

1 800 FLOWERS COM INC  
Form 10-Q  
November 10, 2011  
[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended October 2, 2011**

**or**

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

**For the transition period from      to**

**Commission File No. 0-26841**

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

(Exact name of registrant as specified in its charter)

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

**DELAWARE**  
(State of  
incorporation)

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

**One Old Country Road, Carle Place, New York 11514**

(Address of principal executive offices)(Zip code)

**(516) 237-6000**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

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

**28,187,767**

(Number of shares of Class A common stock outstanding as of November 4, 2011)

**36,858,465**

(Number of shares of Class B common stock outstanding as of November 4, 2011)

---

Table of Contents

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

**TABLE OF CONTENTS**

**INDEX**

	<b>Page</b>
<b><u>Part I.</u></b>	
<b><u>Financial Information</u></b>	
<u>Item 1.</u>	
<u>Consolidated Financial Statements:</u>	
<u>Consolidated Balance Sheets – October 2, 2011 (Unaudited) and July 3, 2011</u>	1
<u>Consolidated Statements of Operations (Unaudited) – Three Months Ended October 2, 2011 and September 26, 2010</u>	2
<u>Consolidated Statements of Cash Flows (Unaudited) – Three Months Ended October 2, 2011 and September 26, 2010</u>	3
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	4
<u>Item 2.</u>	
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>Item 4.</u>	
<u>Controls and Procedures</u>	27
<b><u>Part II.</u></b>	
<b><u>Other Information</u></b>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	28
<u>Item 1A.</u>	
<u>Risk Factors</u>	28
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 3.</u>	
<u>Defaults upon Senior Securities</u>	28
<u>Item 4.</u>	
<u>(Removed and Reserved)</u>	28
<u>Item 5.</u>	
<u>Other Information</u>	28
<u>Item 6.</u>	
<u>Exhibits</u>	29
<b><u>Signatures</u></b>	<b>30</b>

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****1-800-FLOWERS.COM, Inc. and Subsidiaries****Consolidated Balance Sheets***(in thousands, except share data)*

	<b>October 2, 2011 (unaudited)</b>	<b>July 3, 2011</b>
<b>Assets</b>		
Current assets:		
Cash and equivalents	\$ 5,707	\$ 21,442
Receivables, net	24,501	11,916
Inventories	81,950	51,185
Deferred tax assets	5,962	5,416
Prepaid and other	10,044	7,360
Current assets of discontinued operations	1,010	3,506
Total current assets	129,174	100,825
Property, plant and equipment, net	49,505	49,908
Goodwill	41,696	39,348
Other intangibles, net	42,816	41,748
Deferred tax assets	15,178	17,181
Other assets	6,223	5,203
Non-current assets from discontinued operations		2,738
Total assets	\$ 284,592	\$ 256,951
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 60,025	\$ 65,603
Current maturities of long-term debt and obligations under capital leases	54,002	16,488
Current liabilities of discontinued operations	181	956
Total current liabilities	114,208	83,047
Long-term debt and obligations under capital leases	25,500	29,250
Other liabilities	2,739	2,884
Non-current liabilities of discontinued operations		109
Total liabilities	142,447	115,290
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued		
Class A common stock, \$.01 par value, 200,000,000 shares authorized; 33,007,480 and 32,987,313 shares issued at October 2, 2011 and July 3, 2011, respectively	330	330
Class B common stock, \$.01 par value, 200,000,000 shares authorized; 42,138,465 shares issued at October 2, 2011 and July 3, 2011	421	421
Additional paid-in capital	290,270	289,101
Retained deficit	(115,495)	(114,755)

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

Accumulated other comprehensive loss, net of tax	(85)	(158)
Treasury stock, at cost 5,640,869 and 5,633,253 Class A shares at October 2, 2011 and July 3, 2011, respectively, and 5,280,000 Class B shares	(33,296)	(33,278)
Total stockholders' equity	142,145	141,661
Total liabilities and stockholders' equity	\$ 284,592	\$ 256,951

