | 47,469                  | 74,715                  | 38,406                  | 40,093                  | 41,333                   | 74,274                   | 30,527                   |
| <b>Total net revenues</b>   | <b>179,557</b>          | <b>179,659</b>          | <b>239,845</b>          | <b>117,196</b>          | <b>182,153</b>          | <b>158,839</b>           | <b>228,873</b>           | <b>101,740</b>           |
| <b>Cost of revenues</b>   | <b>105,525</b>          | <b>106,620</b>          | <b>139,519</b>          | <b>70,634</b>           | <b>108,920</b>          | <b>95,728</b>            | <b>131,779</b>           | <b>58,734</b>            |
| <b>Gross profit</b>   | <b>74,032</b>           | <b>73,039</b>           | <b>100,326</b>          | <b>46,562</b>           | <b>73,233</b>           | <b>63,111</b>            | <b>97,094</b>            | <b>43,006</b>            |
| <b>Operating expenses:</b>  |                         |                         |                         |                         |                         |                          |                          |                          |
| Marketing and sales   | 48,612                  | 48,598                  | 53,020                  | 32,282                  | 49,915                  | 43,513                   | 50,476                   | 29,627                   |
| Technology and development  | 5,227                   | 5,646                   | 4,854                   | 4,752                   | 5,529                   | 5,119                    | 4,721                    | 4,799                    |
| General and administrative  | 12,915                  | 13,766                  | 12,932                  | 12,359                  | 12,807                  | 12,659                   | 12,443                   | 11,451                   |
| Depreciation and amortization   | 4,871                   | 4,874                   | 4,929                   | 4,902                   | 4,999                   | 5,069                    | 5,189                    | 5,014                    |
| <b>Total operating expenses</b>   | <b>71,625</b>           | <b>72,884</b>           | <b>75,735</b>           | <b>54,295</b>           | <b>73,250</b>           | <b>66,360</b>            | <b>72,829</b>            | <b>50,891</b>            |
| Gain on sale of stores  |                         |                         | 3,789                   |                         |                         |                          |                          |                          |
| <b>Operating income (loss)</b>  | <b>2,407</b>            | <b>155</b>              | <b>28,380</b>           | <b>(7,733)</b>          | <b>(17)</b>             | <b>(3,249)</b>           | <b>24,265</b>            | <b>(7,885)</b>           |
| <b>Interest expense, net</b>  | <b>(322)</b>            | <b>(319)</b>            | <b>(849)</b>            | <b>(822)</b>            | <b>(756)</b>            | <b>(854)</b>             | <b>(1,306)</b>           | <b>(1,161)</b>           |
| <b>Income (loss) from continuing operations before income taxes</b>                           | <b>2,085</b>            | <b>(164)</b>            | <b>27,531</b>           | <b>(8,555)</b>          | <b>(773)</b>            | <b>(4,103)</b>           | <b>22,959</b>            | <b>(9,046)</b>           |
| <b>Income tax expense (benefit)</b>   | <b>453</b>              | <b>(215)</b>            | <b>10,955</b>           | <b>(3,422)</b>          | <b>(413)</b>            | <b>(1,859)</b>           | <b>9,887</b>             | <b>(4,098)</b>           |
| <b>Income (loss) from continuing operations</b>   | <b>1,632</b>            | <b>51</b>               | <b>16,576</b>           | <b>(5,133)</b>          | <b>(360)</b>            | <b>(2,244)</b>           | <b>13,072</b>            | <b>(4,948)</b>           |
| <b>Income (loss) from discontinued operations, net of tax</b>                                 |                         |                         | <b>63</b>               | <b>(85)</b>             | <b>352</b>              | <b>(432)</b>             | <b>458</b>               | <b>(176)</b>             |
| <b>Gain (loss) on sale of discontinued operations, net of tax</b>                             | <b>200</b>              | <b>(136)</b>            |                         | <b>4,478</b>            |                         |                          |                          |                          |
| <b>Income (loss) from discontinued operations</b>   | <b>200</b>              | <b>(136)</b>            | <b>63</b>               | <b>4,393</b>            | <b>352</b>              | <b>(432)</b>             | <b>458</b>               | <b>(176)</b>             |
| <b>Net income (loss)</b>  | <b>\$ 1,832</b>         | <b>\$ (85)</b>          | <b>\$ 16,639</b>        | <b>\$ (740)</b>         | <b>\$ (8)</b>           | <b>\$ (2,676)</b>        | <b>\$ 13,530</b>         | <b>\$ (5,124)</b>        |
| <b>Basic net income (loss) per common share:</b>  |                         |                         |                         |                         |                         |                          |                          |                          |
| From continuing operations  | \$ 0.03                 | \$ 0.00                 | \$ 0.26                 | \$ (0.08)               | \$ (0.01)               | \$ (0.04)                | \$ 0.20                  | \$ (0.08)                |
| From discontinued operations  |                         |                         |                         | 0.07                    | 0.01                    | (0.01)                   | 0.01                     | 0.00                     |
| <b>Net income (loss) per common share</b>   | <b>\$ 0.03</b>          | <b>\$ 0.00</b>          | <b>\$ 0.26</b>          | <b>\$ (0.01)</b>        | <b>\$ 0.00</b>          | <b>\$ (0.04)</b>         | <b>\$ 0.21</b>           | <b>\$ (0.08)</b>         |
| <b>Diluted net income (loss) per common share:</b>  |                         |                         |                         |                         |                         |                          |                          |                          |
| From continuing operations  | \$ 0.02                 | \$ 0.00                 | \$ 0.25                 | \$ (0.08)               | \$ (0.01)               | \$ (0.04)                | \$ 0.20                  | \$ (0.08)                |
| From discontinued operations  |                         |                         |                         | 0.07                    | 0.01                    | (0.01)                   | 0.01                     | 0.00                     |
| <b>Net income (loss) per common share</b>   | <b>\$ 0.03</b>          | <b>\$ 0.00</b>          | <b>\$ 0.25</b>          | <b>\$ (0.01)</b>        | <b>\$ 0.00</b>          | <b>\$ (0.04)</b>         | <b>\$ 0.21</b>           | <b>\$ (0.08)</b>         |
| <b>Weighted average shares used in the calculation of net income (loss) per common share:</b> |                         |                         |                         |                         |                         |                          |                          |                          |

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|         |        |        |        |        |        |        |        |        |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| Basic   | 64,741 | 64,988 | 64,841 | 64,218 | 64,135 | 63,999 | 63,966 | 63,894 |
| Diluted | 66,381 | 66,299 | 66,050 | 64,218 | 64,135 | 63,999 | 64,801 | 63,894 |

The Company's quarterly results may experience seasonal fluctuations. Due to the Company's expansion into non-floral products, the Thanksgiving through Christmas holiday season, which falls

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within the Company's second fiscal quarter, generates the highest proportion of the Company's annual revenues. Additionally, as the result of a number of major floral gifting occasions, including Mother's Day and Administrative Professionals Week, revenues also rise during the Company's fiscal fourth quarter. The Easter Holiday was in the Company's fourth quarter during fiscal 2011 and 2012, but will fall in the third quarter of fiscal 2013.

**Liquidity and Capital Resources**

At July 1, 2012, the Company had working capital of \$29.7 million, including cash and equivalents of \$28.9 million, compared to working capital of \$17.3 million, including cash and equivalents of \$21.4 million, at July 3, 2011.

Net cash provided by operating activities of \$40.2 million for the fiscal year ended July 1, 2012 was primarily related to net income, adjusted for the gain on the sale of the Company's wine fulfillment services business in September 2011, non-cash charges for depreciation and amortization, deferred income taxes, and stock-based compensation, offset in part by increases in working capital, including inventory, accounts receivable and prepaid expenses due to expanded wholesale activities.

Net cash used in investing activities of \$12.9 million for the fiscal year ended July 1, 2012 was primarily attributable to the Company's equity investment in Flores Online, Ltda., a Brazilian based e-commerce consumer floral retailer, the acquisition of Flowerama in August 2011, and capital expenditures, primarily related to the Company's technology infrastructure, offset in part by the proceeds from the sale of the Company's wine fulfillment services business in September 2011.

Net cash used in financing activities of \$19.9 million for the fiscal year ended July 1, 2012 was primarily due to the repayment of bank borrowings on outstanding term-loan debt and long-term capital lease obligations, as well as the acquisition of \$3.3 million of treasury stock under the Company's stock repurchase plan. There were no borrowings outstanding under the Company's revolving credit facility as of July 1, 2012.

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

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

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

Outstanding amounts under the 2010 Credit Facility will bear interest at the Company's option of either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's term loans and revolving credit facility will range from 3.00% to 3.75% for LIBOR loans and 2.00% to 2.75% for ABR loans with pricing based upon the Company's leverage ratio.

As a result of the modifications of its credit facilities, during the year ended June 27, 2010, the Company wrote-off deferred financing costs in the amount of \$0.3 million.

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The Company does not enter into derivative transactions for trading purposes, but rather to hedge its exposure to interest rate fluctuations. The Company manages its floating rate debt using interest rate swaps in order to reduce its exposure to the impact of changing interest rates on its consolidated results of operations and future cash outflows for interest.

In July 2009, the Company entered into a \$45.0 million notional amount swap agreement that exchanges a variable interest rate (LIBOR) for a 1.92% fixed rate of interest over the term of the agreement. This swap matured on July 25, 2012.

During March 2009, the Company obtained a \$5.0 million equipment lease line of credit with a bank and a \$5.0 million equipment lease line of credit with a vendor. Interest under these lines, which both came due in April 2012, ranged from 2.99% to 7.48%. Both of the lines of credit are currently closed.

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

On January 21, 2008, the Company's Board of Directors authorized an increase to its stock repurchase plan, which when added to the \$8.7 million remaining on its earlier authorization, increased the amount available to repurchase to \$15.0 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of July 1, 2012, \$8.5 million remains authorized but unused.

Under this program, as of July 1, 2012, the Company had repurchased 3,703,626 shares of common stock for \$17.8 million, of which \$3.3 million (1,133,913 shares), \$0.5 million (168,207 shares), and \$0.9 million (342,821 shares) were repurchased during the fiscal years ending July 1, 2012, July 3, 2011 and June, 27, 2010, respectively.

At July 1, 2012, the Company's contractual obligations from continuing operations consist of:

|   | <b>Payments due by period</b> |                             |                    |                    |                              |
|---|-------------------------------|-----------------------------|--------------------|--------------------|------------------------------|
|   | <b>(dollars in thousands)</b> |                             |                    |                    |                              |
|   | <b>Total</b>                  | <b>Less than<br/>1 year</b> | <b>1 - 2 years</b> | <b>3 - 5 years</b> | <b>More than<br/>5 years</b> |
| Long-term debt, including interest            | \$ 30,933                     | \$ 17,059                   | \$ 13,874          | \$                 | \$                           |
| Capital lease obligations, including interest | 6                             | 6                           |                    |                    |                              |
| Operating lease obligations                   | 57,562                        | 12,463                      | 18,810             | 12,999             | 13,290                       |
| Sublease obligations                          | 4,534                         | 1,972                       | 1,892              | 670                |                              |
| Purchase commitments(*)                       | 46,679                        | 46,679                      |                    |                    |                              |
| <b>Total</b>                                  | <b>\$ 139,714</b>             | <b>\$ 78,179</b>            | <b>\$ 34,576</b>   | <b>\$ 13,669</b>   | <b>\$ 13,290</b>             |

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

### **Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial position and results of operations are based upon the consolidated financial statements of 1-800-FLOWERS.COM, Inc., which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition,

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inventory and long-lived assets, including goodwill and other intangible assets related to acquisitions. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in preparation of its consolidated financial statements.

*Revenue Recognition*

Net revenues are generated by E-commerce operations from the Company's online and telephonic sales channels as well as other operations (retail/wholesale) and primarily consist of the selling price of merchandise, service or outbound shipping charges, less discounts, returns and credits. Net revenues are recognized upon product shipment and do not include sales tax. Shipping terms are FOB shipping point. Net revenues generated by the Company's BloomNet Wire Service operations include membership fees as well as other products and service offerings to florists. Membership fees are recognized monthly in the period earned, and products sales are recognized upon product shipment with shipping terms of FOB shipping point.

Initial franchise fees are recognized in income when the Company has substantially performed or satisfied all material services or conditions relating to the sale of the franchise and the fees are nonrefundable. Area development fees are nonrefundable and are recognized in income on a pro-rata basis when the conditions for revenue recognition under the individual area development agreements are met. Both initial franchise fees and area development fees are generally recognized upon the opening of a franchise store or upon termination of the agreement between the Company and the franchisee.

*Accounts Receivable*

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

*Inventory*

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

*Goodwill and Other Intangible Assets*

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

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



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Based on its impairment test, the Company's reporting units had significant safety margins, representing the excess of the estimated fair value of each reporting unit less its respective carrying value (including goodwill allocated to each respective reporting unit). Future events could cause the Company to conclude that impairment indicators exist and that goodwill and other intangible assets associated with our acquired businesses is impaired.

*Capitalized Software*

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

*Stock-based Compensation*

The measurement of stock-based compensation expense is based on the fair value of the award on the date of grant. The Company determines the fair value of stock options issued by using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model considers a range of assumptions related to volatility, dividend yield, risk-free interest rate and employee exercise behavior. Expected volatilities are based on historical volatility of the Company's stock price. The dividend yield is based on historical experience and future expectations. The risk-free interest rate is derived from the US Treasury yield curve in effect at the time of grant. The Black-Scholes model also incorporates expected forfeiture rates, based on historical behavior. Determining these assumptions are subjective and complex, and therefore, a change in the assumptions utilized could impact the calculation of the fair value of the Company's stock options.

*Income Taxes*

The Company has established deferred tax assets and liabilities for temporary differences between the financial reporting bases and the income tax bases of its assets and liabilities at enacted tax rates expected to be in effect when such assets or liabilities are realized or settled. The Company has recognized as a deferred tax asset the tax benefits associated with losses related to operations, which are expected to result in a future tax benefit. Realization of this deferred tax asset assumes that we will be able to generate sufficient future taxable income so that these assets will be realized. The factors that we consider in assessing the likelihood of realization include the forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more-likely-than-not to be sustained upon examination by taxing authorities. To the extent that the Company prevails in matters for which a liability for an unrecognized tax benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected.

**Newly Adopted Accounting Pronouncements**

In the first quarter of fiscal 2012, the Company adopted new accounting guidance included in Accounting Standards Update ("ASU") No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*. The amendments in this standard specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This standard also expands the supplemental pro forma disclosures under Accounting Standards Codification ("ASC") Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments

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directly attributable to the business combination included in the reported pro forma revenue and earnings. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In the third quarter of fiscal 2012, the Company adopted new accounting guidance included in ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this standard generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

**Recent Accounting Pronouncements**

In July 2012, the FASB issued ASU 2012-02, "Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment" ("ASU 2012-02"), which permits an entity to make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit's indefinite-lived intangible asset is less than the asset's carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that the fair value of a reporting unit's indefinite-lived intangible asset is more likely than not greater than the asset's carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. ASU 2012-02 is effective for the Company for annual and interim indefinite-lived intangible asset impairment tests performed beginning July 1, 2013, however, early adoption is permitted. The Company is currently evaluating the impact ASU 2012-02 will have on its consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08 "Testing Goodwill for Impairment" (ASU No. 2011-08) which is intended to reduce the complexity and costs to test goodwill for impairment. The amendment allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendment becomes effective for annual and interim goodwill impairment tests performed for the Company's fiscal year ending June 30, 2013. Early adoption is permitted. The Company does not expect the adoption of ASU 2011-04 to have a material impact on its consolidated financial statements.

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In June 2011, the FASB issued Accounting Standards Update No. 2011-05, "Presentation of Comprehensive Income" (ASU No. 2011-05), which improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income (OCI) by eliminating the option to present components of OCI as part of the statement of changes in stockholders' equity. The amendments in this standard require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Subsequently in December 2011, the FASB issued Accounting Standards Update No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income" ("ASU No. 2011-12"), which indefinitely defers the requirement in ASU No. 2011-05 to present on the face of the financial statements reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. The amendments in these standards do not change the items that must be reported in OCI, when an item of OCI must be reclassified to net income, or change the option for an entity to present components of OCI gross or net of the effect of income taxes. The amendments in ASU No. 2011-05 and ASU No. 2011-12 are effective for interim and annual periods beginning with the first quarter of the Company's fiscal year ending on June 30, 2013 and are to be applied retrospectively. The adoption of the provisions of ASU No. 2011-05 and ASU No. 2011-12 will not have a material impact on the company's consolidated financial position or results of operations.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's earnings and cash flows are subject to fluctuations due to changes in interest rates primarily from its investment of available cash balances in money market funds and investment grade corporate and U.S. government securities, as well as from outstanding debt. As of July 1, 2012, the Company's outstanding debt, including current maturities, approximated \$29.3 million.

The Company does not enter into derivative transactions for trading purposes, but rather to hedge its exposure to interest rate fluctuations. The Company manages its floating rate debt using interest rate swaps in order to reduce its exposure to the impact of changing interest rates on its consolidated results of operations and future cash outflows for interest.

In July 2009, the Company entered into a \$45.0 million notional amount swap agreement that exchanges a variable interest rate (LIBOR) for a 1.92% fixed rate of interest over the term of the agreement. This swap matured on July 25, 2012. The Company has designated this swap as a cash flow hedge of the interest rate risk attributable to forecasted variable interest (LIBOR) payments. The effective portion of the after tax fair value gains or losses on this swap is included as a component of accumulated other comprehensive loss.

Exclusive of the impact of the Company's interest rate swap agreement, each 50 basis point change in interest rates would have had a corresponding effect on our interest expense of approximately \$0.2 million on an annual basis.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Annual Financial Statements:** See Part IV, Item 15 of this Annual Report on Form 10-K.

**Selected Quarterly Financial Data:** See Part II, Item 7 of this Annual Report on Form 10-K.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

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**Item 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of July 1, 2012. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures were not effective as of July 1, 2012, because of the identification of the material weaknesses in internal control over financial reporting as described below.

In light of the material weaknesses in internal control described below, the Company performed additional procedures to ensure that the consolidated financial statements included in this Annual Report were prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). As a result of the additional procedures and related adjustments management has concluded that the consolidated financial statements for the periods included in this Annual Report are fairly stated, in all material respects, in accordance with U.S. GAAP.

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effectuated by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), and includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made in accordance with authorization of management and directors of the Company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting based on the framework established in "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company's internal control over financial reporting was not effective as of July 1, 2012 as a result of a material weakness in the accounting and disclosure for deferred income taxes as described below.

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A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness was identified as of July 1, 2012.

As of July 1, 2012, the Company did not maintain effective controls over financial reporting for deferred income taxes. Specifically, our processes and procedures did not provide for adequate and timely identification of deferred tax liabilities on non-amortizable intangibles arising from historical acquisitions prior to fiscal 2007. These errors in purchase price allocation subsequently impacted the goodwill impairment charges recorded by the Company in fiscal 2009. In connection with this review, the Company also identified an issue related to the treatment of deferred tax liabilities on basis differences related to fixed assets which were recorded in error during fiscal years 2009 and prior.

As a result of the material weakness in our internal control over financial reporting described above, management concluded that, as of July 1, 2012, its internal control over financial reporting was not effective.

The Company's independent registered public accounting firm, Ernst & Young LLP, audited the effectiveness of the Company's internal control over financial reporting as of July 1, 2012. Ernst & Young LLP's report on the effectiveness of the Company's internal control over financial reporting as of July 1, 2012 is set forth below.

**Remediation Plans for Material Weakness in Internal Control over Financial Reporting**

Subsequent to year-end, the Company believes that it has implemented enhanced internal control procedures to address the material weakness discussed above. In response to the identified material weakness in deferred income taxes, management, with oversight from the Company's Audit Committee, has dedicated significant in-house and external resources to implement enhancements to the Company's internal control over financial reporting so as to remediate the material weakness described above. These ongoing efforts are focused on: (i) expanding our organizational capabilities to improve our monitoring and governance processes over deferred income taxes, (ii) implementing process improvements to strengthen our internal control and monitoring activities over deferred taxes, and (iii) adding resources to the review and oversight process.

**Changes in Internal Control over Financial Reporting**

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, identified no changes in our internal control over financial reporting that occurred during the fiscal quarter ended July 1, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
1-800-FLOWERS.COM, Inc. and Subsidiaries

We have audited 1-800-FLOWERS.COM, Inc. and Subsidiaries (the Company's) internal control over financial reporting as of July 1, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in controls related to the Company's process for deferred income taxes. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of 1-800-FLOWERS.COM, Inc. and Subsidiaries as of July 1, 2012 and July 3, 2011 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 1, 2012. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2012 financial statements and this report does not affect our report dated September 14, 2012, which expressed an unqualified opinion on those financial statements.

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In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, 1-800-FLOWERS.COM, Inc. and Subsidiaries has not maintained effective internal control over financial reporting as of July 1, 2012, based on the COSO criteria.

/s/ Ernst & Young LLP

Jericho, New York  
September 14, 2012

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**Item 9B. OTHER INFORMATION**

None.

**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information to be set forth in the Proxy Statement for the 2012 annual meeting of stockholders is incorporated herein by reference.

The Company maintains a Code of Business Conduct and Ethics, which is applicable to all directors, officers and employees on the Investor Relations Corporate Governance tab of the Company's website at [www.1800flowers.com](http://www.1800flowers.com). Any amendment or waiver to the Code of Business Conduct and Ethics that applies to our directors or executive officers will be posted on our website or in a report filed with the SEC on Form 8-K to the extent required by applicable law or the regulations of any exchange applicable to the Company. A copy of the Code of Business Conduct and Ethics is available without charge upon written request to: Investor Relations, 1-800-FLOWERS.COM, Inc., One Old Country Road, Suite 500, Carle Place, New York 11514.

**Item 11. EXECUTIVE COMPENSATION**

The information to be set forth in the Proxy Statement for the 2012 Annual Meeting of Stockholders is incorporated herein by reference.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information to be set forth in the Proxy Statement for the 2012 Annual Meeting of Stockholders is incorporated herein by reference.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information to be set forth in the Proxy Statement for the 2012 Annual Meeting of Stockholders is incorporated herein by reference.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information to be set forth in the Proxy Statement for the 2012 Annual Meeting of Stockholders is incorporated herein by reference.



Table of Contents**PART IV****Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) (1) Index to Consolidated Financial Statements:

|   |                    |
|---|--------------------|
| <u>Report of Independent Registered Public Accounting Firm</u>  | <b>Page</b><br>F-1 |
| <u>Consolidated Balance Sheets as of July 1, 2012 and July 3, 2011</u>  | F-2                |
| <u>Consolidated Statements of Operations for the years ended July 1, 2012, July 3, 2011 and June 27, 2010</u>           | F-3                |
| <u>Consolidated Statements of Stockholders' Equity for the years ended July 1, 2012, July 3, 2011 and June 27, 2010</u> | F-4                |
| <u>Consolidated Statements of Cash Flows for the years ended July 1, 2012, July 3, 2011 and June 27, 2010</u>           | F-5                |
| <u>Notes to Consolidated Financial Statements</u>   | F-6                |

(a) (2) Index to Financial Statement Schedules:

Schedule II Valuation and Qualifying Accounts **S-1**

All other information and financial statement schedules are omitted because they are not applicable, or because the required information is included in the consolidated financial statements or notes thereto.

(a) (3) Index to Exhibits

Exhibits marked with an asterisk (\*) are incorporated by reference to exhibits or appendices previously filed with the Securities and Exchange Commission, as indicated by the reference in brackets. All other exhibits are filed herewith. Exhibits 10.3, 10.4, 10.5, 10.6, 10.7, 10.8, 10.10, 10.11, 10.13, 10.14, 10.15 10.16 and 10.17 are management contracts or compensatory plans or arrangements.

| <b>Exhibit</b> | <b>Description</b>   |
|----------------|--|
| *3.1           | Third Amended and Restated Certificate of Incorporation. (Registration Statement on Form S-1/A (No. 333-78985) filed on July 9, 1999, Exhibit 3.1)                               |
| *3.2           | Amendment No. 1 to Third Amended and Restated Certificate of Incorporation. (Registration Statement on Form S-1/A (No. 333-78985) filed on July 22, 1999, Exhibit 3.2)           |
| *3.3           | Amended and Restated By-laws. (Registration Statement on Form S-1 (No 333-78985) filed on May 21, 1999, Exhibit 3.3)   |
| *4.1           | Specimen Class A common stock certificate. (Registration Statement on Form S-1/A (No. 333-78985) filed on July 9, 1999, Exhibit 4.1)   |
| *4.2           | See Exhibits 3.1, 3.2 and 3.3 for provisions of the Certificate of Incorporation and By-laws of the Registrant defining the rights of holders of Common Stock of the Registrant. |
| *10.3          | 1997 Stock Option Plan, as amended. (Registration Statement on Form S-1 (No. 333-78985) filed on May 21, 1999, Exhibit 10.10)  |