*See accompanying Notes to Consolidated Financial Statements.*

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

	<b>Three Months Ended</b>	
	<b>October 2, 2011</b>	<b>September 26, 2010</b>
Net revenues	\$ 117,198	\$ 101,740
Cost of revenues	70,636	58,734
Gross profit	46,562	43,006
Operating expenses:		
Marketing and sales	32,282	29,627
Technology and development	4,752	4,799
General and administrative	12,359	11,451
Depreciation and amortization	4,902	5,014
Total operating expenses	54,295	50,891
Operating loss	(7,733)	(7,885)
Interest expense, net	822	1,161
Loss from continuing operations before income taxes	(8,555)	(9,046)
Income tax benefit from continuing operations	(3,422)	(4,098)
Loss from continuing operations	(5,133)	(4,948)
Loss from discontinued operations, net of tax	(85)	(176)
Gain on sale of discontinued operations, net of tax	4,478	
Income (loss) from discontinued operations	4,393	(176)
Net loss	\$ (740)	\$ (5,124)
Basic and diluted net loss per common share:		
From continuing operations	\$ (0.08)	\$ (0.08)
From discontinued operations	0.07	0.00
Net loss per common share	\$ (0.01)	\$ (0.08)
Weighted average shares used in the calculation of basic and diluted net loss per common share	64,218	63,894

See accompanying Notes to Consolidated Financial Statements.

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

	<b>Three Months Ended</b>	
	<b>October 2, 2011</b>	<b>September 26, 2010</b>
<b>Operating activities:</b>		
Net loss	\$ (740)	\$ (5,124)
Reconciliation of net loss to net cash provided by operating activities:		
Loss from discontinued operations	(85)	(176)
Operating activities of discontinued operation	1,390	280
Gain on sale of discontinued operations	(8,953)	
Depreciation and amortization	4,902	5,014
Amortization of deferred financing costs	114	120
Deferred income taxes	963	(4,282)
Bad debt expense	227	458
Stock-based compensation	1,169	655
Other non-cash items	58	
Changes in operating items, excluding the effects of acquisitions:		
Receivables	(12,268)	(8,470)
Inventories	(30,304)	(25,825)
Prepaid and other	(2,665)	(2,694)
Accounts payable and accrued expenses	(6,215)	(2,752)
Other assets	(39)	(110)
Other liabilities	(60)	30
<b>Net cash used in operating activities</b>	<b>(52,506)</b>	<b>(42,876)</b>
<b>Investing activities:</b>		
Capital expenditures, net of non-cash expenditures	(3,792)	(2,435)
Acquisitions, net of cash acquired	(4,336)	
Proceeds from sale of business	12,010	
Loss from sale of store	219	
Purchase of investment	(1,111)	
Other, net	29	36
Investing activities of discontinued operations		(15)
<b>Net cash provided by (used in) investing activities</b>	<b>3,019</b>	<b>(2,414)</b>
<b>Financing activities:</b>		
Proceeds from bank borrowings	40,000	30,000
Repayment of notes payable and bank borrowings	(5,750)	(3,000)
Debt issuance cost		(17)
Repayment of capital lease obligations	(498)	(480)
<b>Net cash provided by financing activities</b>	<b>33,752</b>	<b>26,503</b>
Net change in cash and equivalents	(15,735)	(18,787)
Cash and equivalents:		
Beginning of period	21,442	27,843
End of period	\$ 5,707	\$ 9,056



*See accompanying Notes to Consolidated Financial Statements.*

Table of Contents

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited)*

**Note 1 Accounting Policies**

*Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared by 1-800-FLOWERS.COM, Inc. and subsidiaries (the Company) in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended October 2, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending July 1, 2012.

The balance sheet information at July 3, 2011 has been derived from the audited financial statements at that date, but does not include all information or notes necessary for a complete presentation.

Accordingly, the information in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 3, 2011.