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| <b>Exhibit</b> | <b>Description</b>   |
|----------------|--|
| *10.4          | 1999 Stock Incentive Plan. (Registration Statement on Form S-1/A (No. 333-78985) filed on July 27, 1999, Exhibit 10.18)  |
| *10.5          | Employment Agreement, effective as of July 1, 1999, between James F. McCann and 1-800-FLOWERS.COM, Inc. (Form S-1/A (No. 333-78985) filed on July 9, 1999, Exhibit 10.19)  |
| *10.6          | Amendment dated December 3, 2008 to Employment Agreement between James F. McCann and 1-800-FLOWERS.COM, Inc. (Quarterly Report on Form 10-Q filed on February 6, 2009, Exhibit 10.1)   |
| *10.7          | Employment Agreement, effective as of July 1, 1999, between Christopher G. McCann and 1-800-FLOWERS.COM, Inc. (Form S-1/A (No. 333-78985) filed on July 9, 1999, Exhibit 10.20)  |
| *10.8          | Amendment dated December 3, 2008 to Employment Agreement between Christopher G. McCann and 1-800-FLOWERS.COM, Inc. (Quarterly Report on Form 10-Q filed on February 6, 2009, Exhibit 10.2)   |
| *10.9          | (Reserved)   |
| *10.10         | Section 16 Executive Officer's Bonus Plan (as amended and restated as of October 22, 2009) (Definitive Proxy filed on October 23, 2009 (No. 000-26841), Annex B)   |
| *10.11         | Employment Agreement, dated as of May 2, 2006, by and among 1-800-FLOWERS.COM, Inc., Fannie May Confections Brands, Inc. and David Taiclet. (Annual Report on Form 10-K for the fiscal year ended July 3, 2005 filed on September 15, 2006, Exhibit 10.8)  |
| *10.12         | Lease, dated May 20, 2005, between Treeline Mineola, LLC and 1-800-FLOWERS.COM, Inc. (Annual Report on Form 10-K for the fiscal year ended July 3, 2005 filed on September 15, 2005, Exhibit 10.26)  |
| *10.13         | Offer letter to Julie McCann Mulligan (Annual Report on Form 10-K for the fiscal year ended June 28, 2009 filed on September 11, 2009, Exhibit 10.12)  |
| *10.14         | Offer letter to Stephen Bozzo (Quarterly Report on Form 10-Q filed on November 8, 2007, Exhibit 10.4).   |
| *10.15         | Form of Restricted Share Agreement under 2003 Long Term Incentive and Share Award Plan. (Annual Report on Form 10-K for the fiscal year ended June 29, 2008 filed on September 12, 2008, Exhibit 10.15)  |
| *10.16         | Form of Incentive Stock Option Agreement under 2003 Long Term Incentive and Share Award Plan. (Annual Report on Form 10-K for the fiscal year ended June 29, 2008 filed on September 12, 2008, Exhibit 10.16)  |
| *10.17         | Form of Non-statutory Stock Option Agreement under 2003 Long Term Incentive and Share Award Plan. (Annual Report on Form 10-K for the fiscal year ended June 29, 2008 filed on September 12, 2008, Exhibit 10.17)  |
| *10.18         | Second Amended and Restated Credit Agreement dated as of April 16, 2010 among 1-800-Flowers.com, Inc, The Subsidiary Borrowers Party hereto, The Guarantors Party hereto, The Lenders Party hereto and J.P. Morgan Chase Bank, N.A., as Administrative Agent. (Current Report on Form 8-K filed on April 23, 2010, Exhibit 99.2) |

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| <b>Exhibit</b> | <b>Description</b>   |
|----------------|--|
| *10.19         | 2003 Long Term Incentive and Share Award Plan (as amended and restated as of October 22, 2009 and amended as of October 28, 2011) (Definitive Proxy filed on October 31, 2011 (No 111168049, Annex A)) |
| *10.20         | Form of Restricted Share Agreement under 2003 Long Term Incentive and Share Award Plan (Quarterly Report on Form 10-Q filed on February 10, 2012. Exhibit 10.20)                                       |
| *10.21         | Form of Performance Restricted Share Agreement under 2003 Long Term Incentive and Share Award Plan (Quarterly Report on Form 10-Q filed on February 10, 2012. Exhibit 10.21)                           |
| *10.22         | Form of Non-Statutory Stock Option Agreement under 2003 Long Term Incentive and Share Award Plan (Quarterly Report on Form 10-Q filed on February 10, 2012. Exhibit 10.22)                             |
| 21.1           | Subsidiaries of the Registrant.  |
| 23.1           | Consent of Independent Registered Public Accounting Firm.  |
| 31.1           | Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2           | Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1           | Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 101.INS        | XBRL Instance Document   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document  |
| 101.CAL        | XBRL Taxonomy Calculation Linkbase Document  |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB        | XBRL Taxonomy Extension Label Document   |
| 101.PRE        | XBRL Taxonomy Definition Presentation Document   |



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Dated: September 14, 2012

By: /s/ JAMES A. CANNAVINO

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James A. Cannavino  
*Director*

Dated: September 14, 2012

By: /s/ JOHN J. CONEFRY, JR.

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John J. Conefry, Jr.  
*Director*

Dated: September 14, 2012

By: /s/ EUGENE R. DEMARK

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Eugene R. DeMark  
*Director*

Dated: September 14, 2012

By: /s/ LEONARD J. ELMORE

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Leonard J. Elmore  
*Director*

Dated: September 14, 2012

By: /s/ LARRY ZARIN

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Larry Zarin  
*Director*

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
1-800-FLOWERS.COM, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of 1-800-FLOWERS.COM, Inc. and Subsidiaries (the Company) as of July 1, 2012 and July 3, 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended July 1, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of 1-800-FLOWERS.COM, Inc. and Subsidiaries at July 1, 2012 and July 3, 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended July 1, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), 1-800-FLOWERS.COM, Inc. and Subsidiaries' internal control over financial reporting as of July 1, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 14, 2012 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Jericho, New York  
September 14, 2012

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

|   | July 1,<br>2012   | July 3,<br>2011   |
|---|-------------------|-------------------|
| <b>Assets</b>   |                   |                   |
| Current assets:   |                   |                   |
| Cash and equivalents  | \$ 28,854         | \$ 21,442         |
| Receivables, net  | 14,968            | 11,916            |
| Inventories   | 55,744            | 51,185            |
| Deferred tax assets   | 4,993             | 4,945             |
| Prepaid and other   | 11,082            | 8,631             |
| Current assets of discontinued operations   | 100               | 3,506             |
| <b>Total current assets</b>   | <b>115,741</b>    | <b>101,625</b>    |
| Property, plant and equipment, net  | 48,669            | 49,908            |
| Goodwill  | 47,901            | 45,972            |
| Other intangibles, net  | 41,838            | 41,748            |
| Deferred tax assets   | 2,824             | 11,880            |
| Other assets  | 7,875             | 5,204             |
| Non-current assets of discontinued operations   |                   | 2,738             |
| <b>Total assets</b>   | <b>\$ 264,848</b> | <b>\$ 259,075</b> |
| <b>Liabilities and Stockholders' Equity</b>   |                   |                   |
| Current liabilities:  |                   |                   |
| Accounts payable  | \$ 17,619         | \$ 24,186         |
| Accrued expenses  | 52,535            | 42,692            |
| Current maturities of long-term debt and obligations under capital leases   | 15,756            | 16,488            |
| Current liabilities of discontinued operations  | 110               | 956               |
| <b>Total current liabilities</b>  | <b>86,020</b>     | <b>84,322</b>     |
| Long-term debt and obligations under capital leases   | 13,500            | 29,250            |
| Other liabilities   | 3,580             | 2,883             |
| Non-current liabilities of discontinued operations  |                   | 109               |
| <b>Total liabilities</b>  | <b>103,100</b>    | <b>116,564</b>    |
| 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, 34,465,207 and 32,987,313 shares issued in 2012 and 2011, respectively  | 344               | 330               |
| Class B common stock, \$.01 par value, 200,000,000 shares authorized, 42,138,465 shares issued in 2012 and 2011                               | 421               | 421               |
| Accumulated other comprehensive loss  | (17)              | (158)             |
| Additional paid-in capital  | 293,814           | 289,101           |
| Retained deficit  | (96,258)          | (113,904)         |
| Treasury stock, at cost, 6,767,166 and 5,633,253 Class A shares in 2012 and 2011, respectively, and 5,280,000 Class B shares in 2012 and 2011 | (36,556)          | (33,279)          |
| <b>Total stockholders' equity</b>   | <b>161,748</b>    | <b>142,511</b>    |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 264,848</b> | <b>\$ 259,075</b> |

*See accompanying notes.*

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

|  | <b>July 1,<br/>2012</b> | <b>Years ended<br/>July 3,<br/>2011</b> | <b>June 27,<br/>2010</b> |
|--|-------------------------|---|--------------------------|
| Net revenues   | \$ 716,257              | \$ 671,605                              | \$ 653,370               |
| Cost of revenues   | 422,298                 | 395,161                                 | 390,623                  |
| Gross profit   | 293,959                 | 276,444                                 | 262,747                  |
| Operating expenses:  |                         |   |                          |
| Marketing and sales  | 182,512                 | 173,531                                 | 171,231                  |
| Technology and development   | 20,479                  | 20,168                                  | 17,666                   |
| General and administrative   | 51,972                  | 49,360                                  | 48,866                   |
| Depreciation and amortization  | 19,576                  | 20,271                                  | 20,287                   |
| Total operating expenses   | 274,539                 | 263,330                                 | 258,050                  |
| Gain on sale of stores   | 3,789                   |   |                          |
| Operating income   | 23,209                  | 13,114                                  | 4,697                    |
| Interest expense, net  | (2,312)                 | (4,077)                                 | (5,752)                  |
| Income (loss) from continuing operations before income taxes                           | 20,897                  | 9,037                                   | (1,055)                  |
| Income tax expense from continuing operations  | 7,771                   | 3,517                                   | 199                      |
| Income (loss) from continuing operations   | 13,126                  | 5,520                                   | (1,254)                  |
| Income (loss) from discontinued operations, net of tax                                 | (22)                    | 202                                     | 2,096                    |
| Gain (loss) on sale of discontinued operations, net of tax                             | 4,542                   |   | (5,062)                  |
| Income (loss) from discontinued operations   | 4,520                   | 202                                     | (2,966)                  |
| Net income (loss)  | \$ 17,646               | \$ 5,722                                | \$ (4,220)               |
| Basic net income (loss) per common share:  |                         |   |                          |
| From continuing operations   | \$ 0.20                 | \$ 0.09                                 | \$ (0.02)                |
| From discontinued operations   | 0.07                    | 0.00                                    | (0.05)                   |
| Basic net income (loss) per common share   | \$ 0.27                 | \$ 0.09                                 | \$ (0.07)                |
| Diluted net income (loss) per common share:  |                         |   |                          |
| From continuing operations   | \$ 0.20                 | \$ 0.08                                 | \$ (0.02)                |
| From discontinued operations   | 0.07                    | 0.00                                    | (0.05)                   |
| Diluted net income (loss) per common share   | \$ 0.27                 | \$ 0.09                                 | \$ (0.07)                |
| Weighted average shares used in the calculation of net income (loss) per common share: |                         |   |                          |
| Basic  | 64,697                  | 64,001                                  | 63,635                   |
| Diluted  | 66,239                  | 65,153                                  | 63,635                   |

*See accompanying notes.*

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Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Consolidated Statements of Stockholders' Equity****Years ended July 1, 2012, July 3, 2011 and June 27, 2010***(in thousands, except share data)*

|                                       | Class A    |        | Class B    |        | Additional<br>Paid-in<br>Capital | Retained<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury Stock |             | Stockholders'<br>Equity |
|---------------------------------------|------------|--------|------------|--------|----------------------------------|---------------------|---|----------------|-------------|-------------------------|
|                                       | Shares     | Amount | Shares     | Amount |                                  |                     |   | Shares         | Amount      |                         |
| Balance at June 28, 2009              | 31,730,404 | \$ 317 | 42,138,465 | \$ 421 | \$ 281,247                       | \$ (115,406)        |   | 10,402,225     | \$ (31,946) | \$ 134,633              |
| Net loss                              |            |        |            |        |                                  | (4,220)             |   |                |             | (4,220)                 |
| Change in value of cash<br>flow hedge |            |        |            |        |                                  |                     | (334)   |                |             | (334)                   |
| Comprehensive income                  |            |        |            |        |                                  |                     |   |                |             | (4,554)                 |
| Stock-based<br>compensation           | 761,862    | 8      |            |        | 4,635                            |                     |   |                |             | 4,643                   |
| Excess tax benefit                    |            |        |            |        | (367)                            |                     |   |                |             | (367)                   |
| Acquisition of treasury<br>stock      |            |        |            |        |                                  |                     |   | 342,821        | (879)       | (879)                   |
| Balance at June 27, 2010              | 32,492,266 | 325    | 42,138,465 | 421    | 285,515                          | (119,626)           | (334)   | 10,745,046     | (32,825)    | 133,476                 |
| Net income                            |            |        |            |        |                                  | 5,722               |   |                |             | 5,722                   |
| Change in value of cash<br>flow hedge |            |        |            |        |                                  |                     | 176   |                |             | 176                     |
| Comprehensive income                  |            |        |            |        |                                  |                     |   |                |             | 5,898                   |
| Stock-based<br>compensation           | 495,047    | 5      |            |        | 4,005                            |                     |   |                |             | 4,010                   |
| Excess tax benefit                    |            |        |            |        | (419)                            |                     |   |                |             | (419)                   |
| Acquisition of treasury<br>stock      |            |        |            |        |                                  |                     |   | 168,207        | (454)       | (454)                   |
| Balance at July 3, 2011               | 32,987,313 | 330    | 42,138,465 | 421    | 289,101                          | (113,904)           | (158)   | 10,913,253     | (33,279)    | 142,511                 |
| Net income                            |            |        |            |        |                                  | 17,646              |   |                |             | 17,646                  |
| Change in value of cash<br>flow hedge |            |        |            |        |                                  |                     | 141   |                |             | 141                     |
| Comprehensive Income                  |            |        |            |        |                                  |                     |   |                |             | 17,787                  |
| Stock-based<br>compensation           | 1,477,894  | 14     |            |        | 4,836                            |                     |   |                |             | 4,850                   |
| Excess tax benefit                    |            |        |            |        | (123)                            |                     |   |                |             | (123)                   |
| Acquisition of treasury<br>stock      |            |        |            |        |                                  |                     |   | 1,133,913      | (3,277)     | (3,277)                 |
| Balance at July 1, 2012               | 34,465,207 | \$ 344 | 42,138,465 | \$ 421 | \$ 293,814                       | \$ (96,258)         | (17)  | 12,047,166     | \$ (36,556) | \$ 161,748              |

*See accompanying notes.*



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

|  | Years ended     |                 |                 |
|--|-----------------|-----------------|-----------------|
|  | July 1, 2012    | July 3, 2011    | June 27, 2010   |
| <b>Operating activities:</b>   |                 |                 |                 |
| Net income (loss)  | \$ 17,646       | \$ 5,722        | \$ (4,220)      |
| Reconciliation of net income (loss) to net cash provided by operating activities, net of acquisitions: |                 |                 |                 |
| Operating activities of discontinued operations  | 1,881           | (814)           | 9,666           |
| (Gain)/loss on sale of discontinued operations   | (8,683)         |                 | 6,035           |
| Depreciation and amortization  | 19,576          | 20,271          | 20,287          |
| Amortization of deferred financing costs   | 457             | 474             | 763             |
| Deferred income taxes  | 7,790           | 2,262           | (127)           |
| Bad debt expense   | 879             | 1,537           | 1,738           |
| Stock-based compensation   | 4,850           | 3,961           | 3,883           |
| Excess tax expense from stock-based compensation   | 123             | 419             | 275             |
| Other non-cash items   | 42              | 27              | 77              |
| Changes in operating items, excluding the effects of acquisitions:                                     |                 |                 |                 |
| Receivables  | (3,387)         | (1,174)         | (4,569)         |
| Inventories  | (4,041)         | (5,443)         | 654             |
| Prepaid and other  | (2,190)         | (1,868)         | (1,082)         |
| Accounts payable and accrued expenses  | 2,656           | 6,334           | 6,405           |
| Other assets   | 1,629           | (748)           | (124)           |
| Other liabilities  | 947             | (235)           | 368             |
| <b>Net cash provided by operating activities</b>   | <b>40,175</b>   | <b>30,725</b>   | <b>40,029</b>   |
| <b>Investing activities:</b>   |                 |                 |                 |
| Acquisitions, net of cash acquired   | (4,336)         | (4,310)         |                 |
| Proceeds from sale of business   | 12,823          |                 | 10,468          |
| Capital expenditures   | (17,304)        | (16,890)        | (14,844)        |
| Purchase of investments  | (3,945)         | (268)           | (2,192)         |
| Other, net   | (119)           | 100             | 325             |
| Investing activities of discontinued operations  |                 | (127)           | (275)           |
| <b>Net cash used in investing activities</b>   | <b>(12,881)</b> | <b>(21,495)</b> | <b>(6,518)</b>  |
| <b>Financing activities:</b>   |                 |                 |                 |
| Acquisition of treasury stock  | (3,277)         | (454)           | (879)           |
| Proceeds from exercise of employee stock options   |                 | 49              |                 |
| Excess tax expense from stock based compensation   | (123)           | (419)           | (367)           |
| Proceeds from bank borrowings  | 56,000          | 40,000          | 49,000          |
| Repayment of bank borrowings   | (71,000)        | (52,750)        | (79,352)        |
| Debt issuance cost   |                 | (17)            | (1,637)         |
| Repayment of capital lease obligations   | (1,482)         | (2,040)         | (1,995)         |
| <b>Net cash used in financing activities</b>   | <b>(19,882)</b> | <b>(15,631)</b> | <b>(35,230)</b> |
| Net change in cash and equivalents   | 7,412           | (6,401)         | (1,719)         |
| Cash and equivalents:  |                 |                 |                 |
| Beginning of year  | 21,442          | 27,843          | 29,562          |
| End of year  | \$ 28,854       | \$ 21,442       | \$ 27,843       |

**Supplemental Cash Flow Information:**

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Interest paid amounted to \$2.7 million, \$4.2 million, and \$5.4 million for the years ended July 1, 2012, July 3, 2011 and June 27, 2010, respectively.

The Company paid income taxes of approximately \$5.0 million, \$1.4 million and \$1.4 million, net of tax refunds received, for the years ended July 1, 2012, July 3, 2011 and June 27, 2010, respectively.

*See accompanying notes.*

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**1-800-FLOWERS.COM, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 1. Description of Business**

For more than 35 years, 1-800-FLOWERS.COM, Inc. has been providing customers with gifts for every occasion, including fresh flowers and the finest selection of plants, gift baskets, gourmet foods, confections, candles, balloons and plush stuffed animals. As always, 100 percent satisfaction is guaranteed. The Company's BloomNet® international floral wire service provides a broad range of quality products and value-added services designed to help professional florists to grow their businesses profitably. The 1-800-FLOWERS.COM, Inc. "Gift Shop" also includes gourmet gifts such as popcorn and specialty treats from The Popcorn Factory®; cookies and baked gifts from Cheryl's®; premium chocolates and confections from Fannie May® Confections Brands; gift baskets and towers from 1-800-BASKETS.COM®; and wine gifts from The Winetasting Network<sup>SM</sup>. The Company's Celebrations® brand is a new premier online destination for fabulous party ideas and planning tips.

**Note 2. Significant Accounting Policies**

*Basis of Presentation*

The consolidated financial statements include the accounts of 1-800-FLOWERS.COM, Inc. and its wholly-owned subsidiaries (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

On September 6, 2011, the Company, through the Winetasting Network subsidiary, completed the sale of certain assets of its wine fulfillment services business. During the fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets categories. On January 25, 2010, the Company completed the sale of this business. Consequently, the Company has classified the results of operations of its Home & Children's Gifts segment as discontinued operations for fiscal 2010, and its wine fulfillment services business as discontinued operations for all periods presented. Refer to Note 16. Discontinued Operations, for further discussion.

*Revision to Previously Reported Financial Information*

The Company revised its previously reported consolidated balance sheet at July 3, 2011, and the opening shareholders' equity balance as of June 28, 2009, presented herein, in order to correct certain previously reported amounts. The Company believes this prior period adjustment is qualitatively and quantitatively immaterial to the respective balances adjusted and had no impact on the 2012, 2011 or 2010 statements of operations or cash flows. The Company concluded that the amounts, if corrected in fiscal 2012, would have been material to the consolidated financial statements as of and for the year ended July 1, 2012.

During the first quarter of fiscal 2013, prior to announcing the Company's financial results for its fiscal 2012 fourth quarter and year ended July 1, 2012, certain errors primarily related to the accounting for deferred tax liabilities on non-amortizable intangibles, including goodwill, arising from historical acquisitions prior to fiscal 2007 were identified. These errors in the deferred tax accounts subsequently impacted the goodwill impairment charge recorded by the Company in fiscal 2009. The Company also identified an issue related to the treatment of deferred tax liabilities on basis differences related to fixed assets which were recorded in error during fiscal years 2009 and prior.

The review resulted in a decrease to net loss, and thus, a decrease in the Company's retained deficit of approximately \$0.8 million on the June 28, 2009 Consolidated Statements of Stockholders'

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**1-800-FLOWERS.COM, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**Note 2. Significant Accounting Policies (Continued)**

Equity, with a corresponding adjustment to increase goodwill by approximately \$6.6 million and increase deferred tax liabilities by approximately \$5.8 million.

The following table sets forth the correction to each of the individual affected line items in the consolidated balance sheets of July 3, 2011, and the stockholders' equity section of the consolidated balance sheet as of June 28, 2009. "As Presented Herein" amounts presented below reflect the impact of these revisions, as well as the reclassification of the Company's wine fulfillment services business as a discontinued operation (see Note 16. Discontinued Operations).

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Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 2. Significant Accounting Policies (Continued)****Balance sheet data for 2011:**

|   | As of July 3, 2011        |  |               |                        |
|---|---------------------------|--|---------------|------------------------|
|   | As Previously<br>Reported | Reclassifications/<br>Discontinued<br>Operations | Correction    | As Presented<br>Herein |
| <b>Assets</b>   |                           |  |               |                        |
| Current Assets:   |                           |  |               |                        |
| Cash and equivalents  | \$ 21,442                 | \$   | \$            | \$ 21,442              |
| Receivables, net  | 15,278                    | (3,362)  |               | 11,916                 |
| Inventories   | 51,314                    | (129)  |               | 51,185                 |
| Deferred tax assets   | 5,416                     | (471)  |               | 4,945                  |
| Prepaid and other   | 7,375                     | 1,256  |               | 8,631                  |
| Current assets of discontinued operations                                 |                           | 3,506  |               | 3,506                  |
| <b>Total current assets</b>   | <b>100,825</b>            | <b>800</b>                                       |               | <b>101,625</b>         |
| Property, plant and equipment, net  | 50,354                    | (446)  |               | 49,908                 |
| Goodwill  | 41,547                    | (2,199)  | 6,624         | 45,972                 |
| Other intangibles, net  | 41,808                    | (60)   |               | 41,748                 |
| Deferred tax assets   | 17,181                    | 473  | (5,774)       | 11,880                 |
| Other assets  | 5,236                     | (32)   |               | 5,204                  |
| Non-current assets of discontinued operations                             |                           | 2,738  |               | 2,738                  |
| <b>Total assets</b>   | <b>\$ 256,951</b>         | <b>\$ 1,274</b>                                  | <b>\$ 850</b> | <b>\$ 259,075</b>      |
| <b>Liabilities and Stockholders' Equity</b>                               |                           |  |               |                        |
| Current liabilities   |                           |  |               |                        |
| Accounts payable and accrued expenses                                     | \$ 66,559                 | \$ 319   | \$            | \$ 66,878              |
| Current maturities of long-term debt and obligations under capital leases | 16,488                    |  |               | 16,488                 |
| Current liabilities of discontinued operations                            |                           | 956  |               | 956                    |
| <b>Total current liabilities</b>  | <b>83,047</b>             | <b>1,275</b>                                     |               | <b>84,322</b>          |
| Long-term debt and obligations under capital leases                       | 29,250                    |  |               | 29,250                 |
| Other liabilities   | 2,993                     | (110)  |               | 2,883                  |
| Non-current liabilities of discontinued operations                        |                           | 109  |               | 109                    |
| <b>Total liabilities</b>  | <b>115,290</b>            | <b>1,274</b>                                     |               | <b>116,564</b>         |
| <b>Total stockholders' equity</b>   | <b>141,661</b>            |  | <b>850</b>    | <b>142,511</b>         |
| <b>Total liabilities and stockholders' equity</b>                         | <b>\$ 256,951</b>         | <b>\$ 1,274</b>                                  | <b>\$ 850</b> | <b>\$ 259,075</b>      |

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 2. Significant Accounting Policies (Continued)****Shareholder's equity data for 2009:**

|                            | As of June 28, 2009       |  |            |                        |
|----------------------------|---------------------------|--|------------|------------------------|
|                            | As Previously<br>Reported | Reclassifications/<br>Discontinued<br>Operations | Correction | As Presented<br>Herein |
| Retained deficit           | \$ (116,256)              | \$   | \$ 850     | \$ (115,406)           |
| Total stockholders' equity | \$ 133,783                | \$   | \$ 850     | \$ 134,633             |

Financial information included in the accompanying financial statements and the notes thereto reflect the effects of the corrections described in the preceding discussion and table where applicable.

*Fiscal Year*

The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to June 30. Fiscal years 2012 and 2010 consisted of 52 weeks which ended on July 1, 2012 and June 27, 2010, respectively, whereas fiscal year 2011 consisted of 53 weeks, which ended on July 3, 2011.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

*Cash and Equivalents*

Cash and equivalents consist of demand deposits with banks, highly liquid money market funds, United States government securities, overnight repurchase agreements and commercial paper with maturities of three months or less when purchased.

*Inventories*

Inventories are valued at the lower of cost or market using the first-in, first-out method of accounting.

*Property, Plant and Equipment*

Property, plant and equipment is recorded at cost reduced by accumulated depreciation. Depreciation expense is recognized over the assets' estimated useful lives using the straight-line method. Amortization of leasehold improvements and capital leases are calculated using the straight-line method over the initial lease terms, or estimated useful lives of the improvements. Estimated useful lives are periodically reviewed, and where appropriate, changes are made prospectively. Long-lived assets are reviewed for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. The company capitalizes certain internal and external costs incurred to acquire or create internal-use software. Capitalized software costs are amortized on a

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 2. Significant Accounting Policies (Continued)**

straight-line basis over the estimated useful life of the software. The Company's property plant and equipment is depreciated using the following estimated lives:

|                                   |              |
|-----------------------------------|--------------|
| Buildings                         | 40 years     |
| Leasehold Improvements            | 3 - 10 years |
| Furniture, Fixtures and Equipment | 3 - 10 years |
| Software                          | 3 - 5 years  |
| <i>Goodwill</i>                   |              |

Goodwill represents the excess of the cost of an acquisition over the fair value of the assets acquired. The company tests goodwill for impairment annually during the fourth quarter, and when an event occurs or circumstances change such that it is more likely than not that an impairment may exist, such as (i) a significant adverse change in legal factors or in business climate, (ii) an adverse action or assessment by a regulator, (iii) unanticipated competition, (iv) a loss of key personnel, (v) a more-likely-than-not sale or disposal of all or a significant portion of a reporting unit, (vi) the testing for recoverability of a significant asset group within a reporting unit, or (vii) the recognition of a goodwill impairment loss of a subsidiary that is a component of the reporting unit.

Goodwill is reviewed for impairment utilizing a two-step process. The first step of the impairment test requires the identification of the reporting units and comparison of the fair value of each of these reporting units to the respective carrying value. If the carrying value of the reporting unit is less than its fair value, no impairment exists and the second step is not performed. If the carrying value of the reporting unit is higher than its fair value, the second step must be performed to compute the amount of the goodwill impairment, if any. In the second step, the impairment is computed by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized for the excess.