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

*Use of Estimates*

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

*Comprehensive Income (Loss)*

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

For the three months ended October 2, 2011 and September 26, 2010, the Company's comprehensive income was as follows:

	Three Months Ended	
	October 2, 2011	September 26, 2010
	(in thousands)	
Net loss	\$ (740)	\$ (5,124)
Change in fair value of cash flow hedge, net of tax	73	17
Comprehensive loss	\$ (667)	\$ (5,107)

Table of Contents

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

(unaudited)

*Recent Accounting Pronouncements*

In September 2011, the FASB issued ASU 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment* 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 ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-05 is not expected to have a material impact on the Company's consolidated financial statements, except for the required change in presentation.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This standard results in a common requirement between the FASB and the International Accounting Standards Board (IASB) for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-04 to have a material impact on its consolidated financial statements.

*Reclassifications*

Certain balances in the prior fiscal year have been reclassified to conform with the presentation in the current fiscal year. On September 6, 2011, the Company, through its Winetasting Network subsidiary, completed the sale of certain assets of its wine fulfillment services business. Refer to Note 11 Discontinued Operations, for further discussion. Consequently, the Company has classified the results of operations of its wine fulfillment services business, as discontinued operations for all periods presented.

**Note 2 Net Income (Loss) Per Common Share**

Basic net loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed using the weighted-average number of common shares outstanding during the period, and excludes the effect of dilutive potential common shares (consisting of employee stock options and unvested restricted stock awards) for the three months ended October 2, 2011 and September 26, 2010, respectively, as their inclusion would be antidilutive.

**Note 3 Stock-Based Compensation**

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 11 to the consolidated financial statements included in the Company's 2011 Annual Report on Form 10-K, that provides for the grant to eligible employees, consultants and directors of stock options, share appreciation rights (SARs), restricted shares, restricted share units, performance shares, performance units, dividend equivalents, and other stock-based awards.

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

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

	<b>Three Months Ended</b>	
	<b>October 2, 2011</b>	<b>September 26, 2010</b>
	<b>(in thousands)</b>	
Stock options	\$ 257	\$ 289
Restricted stock awards	912	366
Total	1,169	655
Deferred income tax benefit	438	216
Stock-based compensation expense, net	\$ 731	\$ 439

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

	<b>Three Months Ended</b>	
	<b>October 2, 2011</b>	<b>September 26, 2010</b>
	<b>(in thousands)</b>	
Marketing and sales	\$ 460	\$ 262
Technology and development	230	131
General and administrative	479	262
Total	\$ 1,169	\$ 655

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

	<b>Three Months Ended</b>	
	<b>October 2, 2011</b>	<b>September 26, 2010</b>
Weighted average fair value of options granted	\$ 1.39	\$ 1.01
Expected volatility	71.5%	69.0%
Expected life	5.9 yrs	5.6 yrs
Risk-free interest rate	0.88%	1.36%
Expected dividend yield	0.0%	0.0%

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

The following table summarizes stock option activity during the three months ended October 2, 2011:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at July 3, 2011	6,915,535	\$ 6.08		
Granted	4,500	\$ 2.22		
Exercised		\$		
Forfeited	(440,795)	\$ 10.71		
Outstanding at October 2, 2011	6,479,240	\$ 5.76	4.2 years	\$ 671
Options vested or expected to vest at October 2, 2011	6,185,811	\$ 5.94	3.9 years	\$ 535
Exercisable at October 2, 2011	4,642,766	\$ 7.13	2.6 years	\$

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

As of October 2, 2011, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was \$1.7 million and the weighted average period over which these awards are expected to be recognized was 4.8 years.

The Company grants shares of common stock to its employees that are subject to restrictions on transfer and risk of forfeiture until fulfillment of applicable service conditions (Restricted Stock Awards). The following table summarizes the activity of non-vested restricted stock awards during the three months ended October 2, 2011:

	Shares		Weighted Average Grant Date Fair Value
Non-vested at July 3, 2011	3,395,261	\$	2.49
Granted	78,000	\$	2.22
Vested	(20,167)	\$	3.21
Forfeited	(7,500)	\$	1.88
Non-vested at March 27, 2011	3,445,594	\$	2.48

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of October 2, 2011, there was \$3.7 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.1 years.