The company generally estimates the fair value of a reporting unit using a discounted cash flow methodology included forecasted revenues, gross profit margins, operating income margins, working capital cash flow, perpetual growth rates, and long-term discount rates, among others, all of which require significant judgments by management. The company also reconciles its discounted cash flow analysis to its current market capitalization allowing for a reasonable control premium.

*Other Intangibles, net*

Amortization of definite-lived intangible assets is computed on the straight-line method over the estimated useful lives of the assets, while indefinite-lived intangible assets are not amortized. Identifiable intangible assets are reviewed for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. The company also tests indefinite-lived intangible assets, consisting of acquired trade names, for impairment at least annually during the fourth quarter. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference. Goodwill and indefinite-lived intangibles are not amortized, but are evaluated annually for impairment. The Company performs its annual impairment test in 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

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**1-800-FLOWERS.COM, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**Note 2. Significant Accounting Policies (Continued)**

goodwill, the Company reviews both quantitative as well as qualitative factors to support its assumptions with regard to fair value.

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.

*Deferred Catalog Costs*

The Company capitalizes the costs of producing and distributing its catalogs. These costs are amortized in direct proportion to actual sales from the corresponding catalog over a period not to exceed 26-weeks. Included within prepaid and other current assets was \$0.3 and \$0.4 million at July 1, 2012 and July 3, 2011, relating to prepaid catalog expenses.

*Investments*

Investments are accounted for using the equity method if the investment provides the Company the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if the Company has an ownership interest in the voting stock of the investee between 20% and 50%, although other factors, such as representation on the investee's Board of Directors, are considered in determining whether the equity method is appropriate. The Company records these investments initially at cost, and adjusts the carrying amount to reflect the Company's share of the earnings or losses of the investee, including all adjustments similar to those made in preparing consolidated financial statements. The book value of investments that the Company accounted for under the equity method of accounting was \$3.6 million as of July 1, 2012 and \$0.0 million as of July 3, 2011. This amount is comprised of the Company's 32% interest in Flores Online, a Sao Paulo, Brazil based internet floral and gift retailer, that the Company made an investment in on May 31, 2012, and is included in Other assets within the Consolidated Balance Sheet. Operating results of Flores Online for the period subsequent to investment through July 1, 2012 were immaterial.

All other equity investments, which consist of investments for which the Company does not possess the ability to exercise significant influence, are accounted for under the cost method as they are privately held. Cost method investments are originally recorded at cost, and are included within Other Assets in the Company's Consolidated Balance Sheets. The aggregate carrying amount of the Company's cost method investments was \$1.7 million as of July 1, 2012 and \$0.2 million as of July 3, 2011. In addition, the Company had notes receivable from a company it maintains an investment in of \$0.9 million as of July 1, 2012 and \$1.1 million as of July 3, 2011.

The Company holds certain trading securities associated with its Non-Qualified Deferred Compensation Plan ("NQDC Plan") whose fair values can be readily determined.

Each reporting period, the Company uses available qualitative and quantitative information to evaluate its investments for impairment.

*Fair Values of Financial Instruments*

The recorded amounts of the Company's cash and equivalents, receivables, accounts payable, and accrued liabilities approximate their fair values principally because of the short-term nature of these

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**1-800-FLOWERS.COM, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**Note 2. Significant Accounting Policies (Continued)**

items. The fair value of the Company's long-term obligations, the majority of which are carried at a variable rate of interest, are estimated based on the current rates offered to the Company for obligations of similar terms and maturities. Under this method, the Company's fair value of long-term obligations was not significantly different than the carrying values at July 1, 2012 and July 3, 2011.

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and equivalents, investments and accounts receivable. The Company maintains cash and equivalents and investments (money markets) with high quality financial institutions. Concentration of credit risk with respect to accounts receivable is limited due to the Company's large number of customers and their dispersion throughout the United States, and the fact that a substantial portion of receivables are related to balances owed by major credit card companies. Allowances relating to consumer, corporate and franchise accounts receivable (\$2.4 million and \$2.5 million at July 1, 2012 and July 3, 2011, respectively) have been recorded based upon previous experience and management's evaluation.

*Revenue Recognition*

Net revenues are generated by E-commerce operations from the Company's online and telephonic sales channels as well as other operations (retail/wholesale) and primarily consist of the selling price of merchandise, service or outbound shipping charges, net of discounts, returns and credits. Net revenues are recognized upon product shipment and do not include sales tax. Shipping terms are primarily FOB shipping point. Net revenues generated by the Company's BloomNet Wire Service operations include membership fees as well as other products and service offerings to florists. Membership fees are recognized monthly in the period earned, and products sales are recognized upon product shipment with shipping terms primarily FOB shipping point.

Initial franchise fees are recognized in income when the Company has substantially performed or satisfied all material services or conditions relating to the sale of the franchise and the fees are nonrefundable. Area development fees are nonrefundable and are recognized in income on a pro-rata basis when the conditions for revenue recognition under the individual area development agreements are met. Both initial franchise fees and area development fees are generally recognized upon the opening of a franchise store or upon termination of the agreement between the Company and the franchisee.

*Cost of Revenues*

Cost of revenues consists primarily of florist fulfillment costs (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 includes labor and facility costs related to manufacturing and production operations.

*Marketing and Sales*

Marketing and sales expense consists primarily of advertising and promotional expenditures, catalog costs, online portal and search expenses, retail store and fulfillment operations (other than costs

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**1-800-FLOWERS.COM, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**Note 2. Significant Accounting Policies (Continued)**

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.

The Company expenses all advertising costs, with the exception of catalog costs (see *Deferred Catalog Costs* above) at the time the advertisement is first shown. Advertising expense was \$75.4 million, \$67.9 million and \$70.4 million for the years ended July 1, 2012, July 3, 2011 and June 27, 2010, respectively.

*Technology and Development*

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, content development and maintenance and support costs related to the Company's order entry, customer service, fulfillment and database systems. Costs associated with the acquisition or development of software for internal use are capitalized if the software is expected to have a useful life beyond one year and amortized over the software's useful life, typically three to five years. Costs associated with repair maintenance or the development of web site content are expensed as incurred as the useful lives of such software modifications are less than one year.

*Stock-Based Compensation*

The Company records compensation expense associated with stock options and other forms of equity compensation based upon the fair value of stock-based awards as measured at the grant date. The expense is recorded by amortizing the fair values on a straight-line basis over the vesting period, adjusted for estimated forfeitures.

*Derivatives and hedging*

The Company does not enter into derivative transactions for trading purposes, but rather to manage its exposure to interest rate fluctuations. The Company manages its floating rate debt using interest rate swaps in order to reduce its exposure to the impact of changing interest rates on its consolidated results of operations and future cash outflows for interest.

*Income Taxes*

The Company uses the asset and liability method to account for income taxes. The Company has established deferred 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 these deferred tax assets 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.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements on a particular

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**1-800-FLOWERS.COM, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**Note 2. Significant Accounting Policies (Continued)**

tax position are measured based on the largest benefit that has a greater than a 50% likelihood of being realized upon settlement. The amount of unrecognized tax benefits ("UTBs") is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination. We recognize both accrued interest and penalties, where appropriate, related to UTBs in income tax expense. Assumptions, judgment and the use of estimates are required in determining if the "more likely than not" standard has been met when developing the provision for income taxes.

*Net Income (Loss) Per Share*

Basic net income (loss) per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common and dilutive common equivalent shares (consisting primarily 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) that would be antidilutive.

*Newly Adopted Accounting Pronouncements*

In the first quarter of fiscal 2012, the Company adopted new accounting guidance included in Accounting Standards Update ("ASU") No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*. The amendments in this standard specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This standard also expands the supplemental pro forma disclosures under Accounting Standards Codification ("ASC") Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In the third quarter of fiscal 2012, the Company adopted new accounting guidance included in ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this standard generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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**1-800-FLOWERS.COM, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**Note 2. Significant Accounting Policies (Continued)**

*Recent Accounting Pronouncements*

In July 2012, the FASB issued ASU 2012-02, "Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment" ("ASU 2012-02"), which permits an entity to make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit's indefinite-lived intangible asset is less than the asset's carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that the fair value of a reporting unit's indefinite-lived intangible asset is more likely than not greater than the asset's carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. ASU 2012-02 is effective for the Company for annual and interim indefinite-lived intangible asset impairment tests performed beginning July 1, 2013, however, early adoption is permitted. The Company is currently evaluating the impact ASU 2012-02 will have on its consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08 "Testing Goodwill for Impairment" (ASU No. 2011-08) which is intended to reduce the complexity and costs to test goodwill for impairment. The amendment allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendment becomes effective for annual and interim goodwill impairment tests performed for the Company's fiscal year ending June 30, 2013. Early adoption is permitted. The Company does not expect the adoption of ASU 2011-04 to have a material impact on its consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, "Presentation of Comprehensive Income" (ASU No. 2011-05), which improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income (OCI) by eliminating the option to present components of OCI as part of the statement of changes in stockholders' equity. The amendments in this standard require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Subsequently in December 2011, the FASB issued Accounting Standards Update No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income" ("ASU No. 2011-12"), which indefinitely defers the requirement in ASU No. 2011-05 to present on the face of the financial statements reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. The amendments in these standards do not change the items that must be reported in OCI, when an item of OCI must be reclassified to net income, or change the option for an entity to present components of OCI gross or net of the effect of income taxes. The amendments in ASU No. 2011-05 and ASU No. 2011-12 are effective for interim and annual periods beginning with the first quarter of the Company's fiscal year ending on June 30, 2013 and are to be applied retrospectively. The adoption of the provisions of ASU No. 2011-05 and



Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 2. Significant Accounting Policies (Continued)**

ASU No. 2011-12 will not have a material impact on the company's consolidated financial position or results of operations.

*Reclassifications*

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

**Note 3 Net Income (Loss) Per Common Share from Continuing Operations**

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

|   | Years Ended  |              |               |
|---|--------------|--------------|---------------|
|   | July 1, 2012 | July 3, 2011 | June 27, 2010 |
| (in thousands, except per share data)                                 |              |              |               |
| <b>Numerator:</b>   |              |              |               |
| Net income (loss) from continuing operations                          | \$ 13,126    | \$ 5,520     | \$ (1,254)    |
| <b>Denominator:</b>   |              |              |               |
| Weighted average shares outstanding                                   | 64,697       | 64,001       | 63,635        |
| <b>Effect of dilutive securities:</b>                                 |              |              |               |
| Employee stock options(1)   | 40           | 16           |               |
| Employee restricted stock awards                                      | 1,502        | 1,136        |               |
|   | 1,542        | 1,152        |               |
| Adjusted weighted-average shares and assumed conversions              | 66,239       | 65,153       | 63,635        |
| <b>Net income (loss) per common share from continuing operations:</b> |              |              |               |
| Basic   | \$ 0.20      | \$ 0.09      | \$ (0.02)     |
| Diluted   | \$ 0.20      | \$ 0.08      | \$ (0.02)     |

Note (1): The effect of options to purchase 5.5 million, 7.0 million and 8.1 million shares for the years ended July 1, 2012, July 3, 2011, and June 27, 2010, respectively, were excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.

**Note 4. Acquisitions and dispositions**

The Company accounts for business combinations in accordance with ASC Topic 805 which requires, among other things, the acquiring entity in a business combination to recognize the fair value of all the assets acquired and liabilities assumed; the recognition of acquisition-related costs in the consolidated results of operations; the recognition of restructuring costs in the consolidated results of operations for which the acquirer becomes obligated after the acquisition date; and contingent purchase consideration to be recognized at their fair values on the acquisition date with subsequent adjustments

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 4. Acquisitions and dispositions (Continued)**

recognized in the consolidated results of operations. The fair values assigned to identifiable intangible assets acquired were determined primarily by using an income approach which was based on assumptions and estimates made by management. Significant assumptions utilized in the income approach were based on company specific information and projections which are not observable in the market and are therefore considered Level 3 measurements. The excess of the purchase price over the fair value of the identified assets and liabilities has been recorded as goodwill. Operating results of the acquired entity is reflected in the Company's consolidated financial statements from date of acquisition.

*Sale and franchise of Fannie May retail stores*

On November 21, 2011, the Company and GB Chocolates LLC (GB Chocolates) entered into an agreement whereby, the Company sold 17 existing Fannie May stores, to be operated as franchised locations by GB Chocolates, for \$5.6 million, recognizing a gain on the sale of \$3.8 million. Upon completion of the sale, the Company also recognized initial franchise fees associated with these 17 stores in the amount of \$0.5 million. In conjunction with the sale of stores, the Company and GB Chocolates entered into an area development agreement whereby GB Chocolates will open a minimum of 45 new Fannie May franchise stores by December 2014. The agreement provides exclusive development rights for several Midwestern states, as well as specific cities in Florida and Ohio. The terms of the agreement include a non-refundable area development fee of \$0.9 million, store opening fees of \$0.5 million, assuming successful opening of 45 stores, and a non-performance promissory note in the amount of \$1.2 million, which becomes due and payable only if GB Chocolates does not open all 45 stores as set forth in the development agreement. The Company has deferred the \$0.9 million area development fee associated with the 45 store area development agreement, and will recognize such fees in income on a pro-rata basis, when the conditions for revenue recognition under the area development agreement is met. Both store opening fees and area development fees are generally recognized upon the opening of a franchise store, or upon termination of the agreement between the Company and the franchisee. The Company recognized approximately \$0.2 million, of the \$1.2 million promissory note, based upon its assessment of the likelihood that the performance criteria under the agreement will be achieved. The fair value is impacted by estimates around the possibility of GB Chocolates opening 45 stores, discounted for present value, and the risk associated with counterparty payment. Changes in these assumptions could result in an increase or decrease in fair value which would impact the income statement. There were no significant changes in these estimates during 2012.

*Acquisition of Flowerama*

On August 1, 2011, the Company completed the acquisition of Flowerama of America, Inc. (Flowerama), a franchisor and operator of retail flower shops under the Flowerama trademark, with annual revenue of approximately \$6.1 million and annual operating income of \$0.1 million in its most recent year end prior to acquisition. The purchase price, which included the acquisition of receivables, inventory, eight retail store locations and certain other assets and related liabilities, was approximately \$4.3 million. Of the acquired intangible assets, \$2.1 million was assigned to amortizable investment in licenses, which is being amortized over the estimated useful life of 20 years, based upon the estimated remaining life of the franchise agreements. Approximately \$2.4 million of purchase price was assigned to goodwill which is not deductible for tax purposes. The acquisition was financed utilizing available cash balances. Since the date of acquisition, Flowerama's net revenues and income before income taxes

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**1-800-FLOWERS.COM, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**Note 4. Acquisitions and dispositions (Continued)**

of \$5.9 million and \$0.5 million, respectively, were included in the Company's Consolidated Statement of Operations for the fiscal year ended July 1, 2012.

*Acquisition of FineStationery*

On May 10, 2011, the Company acquired selected assets of FineStationery Solutions, Inc. (Fine Stationery), a retailer of personalized stationery, invitations and announcements, with annual revenue of approximately \$10.1 million in its most recent year end prior to acquisition. The purchase price, which included the acquisition of inventory, production equipment and certain other assets, was approximately \$3.3 million, including cash consideration of \$2.8 million, plus additional consideration of \$0.5 million based upon achieving specified operating results during fiscal 2012 through 2014, which is included in other liabilities in the Company's consolidated balance sheet. Of the \$1.2 million of acquired intangible assets, \$1.1 million was assigned to trademarks that are not subject to amortization, while the remaining acquired intangibles of \$0.1 million were allocated to customer related intangibles which are being amortized over the estimated useful life of 3 years. In addition, approximately \$1.5 million of the purchase price was assigned to goodwill, which is expected to be deductible for tax purposes. The acquisition was financed utilizing available cash balances. Fine Stationery's net revenues and loss before income taxes of \$8.3 million and (\$1.1) million, respectively, were included in the Company's Consolidated Statement of Operations for the fiscal year ended July 1, 2012. Based upon the financial performance of Fine Stationery during fiscal 2012, the earn-out for fiscal 2012 was not achieved, and the Company reduced its associated earn-out liability by approximately \$0.2 million.

*Acquisition of Mrs. Beasley's*

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 \$1.5 million. The acquisition included inventory and certain manufacturing equipment, which was consolidated within the Company's baked goods manufacturing facilities. Approximately \$0.6 million of the purchase price was assigned to tradenames that are not subject to amortization, while \$0.3 million was assigned to goodwill which is expected to be deductible for tax purposes. The amounts of net revenues and income before income taxes from the Mrs. Beasley's acquisition included in the Company's fiscal 2012 operating results were not significant.

The Company is in the process of finalizing its allocation of the purchase prices to individual assets acquired and liabilities assumed as a result of the acquisition of Flowerama. This may result in potential adjustments to the carrying value of its respective 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

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 4. Acquisitions and dispositions (Continued)**

summarizes the allocation of purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition of Flowerama, Mrs. Beasley's and Fine Stationery:

|                               | <b>Flowerama<br/>Purchase Price<br/>Allocation</b> | <b>Fine Stationery<br/>Purchase Price<br/>Allocation</b> | <b>Mrs. Beasley's<br/>Purchase Price<br/>Allocation</b> |
|-------------------------------|--|--|---|
|                               | (in thousands)                                     |  |   |
| Current assets                | \$ 1,090   | \$ 360   | \$ 353  |
| Intangible assets             | 2,106  | 1,184  | 585   |
| Goodwill                      | 2,440  | 1,541  | 308   |
| Property, plant and equipment | 76   | 269  | 204   |
| <b>Total assets acquired</b>  | <b>5,712</b>                                       | <b>3,354</b>   | <b>1,450</b>  |
| Current liabilities           | 620  | 20   |   |
| Other liabilities assumed     | 756  |  |   |
|                               | 1,376  | 20   |   |
| <b>Net assets acquired</b>    | <b>\$ 4,336</b>                                    | <b>\$ 3,334</b>  | <b>\$ 1,450</b>   |

*Pro forma Results of Continuing Operations*

The following unaudited pro forma results of continuing operations has been prepared as if the acquisitions of Flowerama, Fine Stationery and Mrs. Beasley's had taken place at the beginning of fiscal year 2010. 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.

|   | <b>July 1, 2012<br/>(pro forma)</b>   | <b>Years Ended<br/>July 3, 2011<br/>(pro forma)</b> | <b>June 27, 2010<br/>(pro forma)</b> |
|---|---------------------------------------|---|--------------------------------------|
|   | (in thousands, except per share data) |   |                                      |
| Net revenues from continuing operations                       | \$ 716,730                            | \$ 689,010  | \$ 674,419                           |
| Operating income from continuing operations                   | \$ 23,010                             | \$ 14,283   | \$ 4,707                             |
| Net income (loss) from continuing operations                  | \$ 13,007                             | \$ 6,388  | \$ (1,066)                           |
| Net income (loss) per common share from continuing operations |                                       |   |                                      |
| Basic   | \$ 0.20                               | \$ 0.10   | \$ (0.02)                            |
| Diluted   | \$ 0.20                               | \$ 0.10   | \$ (0.02)                            |

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Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 5. Inventory**

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

|                 | July 1,<br>2012 | July 3,<br>2011 |
|-----------------|-----------------|-----------------|
|                 | (in thousands)  |                 |
| Finished goods  | \$ 26,557       | \$ 26,629       |
| Work-in-process | 10,466          | 9,243           |
| Raw materials   | 18,721          | 15,313          |
|                 | \$ 55,744       | \$ 51,185       |

**Note 6. Goodwill and Intangible Assets**

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

|                                 | Consumer<br>Floral | BloomNet<br>Wire<br>Service | Gourmet<br>Food and<br>Gift Baskets(1) | Total     |
|---------------------------------|--------------------|-----------------------------|--|-----------|
|                                 | (in thousands)     |                             |  |           |
| Balance at June 27, 2010        | \$ 5,728           | \$                          | \$ 39,908                              | \$ 45,636 |
| Acquisition of Fine Stationery  | 1,051              |                             |  | 1,051     |
| Acquisition of Mrs. Beasley's   |                    |                             | 308                                    | 308       |
| Acquisition related adjustments |                    |                             | (1,023)                                | (1,023)   |
| Balance at July 3, 2011         | \$ 6,779           | \$                          | \$ 39,193                              | \$ 45,972 |
| Acquisition of Flowerama        | 2,440              |                             |  | 2,440     |
| Acquisition related adjustments | 490                |                             |  | 490       |
| Sale of Fannie May stores       |                    |                             | (1,001)                                | (1,001)   |
| Balance at July 1, 2012         | \$ 9,709           | \$                          | \$ 38,192                              | \$ 47,901 |

- (1) The total carrying amount of goodwill for all periods in the table above is reflected net of \$71.1 million of accumulated impairment charges, which were recorded in the GFGB segment.

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, with the carrying value of the Company's goodwill allocated to its reporting units.

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. 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.



Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 6. Goodwill and Intangible Assets (Continued)**

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

|  | Amortization<br>Period | July 1, 2012                |                             |                  | July 3, 2011                |                             |                  |
|--|------------------------|-----------------------------|-----------------------------|------------------|-----------------------------|-----------------------------|------------------|
|  |                        | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net              | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net              |
| (in thousands)                             |                        |                             |                             |                  |                             |                             |                  |
| Intangible assets with determinable lives: |                        |                             |                             |                  |                             |                             |                  |
| Investment in licenses                     | 14 - 16 years          | \$ 7,420                    | \$ 5,401                    | \$ 2,019         | \$ 5,314                    | \$ 5,314                    | \$               |
| Customer lists                             | 3 - 10 years           | 16,019                      | 9,961                       | 6,058            | 15,804                      | 8,619                       | 7,185            |
| Other                                      | 5 - 8 years            | 2,538                       | 2,173                       | 365              | 2,538                       | 1,770                       | 768              |
|  |                        | 25,977                      | 17,535                      | 8,442            | 23,656                      | 15,703                      | 7,953            |
| Trademarks with indefinite lives           |                        | 33,396                      |                             | 33,396           | 33,795                      |                             | 33,795           |
| <b>Total intangible assets</b>             |                        | <b>\$ 59,373</b>            | <b>\$ 17,535</b>            | <b>\$ 41,838</b> | <b>\$ 57,451</b>            | <b>\$ 15,703</b>            | <b>\$ 41,748</b> |

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. There were no impairments of intangible assets during the years ended July 1, 2012, and July 3, 2011.

The amortization of intangible assets for the years ended July 1, 2012, July 3, 2011 and June 27, 2010 was \$1.8 million, \$2.3 million, and \$3.0 million, respectively. Future estimated amortization expense is as follows: 2013 \$1.8 million, 2014 \$1.4 million, 2015 \$1.3 million, and 2016 \$1.2 million, and thereafter \$2.7 million.

**Note 7. Property, Plant and Equipment**

|   | July 1,<br>2012 | July 3,<br>2011 |
|---|-----------------|-----------------|
| (in thousands)                            |                 |                 |
| Land                                      | \$ 2,907        | \$ 2,907        |
| Building and building improvements        | 9,807           | 9,807           |
| Leasehold improvements                    | 16,638          | 16,945          |
| Furniture and fixtures                    | 4,814           | 4,362           |
| Production equipment                      | 28,582          | 25,925          |
| Computer equipment                        | 56,939          | 56,413          |
| Telecommunication equipment               | 8,196           | 8,328           |
| Software                                  | 106,774         | 96,132          |
|   | 234,657         | 220,819         |
| Accumulated depreciation and amortization | 185,988         | 170,911         |
|   | \$ 48,669       | \$ 49,908       |

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 8. Accrued expenses**

Accrued expenses consisted of the following:

|                               | July 1,<br>2012 | July 3,<br>2011 |
|-------------------------------|-----------------|-----------------|
| (in thousands)                |                 |                 |
| Payroll and employee benefits | \$ 17,086       | \$ 19,403       |
| Advertising and marketing     | 12,813          | 3,270           |
| Other                         | 22,636          | 20,019          |
|                               | \$ 52,535       | \$ 42,692       |

**Note 9. Long-Term Debt**

|  | July 1,<br>2012 | July 3,<br>2011 |
|--|-----------------|-----------------|
| (in thousands)   |                 |                 |
| Term loan(1)   | \$ 29,250       | \$ 44,250       |
| Revolving line of credit(1)  |                 |                 |
| Obligations under capital leases(2)  | 6               | 1,488           |
|  | 29,256          | 45,738          |
| Less current maturities of long-term debt obligations under capital leases | 15,756          | 16,488          |
|  | \$ 13,500       | \$ 29,250       |

(1)

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

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

In addition, the 2010 Credit Facility extended the Company's revolving credit line through April 16, 2014, and reduced available borrowings from a seasonally adjusted limit which ranged from \$75.0 million to \$125.0 million to a seasonally adjusted limit ranging from \$40.0 to \$75.0 million. The 2010 Credit Facility also revised certain financial and non-financial covenants, including maintenance of certain financial ratios. The obligations



Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 9. Long-Term Debt (Continued)**

of the Company and its subsidiaries under the 2010 Credit Facility are secured by liens on all personal property of the Company and its domestic subsidiaries.

Outstanding amounts under the 2010 Credit Facility will bear interest at the Company's option of either: (i) LIBOR plus a defined margin, or (ii) the agent bank's prime rate plus a margin. The applicable margins for the Company's term loans and revolving credit facility will range from 3.00% to 3.75% for LIBOR loans and 2.00% to 2.75% for ABR loans with pricing based upon the Company's leverage ratio.

As a result of the modifications of its credit facilities, during the year ended June 27, 2010, the Company wrote-off deferred financing costs in the amount of \$0.3 million.

The Company does not enter into derivative transactions for trading purposes, but rather to hedge its exposure to interest rate fluctuations. The Company manages its floating rate debt using interest rate swaps in order to reduce its exposure to the impact of changing interest rates on its consolidated results of operations and future cash outflows for interest.

In July 2009, the Company entered into a \$45.0 million notional amount swap agreement that exchanges a variable interest rate (LIBOR) for a 1.92% fixed rate of interest over the term of the agreement. This swap matures on July 25, 2012. The Company designated this swap as a cash flow hedge of the interest rate risk attributable to forecasted variable interest (LIBOR) payments at inception. The effective portion of the after tax fair value gains or losses on this swap is included as a component of accumulated other comprehensive loss. The ineffective portion, if any, is recorded within interest expense in the consolidated statement of operations.