**Note 4 Acquisitions***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. 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. The acquisition was financed utilizing available cash balances. Of the acquired intangible assets, \$1.5 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 \$2.3 million of purchase price was assigned to goodwill which is not deductible for tax purposes.



*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. 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. The acquisition was financed utilizing available cash balances. Of the \$1.7 million of acquired intangible assets, \$1.6 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 \$1.1 million of the purchase price was assigned to goodwill, which is expected to be deductible for tax purposes.

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

(unaudited)

*Acquisition of Selected Assets 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, expanding the breadth of the Company's baked goods and gourmet gift baskets product line. 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 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 acquisitions of Flowerama, Fine Stationery and Mrs. Beasley's. This will result in potential adjustments to the carrying value of their 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 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, Fine Stationery and Mrs. Beasley's:

	<b>Flowerama Purchase Price Allocation</b>		<b>Fine Stationery Purchase Price Allocation (in thousands)</b>		<b>Mrs. Beasley's Purchase Price Allocation</b>
Current assets	\$ 1,091	\$	360	\$	353
Intangible assets	1,459		1,674		585
Goodwill	2,348		1,051		308
Property, plant & equipment	546		269		204
Total assets acquired	5,444		3,354		1,450
Current liabilities	606		20		
Other liabilities assumed	502				
	1,108		20		
Net assets acquired	\$ 4,336	\$	3,334	\$	1,450

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

(unaudited)

*Pro forma Results of Operation*

The following unaudited pro forma consolidated financial information has been prepared as if the acquisitions of Flowerama, Fine Stationery and Mrs. Beasley's had taken place at the beginning of fiscal year 2011. 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.

	October 2, 2011 (pro forma)	Three Months Ended September 26, 2010 (pro forma)
	(in thousands)	
Net revenues from continuing operations	\$ 117,584	\$ 104,997
Operating loss from continuing operations	\$ (7,725)	\$ (7,825)
Net loss from continuing operations	\$ (5,126)	\$ (5,063)
Basic and diluted net loss per common share from continuing operations	\$ (0.08)	\$ (0.08)

**Note 5 Inventory**

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

	October 2, 2011	July 3, 2011
	(in thousands)	
Finished goods	\$ 50,247	\$ 26,629
Work-in-process	19,898	15,313
Raw materials	11,805	9,243
	\$ 81,950	\$ 51,185

**Note 6 Goodwill and Intangible Assets**

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

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. Goodwill and other indefinite lived intangibles are subject to an assessment for impairment, which must be performed annually, or more frequently if events or circumstances indicate that goodwill or other indefinite lived intangibles might be impaired.

The carrying amount of goodwill is as follows:

	<b>1-800- Flowers.com Consumer Floral</b>	<b>BloomNet Wire Service</b>	<b>Gourmet Food and Gift Baskets</b>	<b>Total</b>
	(in thousands)			
Balance at July 3, 2011	\$ 6,779	\$	\$ 32,569	\$ 39,348
Acquisition of Flowerama	2,348			2,348
Balance at October 2, 2011	\$ 9,127	\$	\$ 32,569	\$ 41,696

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

(unaudited)

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

	Amortization Period	October 2, 2011			July 3, 2011		
		Gross Carrying Amount	Accumulated Amortization	Net (in thousands)	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets with determinable lives							
Investment in licenses	14 - 16 years	\$ 6,773	\$ 5,314	\$ 1,459	\$ 5,314	\$ 5,314	\$
Customer lists	3 - 10 years	15,804	8,926	6,878	15,804	8,619	7,185
Other	5 - 8 years	2,538	1,871	667	2,538	1,770	768
		25,115	16,111	9,004	23,656	15,703	7,953
Trademarks with indefinite lives							
		33,812		33,812	33,795		33,795
Total identifiable intangible assets		\$ 58,927	\$ 16,111	\$ 42,816	\$ 57,451	\$ 15,703	\$ 41,748

Future estimated amortization expense is as follows: remainder of fiscal 2012 - \$1.3 million, fiscal 2013 - \$1.7 million, fiscal 2014 - \$1.3 million, fiscal 2015 - \$1.3 million, fiscal 2016 - \$1.2 million, and thereafter - \$2.2 million.