(2)

During March 2009, the Company obtained a \$5.0 million equipment lease line of credit with a bank and a \$5.0 million equipment lease line of credit with a vendor. Interest under these lines, which both came due in April 2012, ranged from 2.99% to 7.48%. Both lines of credit are currently closed, however, the Company also has minimal equipment leases directly with certain manufacturing equipment vendors.

As of July 1, 2012 long-term debt maturities are as follows:

| Year | Debt<br>Maturities<br>(in thousands) |
|------|--------------------------------------|
| 2013 | 15,750                               |
| 2014 | 13,500                               |
|      | \$ 29,250                            |

**Note 10. Fair Value Measurements**

On June 29, 2009, the Company adopted the newly issued accounting standard for fair value measurements of all non-financial assets and liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis. The Company's non-financial assets, such as goodwill, intangible assets, and property, plant and equipment, are recorded at cost and are assessed for

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 10. Fair Value Measurements (Continued)**

impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. Goodwill and indefinite lived intangibles are also tested for impairment annually, as required under the accounting standards.

Cash and cash equivalents, receivables, accounts payable and accrued expenses are reflected in the consolidated balance sheets at carrying value, which approximates fair value due to the short-term nature of these instruments. Although no trading market exists, the Company believes that the carrying amount of its debt approximates fair value due to its variable nature.

The authoritative guidance for fair value measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the guidance are described below:

- Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
- Level 3 Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents by level, within the fair value hierarchy, assets and liabilities measured at fair value on a recurring basis as of July 1, 2012:

|  | <b>Fair Value Measurements</b> |                |                |                |
|--|--------------------------------|----------------|----------------|----------------|
|  | <b>Assets (Liabilities)</b>    |                |                |                |
|  | <b>Total</b>                   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|  | <b>(in thousands)</b>          |                |                |                |
| <b>Assets (liabilities):</b>                     |                                |                |                |                |
| Cash equivalents (money market accounts)         | \$ 27,276                      | \$ 27,276      |                |                |
| Trading securities held in a "rabbi trust"(1)    | 1,143                          | 1,143          |                |                |
| Fair value of non-performance promissory note(2) | 205                            |                |                | \$ 205         |
| Interest rate swap(3)                            | (7)                            |                | (7)            |                |
|  | \$ 28,617                      | \$ 28,419      | (7)            | \$ 205         |

- (1) Trading securities held in a rabbi trust are included in Other assets-long term in the consolidated balance sheets (Note 13 Employee Retirement Plans). The Company established a Non-qualified Deferred Compensation Plan for certain members of senior management in fiscal 2009 (Employee contributions were not material until fiscal 2012). Deferred compensation is invested in mutual funds held in a "rabbi trust" and are restricted for payment to participants of the NQDC Plan.

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 10. Fair Value Measurements (Continued)**

(2) Refer to Note 4. Acquisitions and dispositions *Sale and franchise of Fannie May retail stores*. Included in other assets long-term on the consolidated balance sheet

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

The following table presents by level, within the fair value hierarchy, assets and liabilities measured at fair value on a recurring basis as of July 3, 2011:

|  | Fair Value Measurements<br>Assets (Liabilities) |           |          |         |
|--|---|-----------|----------|---------|
|  | Total   | Level 1   | Level 2  | Level 3 |
|  | (in thousands)                                  |           |          |         |
| Assets (liabilities):                      |   |           |          |         |
| Cash equivalents (money market accounts)   | \$ 20,775                                       | \$ 20,775 |          |         |
| Trading securities held in a "rabbi trust" | 281   | 281       |          |         |
| Interest rate swap                         | (263)   |           | (263)    |         |
|  | \$ 20,793                                       | \$ 21,056 | \$ (263) |         |

**Note 11. Income Taxes**

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has concluded its federal examination by the Internal Revenue Service for its fiscal years 2007 through 2009. Fiscal 2010 and fiscal 2011 remain subject to federal examination. Due to non-conformity with the federal statute of limitations for assessment, certain states remain open from fiscal 2008.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. At July 1, 2012, the Company has an unrecognized tax position of approximately \$0.5 million, including accrued interest and penalties of \$0.1 million. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

Significant components of the income tax provision from continuing operations are as follows:

|                               | Years ended     |                 |                  |
|-------------------------------|-----------------|-----------------|------------------|
|                               | July 1,<br>2012 | July 3,<br>2011 | June 27,<br>2010 |
|                               | (in thousands)  |                 |                  |
| Current provision (benefit):  |                 |                 |                  |
| Federal                       | \$ (1,643)      | \$ 526          | \$ (213)         |
| State                         | 1,155           | 805             | 502              |
|                               | (488)           | 1,331           | 289              |
| Deferred provision (benefit): |                 |                 |                  |
| Federal                       | 8,479           | 2,080           | (25)             |
| State                         | (220)           | 106             | (65)             |
|                               | 8,259           | 2,186           | (90)             |
| Income tax expense            | \$ 7,771        | \$ 3,517        | \$ 199           |



Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 11. Income Taxes (Continued)**

A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate is as follows:

|  | Years ended     |                 |                  |
|--|-----------------|-----------------|------------------|
|  | July 1,<br>2012 | July 3,<br>2011 | June 27,<br>2010 |
| Tax at U.S. statutory rates                    | 35.0%           | 35.0%           | 35.0%            |
| State income taxes, net of federal tax benefit | 4.0             | 6.8             | (31.2)           |
| Non-deductible stock-based compensation        | 0.6             | 1.9             | (25.5)           |
| Non-deductible goodwill amortization           | 1.7             |                 | (8.9)            |
| Rate change                                    | (1.1)           | 0.1             |                  |
| Tax credits                                    | (2.9)           | (2.9)           | 9.5              |
| Tax settlements                                |                 | (1.6)           |                  |
| Other, net                                     | (0.1)           | (0.4)           | 2.2              |
|  | 37.2%           | 38.9%           | (18.9)%          |

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets (liabilities) are as follows:

|   | July 1,<br>2012 | July 3,<br>2011 |
|---|-----------------|-----------------|
|   | (in thousands)  |                 |
| Deferred tax assets:                        |                 |                 |
| Net operating loss and credit carryforwards | \$ 3,569        | \$ 11,648       |
| Accrued expenses and reserves               | 5,680           | 5,159           |
| Stock-based compensation                    | 3,494           | 3,452           |
| Gross deferred tax assets                   | 12,743          | 20,259          |
| Less: Valuation allowance                   | (1,578)         | (1,776)         |
|   | 11,165          | 18,483          |
| Deferred tax liabilities:                   |                 |                 |
| Other intangibles                           | (3,036)         | (1,154)         |
| Tax in excess of book depreciation          | (312)           | (504)           |
|   | (3,348)         | (1,658)         |
| Net deferred tax assets                     | \$ 7,817        | \$ 16,825       |

A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The Company has established valuation allowances primarily for net operating loss carryforwards in certain states. At July 1, 2012, the Company's federal net operating loss carryforwards were approximately \$3.3 million, which if not utilized, will begin to expire in fiscal year 2025.

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**1-800-FLOWERS.COM, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**Note 12. Capital Stock**

Holders of Class A common stock generally have the same rights as the holders of Class B common stock, except that holders of Class A common stock have one vote per share and holders of Class B common stock have 10 votes per share on all matters submitted to the vote of stockholders. Holders of Class A common stock and Class B common stock generally vote together as a single class on all matters presented to the stockholders for their vote or approval, except as may be required by Delaware law. Class B common stock may be converted into Class A common stock at any time on a one-for-one share basis. Each share of Class B common stock will automatically convert into one share of Class A common stock upon its transfer, with limited exceptions.

On January 21, 2008, the Company's Board of Directors authorized an increase to its stock repurchase plan, which when added to the \$8.7 million remaining on its earlier authorization, increased the amount available to repurchase to \$15.0 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of July 1, 2012, \$8.5 million remains authorized.

Under this program, as of July 1, 2012, the Company had repurchased 3,703,626 shares of common stock for \$17.8 million, of which \$3.3 million (1,133,913 shares), \$0.5 million (168,207 shares), and \$0.9 million (342,821 shares) were repurchased during the fiscal years ended July 1, 2012, July 3, 2011 and June 27, 2010, respectively.

The Company has stock options and restricted stock awards outstanding to participants under the 1-800-FLOWERS.COM 2003 Long Term Incentive and Share Award Plan (the "Plan"). Options are also outstanding under the Company's 1999 Stock Incentive Plan, but no further options may be granted under this plan. The Plan is a broad-based, long-term incentive program that is intended to attract, retain and motivate employees, consultants and directors to achieve the Company's long-term growth and profitability objectives, and therefore align stockholder and employee interests. The Plan 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 (collectively "Awards").

**Note 13. Stock Based Compensation**

The Plan is administered by the Compensation Committee or such other Board committee (or the entire Board) as may be designated by the Board (the "Committee"). Unless otherwise determined by the Board, the Committee will consist of two or more members of the Board who are non-employee directors within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934 and "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. The Committee will determine which eligible employees, consultants and directors receive awards, the types of awards to be received and the terms and conditions thereof. The Chief Executive Officer shall have the power and authority to make Awards under the Plan to employees and consultants not subject to Section 16 of the Exchange Act, subject to limitations imposed by the Committee.

At July 1, 2012, the Company has reserved approximately \$14.8 million shares of common stock for issuance, including options previously authorized for issuance under the 1999 Stock Incentive Plan.

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 13. Stock Based Compensation (Continued)**

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

|  | Years Ended                           |                 |                  |
|--|---------------------------------------|-----------------|------------------|
|  | July 1,<br>2012                       | July 3,<br>2011 | June 27,<br>2010 |
|  | (in thousands, except per share data) |                 |                  |
| Stock options                                | \$ 1,073                              | \$ 1,181        | \$ 1,460         |
| Restricted stock awards                      | 3,777                                 | 2,780           | 2,423            |
| <b>Total</b>                                 | <b>4,850</b>                          | <b>3,961</b>    | <b>3,883</b>     |
| Deferred income tax benefit                  | 1,796                                 | 1,381           | 1,245            |
| <b>Stock-based compensation expense, net</b> | <b>\$ 3,054</b>                       | <b>\$ 2,580</b> | <b>\$ 2,638</b>  |

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

|                            | Years Ended     |                 |                  |
|----------------------------|-----------------|-----------------|------------------|
|                            | July 1,<br>2012 | July 3,<br>2011 | June 27,<br>2010 |
|                            | (in thousands)  |                 |                  |
| Marketing and sales        | \$ 1,755        | \$ 1,587        | \$ 1,590         |
| Technology and development | 600             | 791             | 795              |
| General and administrative | 2,495           | 1,583           | 1,498            |
| <b>Total</b>               | <b>\$ 4,850</b> | <b>\$ 3,961</b> | <b>\$ 3,883</b>  |

Stock-based compensation expense has not been allocated between business segments, but is reflected as part of Corporate overhead. (Refer to Note 14 Business Segments.)

*Stock Option Plans*

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:

|  | Years ended     |                 |                  |
|--|-----------------|-----------------|------------------|
|  | July 1,<br>2012 | July 3,<br>2011 | June 27,<br>2010 |
| Weighted average fair value of options granted | \$ 1.84         | \$ 1.23         | \$ 1.71          |
| Expected volatility                            | 72%             | 68%             | 63%              |
| Expected life (in years)                       | 7.95            | 7.5             | 5.6              |
| Risk-free interest rate                        | 0.9%            | 1.3%            | 2.4%             |
| Expected dividend yield                        | 0.0%            | 0.0%            | 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 based upon the historical weighted average. The risk-free interest rate is determined using the yield available for zero-coupon

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 13. Stock Based Compensation (Continued)**

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%.

The following table summarizes stock option activity during the year ended July 1, 2012:

|   | Options     | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value (000s) |
|---|-------------|--|---|--|
| Outstanding beginning of period                     | 6,915,535   | \$ 6.08                                  |   |  |
| Granted   | 1,027,500   | \$ 2.63                                  |   |  |
| Exercised   |             | \$                                       |   |  |
| Forfeited/Expired                                   | (1,231,755) | \$ 11.91                                 |   |  |
| Outstanding end of period                           | 6,711,280   | \$ 4.48                                  | 4.7 years   | \$ 3,631                               |
| Options vested or expected to vest at end of period | 6,374,809   | \$ 4.60                                  | 4.5 years   | \$ 3,220                               |
| Exercisable at July 1, 2012                         | 4,417,280   | \$ 5.63                                  | 2.7 years   | \$ 781                                 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of fiscal 2012 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on July 1, 2012. This amount changes based on the fair market value of the company's stock. The total intrinsic value of options exercised for the years ended July 1, 2012, July 3, 2011 and June 27, 2010 was \$0.0 million, \$0.0 million, and \$0.0 million, respectively.

The following table summarizes information about stock options outstanding at July 1, 2012:

| Exercise Price  | Options Outstanding    |   |   | Options Exercisable    |   |  |
|-----------------|------------------------|---|---|------------------------|---|--|
|                 | Options<br>Outstanding | Weighted-<br>Average<br>Remaining<br>Contractual Life | Weighted-<br>Average<br>Exercise<br>Price | Options<br>Exercisable | Weighted-<br>Average<br>Exercise<br>Price |  |
| \$1.69 - 2.63   | 2,353,500              | 8.7 years   | \$ 2.17                                   | 198,400                | \$ 2.00                                   |  |
| \$2.77 - 3.59   | 1,381,334              | 4.4 years   | \$ 3.11                                   | 1,260,934              | \$ 3.11                                   |  |
| \$4.56 - 6.52   | 1,637,793              | 1.4 years   | \$ 6.39                                   | 1,620,793              | \$ 6.41                                   |  |
| \$6.58 - 10.46  | 1,323,653              | 2.1 years   | \$ 7.58                                   | 1,322,153              | \$ 7.57                                   |  |
| \$11.81 - 11.81 | 15,000                 | 1.4 years   | \$ 11.81                                  | 15,000                 | \$ 11.81                                  |  |
|                 | 6,711,280              | 4.7 years   | \$ 4.48                                   | 4,417,280              | \$ 5.63                                   |  |

As of July 1, 2012, the total future compensation cost related to nonvested options not yet recognized in the statement of operations was \$2.6 million and the weighted average period over which these awards are expected to be recognized was 6.2 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).



Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 13. Stock Based Compensation (Continued)**

The following table summarizes the activity of non-vested restricted stock during the year ended July 1, 2012:

|                                | Shares      | Weighted<br>Average<br>Grant Date<br>Fair Value |
|--------------------------------|-------------|---|
| Non-vested beginning of period | 3,395,261   | \$ 2.49   |
| Granted                        | 2,052,486   | \$ 2.61   |
| Vested                         | (1,477,894) | \$ 2.96   |
| Forfeited                      | (114,533)   | \$ 2.58   |
| Non-vested at July 1, 2012     | 3,855,320   | \$ 2.37   |

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of July 1, 2012, there was \$5.7 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over a weighted-average period of 2.1 years.

**Note 14. Employee Retirement Plans**

The Company has a 401(k) Profit Sharing Plan covering substantially all of its eligible employees. All employees who have attained the age of 21 are eligible to participate upon completion of one month of service. Participants may elect to make voluntary contributions to the 401(k) plan in amounts not exceeding federal guidelines. On an annual basis the Company, as determined by its board of directors, may make certain discretionary contributions. Employees are vested in the Company's contributions based upon years of service. The Company suspended all contributions during fiscal years 2012, 2011 and 2010.

The Company also has a nonqualified supplemental deferred compensation plan for certain executives pursuant to Section 409A of the Internal Revenue Code. Participants can defer from 1% up to a maximum of 100% of salary and performance and non-performance based bonus. The Company will match 50% of the deferrals made by each participant during the applicable period, up to a maximum of \$2,500. Employees are vested in the Company's contributions based upon years of participation in the plan. Distributions will be made to participants upon termination of employment or death in a lump sum, unless installments are selected. As of July 1, 2012 and July 3, 2011, these plan liabilities, which are included in Other liabilities-long term within the Company's Consolidated Balance Sheet, totaled \$1.1mm and \$0.3mm, respectively. The associated plan assets, which are subject to the claims of the creditors, are primarily invested in mutual funds and are included in Other assets-long term. Company contributions during the years ended July 1, 2012, July 3, 2011 and June 27, 2010 were less than \$0.1 million. Gains and losses on these investments, which were immaterial during fiscal years 2012, 2011 and 2010, are included in Interest expense, net, within the Company's Consolidated Statements of Operations.

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 15. Business Segments**

The Company's management reviews the results of the Company's operations by the following three business segments:

Consumer Floral;

BloomNet Wire Service; and

Gourmet Food and Gift Baskets; and

On September 6, 2011, the Company, through its Winetasting Network subsidiary, completed the sale of certain assets of its wine fulfillment services business, which was previously included within its Gourmet Foods & Gift Baskets segment. During the first quarter fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets segments. On January 25, 2010, the Company completed the sale of these businesses. Consequently, the Company has classified the results of operations of its Home & Children's Gifts segment, and its wine fulfillment services business as discontinued operations for all periods presented.

Segment performance is measured based on contribution margin, which includes only the direct controllable revenue and operating expenses of the segments. As such, management's measure of profitability for these segments does not include the effect of corporate overhead (see (1) below), which are operated under a centralized management platform, providing services throughout the organization, nor does it include depreciation and amortization, other income, and income taxes, or stock-based compensation and severance and restructuring costs, both of which are included within corporate overhead. Assets and liabilities are reviewed at the consolidated level by management and not accounted for by segment.

| Net revenues                | Years ended       |                   |                   |
|-----------------------------|-------------------|-------------------|-------------------|
|                             | July 1,<br>2012   | July 3,<br>2011   | June 27,<br>2010  |
|                             | (in thousands)    |                   |                   |
| Net revenues:               |                   |                   |                   |
| Consumer Floral             | \$ 398,184        | \$ 369,199        | \$ 366,516        |
| BloomNet Wire Service       | 82,582            | 73,282            | 61,883            |
| Gourmet Food & Gift Baskets | 236,742           | 229,390           | 225,602           |
| Corporate(1)                | 773               | 1,150             | 1,071             |
| Intercompany eliminations   | (2,024)           | (1,416)           | (1,702)           |
| <b>Total net revenues</b>   | <b>\$ 716,257</b> | <b>\$ 671,605</b> | <b>\$ 653,370</b> |

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 15. Business Segments (Continued)**

| Operating Income                            | Years ended      |                  |                  |
|---|------------------|------------------|------------------|
|   | July 1,<br>2012  | July 3,<br>2011  | June 27,<br>2010 |
|   | (in thousands)   |                  |                  |
| <b>Segment Contribution Margin:</b>         |                  |                  |                  |
| Consumer Floral                             | \$ 39,147        | \$ 32,669        | \$ 22,141        |
| BloomNet Wire Service                       | 22,339           | 20,195           | 19,051           |
| Gourmet Food & Gift Baskets(2)              | 29,789           | 27,776           | 27,145           |
| <b>Segment Contribution Margin Subtotal</b> | <b>91,275</b>    | <b>80,640</b>    | <b>68,337</b>    |
| Corporate(1)                                | (48,490)         | (47,255)         | (43,353)         |
| Depreciation and amortization               | (19,576)         | (20,271)         | (20,287)         |
| <b>Operating income (loss)</b>              | <b>\$ 23,209</b> | <b>\$ 13,114</b> | <b>\$ 4,697</b>  |

- (1) Corporate expenses consist of the Company's enterprise shared service cost centers, and include, among other items, Information Technology, Human Resources, Accounting and Finance, Legal, Executive and Customer Service Center functions, as well as Stock-Based Compensation. In order to leverage the Company's infrastructure, these functions are operated under a centralized management platform, providing support services throughout the organization. The costs of these functions, other than those of the Customer Service Center, which are allocated directly to the above segments based upon usage, are included within corporate expenses, as they are not directly allocable to a specific segment.
- (2) Segment contribution margin, during the year ended July 1, 2012, includes a \$3.8 million gain on the sale of 17 Fannie May retail stores, which are being operated as franchised locations post-sale.

**Note 16. Discontinued Operations**

On September 6, 2011, the Company, through its Winetasting Network subsidiary, completed the sale of certain assets of its wine fulfillment services business in order to focus on its core Direct-to-Consumer wine business. The sales price consisted of \$12.0 million of cash proceeds at closing, with the potential for an additional \$1.5 million upon achieving specified revenue targets during the two year period following the closing date.

During the fourth quarter of fiscal 2009, the Company made the strategic decision to divest its Home & Children's Gifts business segment to focus on its core Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets segments. On January 25, 2010, the Company completed the sale of the assets and certain related liabilities of its Home & Children's Gifts business. The sales price of the assets was \$17.0 million, subject to adjustments for changes in working capital. (Net proceeds amounted to \$10.5 million.)

As a result of the transactions above, the Company has classified the results of operations of its Home & Children's Gifts segment, and its wine fulfillment services business as discontinued operations for all periods presented.

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 16. Discontinued Operations (Continued)**

Results for discontinued operations are as follows:

|  | Years Ended                           |              |               |
|--|---------------------------------------|--------------|---------------|
|  | July 1, 2012                          | July 3, 2011 | June 27, 2010 |
|  | (in thousands, except per share data) |              |               |
| Net revenues from discontinued operations                      | \$ 2,003                              | \$ 18,184    | \$ 102,192    |
| Income (loss) from discontinued operations, net of tax         | \$ (22)                               | \$ 202       | \$ 2,096      |
| Income (loss) from sale of discontinued operations, net of tax | \$ 4,542                              |              | \$ (5,062)    |
| Income (loss) from discontinued operations                     | \$ 4,520                              | \$ 202       | \$ (4,220)    |

**Note 17. Commitments and Contingencies****Leases**

The Company currently leases office, store facilities, and equipment under various leases through fiscal 2019. As these leases expire, it can be expected that in the normal course of business they will be renewed or replaced. Most lease agreements contain renewal options and rent escalation clauses and require the Company to pay real estate taxes, insurance, common area maintenance and operating expenses applicable to the leased properties. The Company has also entered into leases that are on a month-to-month basis. These leases are classified as either capital leases, operating leases or subleases, as appropriate.

As of July 1, 2012 future minimum payments under non-cancelable operating leases with initial terms of one year or more consist of the following:

|                              | Operating<br>Leases<br>(in thousands) |
|------------------------------|---------------------------------------|
| 2013                         | \$ 12,463                             |
| 2014                         | 11,450                                |
| 2015                         | 7,359                                 |
| 2016                         | 6,879                                 |
| 2017                         | 6,120                                 |
| Thereafter                   | 13,290                                |
| Total minimum lease payments | \$ 57,561                             |

Less amounts representing interest

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Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Note 17. Commitments and Contingencies (Continued)**

At July 1, 2012, the aggregate future sublease rental income under long-term operating sub-leases for land and buildings and corresponding rental expense under long-term operating leases were as follows:

|            | Sublease<br>Income | Sublease<br>Expense |
|------------|--------------------|---------------------|
|            | (in thousands)     |                     |
| 2013       | \$ 1,972           | \$ 1,972            |
| 2014       | 1,234              | 1,234               |
| 2015       | 657                | 657                 |
| 2016       | 439                | 439                 |
| 2017       | 231                | 231                 |
| Thereafter |                    |                     |
|            | \$ 4,533           | \$ 4,533            |

Rent expense was approximately \$17.4 million, \$17.7 million, and \$18.1 million for the years ended July 1, 2012, July 3, 2011 and June 27, 2010, respectively.

**Litigation**

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

On November 10, 2010, a purported class action complaint was filed in the United States District Court for the Eastern District of New York naming the Company (along with Trilegiant Corporation, Inc., Affinion, Inc. and Chase Bank USA, N.A.) as defendants in an action purporting to assert claims against the Company alleging violations arising under the Connecticut Unfair Trade Practices Act among other statutes, and for breach of contract and unjust enrichment in connection with certain post-transaction marketing practices in which certain of the Company's subsidiaries previously engaged in with certain third-party vendors. On March 6, 2012 and March 15, 2012, two additional purported class action complaints were filed in the United States District Court for the District of Connecticut naming the Company and numerous other parties as defendants in actions purporting to assert claims substantially similar to those asserted in the lawsuit filed on November 10, 2010. In each case, plaintiffs seek to have the respective case certified as a class action and seek restitution and other damages, each in an amount in excess of \$5.0 million. On April 26, 2012, the two Connecticut cases were consolidated with a third case previously pending in the United States District Court for the District of Connecticut in which the Company is not a party. The Company intends to defend each of these actions vigorously.

There are no assurances that additional legal actions will not be instituted in connection with the Company's former post-transaction marketing practices involving third party vendors nor can we predict the outcome of any such legal action. At this time, we are unable to estimate a possible loss or range of possible loss for the aforementioned actions for various reasons, including, among others: (i) the damages sought are indeterminate, (ii) the proceedings are in the very early stages and the court has not yet ruled as to whether the classes will be certified, and (iii) there is uncertainty as to the outcome of pending motions. As a result of the foregoing, we have determined that the amount of possible loss or range of loss is not reasonably estimable. However, legal matters are inherently unpredictable and subject to significant uncertainties, some of which may be beyond our control.

Table of Contents**1-800-FLOWERS.COM, INC.****Schedule II Valuation and Qualifying Accounts**

| Description  | Balance at<br>Beginning<br>of Period | Charged to<br>Costs and<br>Expenses | Additions   |                           | Balance at<br>End of<br>Period |
|--|--------------------------------------|-------------------------------------|---|---------------------------|--------------------------------|
|  |                                      |                                     | Charged<br>to<br>Other<br>Accounts<br>Describe(b) | Deductions<br>Describe(a) |                                |
| Reserves and allowances deducted from asset<br>accounts:             |                                      |                                     |   |                           |                                |
| Reserve for estimated doubtful accounts accounts/notes<br>receivable |                                      |                                     |   |                           |                                |
| Year Ended July 1, 2012  | \$ 2,465,000                         | \$ 879,000                          | \$  | \$ (926,000)              | \$ 2,418,000                   |
| Year Ended July 3, 2011  | \$ 2,389,000                         | \$ 1,537,000                        | \$  | \$ (1,461,000)            | \$ 2,465,000                   |
| Year Ended June 27, 2010   | \$ 2,434,000                         | \$ 1,738,000                        | \$  | \$ (1,783,000)            | \$ 2,389,000                   |

(a) Reduction in reserve due to write-off of accounts/notes receivable balances.

(b) Amount represents opening balances from acquired businesses.