**Note 7 Long-Term Debt**

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

	October 2, 2011	July 3, 2011
	(in thousands)	
Term loan (1)	\$ 40,500	\$ 44,250
Revolving line of credit (1)	38,000	
Obligations under capital leases (2)	1,002	1,488
	79,502	45,738

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

Less current maturities of long-term debt and obligations under capital leases	54,002	16,488
	\$ 25,500	\$ 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.

Table of Contents

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

(unaudited)

In addition, the 2010 Credit Facility extended the Company's revolving credit line through April 16, 2014, and reduced available borrowings from a seasonally adjusted limit which ranged from \$75.0 million to \$125.0 million to a seasonally adjusted limit ranging from \$40.0 to \$75.0 million. The 2010 Credit Facility, effective for covenant calculations as of March 28, 2010, also revised certain financial and non-financial covenants, including maintenance of certain financial ratios. The obligations of the Company and its subsidiaries under the 2010 Credit Facility are secured by liens on all personal property of the Company and its domestic subsidiaries.

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

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

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

(2) During March 2009, the Company obtained a \$5.0 million equipment lease line of credit with a bank and a \$5.0 million equipment lease line of credit with a vendor. Interest under these lines, which both mature in April 2012, range from 2.99% to 7.48%. Borrowings under the bank line are collateralized by the underlying equipment purchased, while the equipment lease line with the vendor is unsecured. The borrowings are payable in 36 monthly installments of principal and interest commencing in April 2009.

**Note 8-Fair Value Measurements**

The Company's non-financial assets, such as definite-lived intangible assets, and property, plant and equipment, are recorded at cost and are assessed for impairment when impairment indicators are present. Goodwill and indefinite lived intangibles are tested for impairment annually, or more frequently if impairment indicators are present, as required under the accounting standards.

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

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.



Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

(unaudited)

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

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

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company's interest rate swap, which is included in other liabilities in the consolidated balance sheet. The fair value is based on forward looking interest rate curves:

		Fair Value Measurements			
		Total	Level 1	Assets (Liabilities)	Level 3
				Level 2	
		(in thousands)			
Interest rate swap (1)	October 2, 2011	\$ (171)		\$ (171)	
Interest rate swap (1)	July 3, 2011	\$ (263)		\$ (263)	

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

**Note 9 Income Taxes**

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. This estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The Company's effective tax rate from continuing operations for the three months ended October 2, 2011 was 40.0%, compared to 45.3% in the prior year periods. The effective rates for fiscal 2012 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes and other permanent non-deductible items, offset by various tax credits.

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

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 2006. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company does not have any material accrued interest or penalties associated with any unrecognized tax benefits, nor was any material interest expense recognized during the year.

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

(unaudited)

**Note 10 Business Segments**

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

- 1-800-Flowers.com Consumer Floral;
- BloomNet Wire Service; and
- Gourmet Food and Gift Baskets

During the first quarter of fiscal 2012, the Company made the decision to divest its non-strategic wine fulfillment services business, which was previously included within its Gourmet Foods & Gift Baskets category. On September 6, 2011, the Company completed the sale of this business; refer to Discontinued Operations below for a further discussion. Consequently, the Company has classified the results of operations of its wine fulfillment services business as discontinued operations for all periods presented.

	<b>Three Months Ended</b>	
	<b>October 2, 2011</b>	<b>September 26, 2010</b>
<b>Net revenues from continuing operations</b>	<b>(in thousands)</b>	
Net revenues:		
1-800-Flowers.com Consumer Floral	\$ 70,140	\$ 62,603
BloomNet Wire Service	18,505	14,959
Gourmet Food & Gift Baskets	28,625	24,128
Corporate (**)	187	215
Intercompany eliminations	(259)	(165)
<b>Total net revenues</b>	<b>\$ 117,198</b>	<b>\$ 101,740</b>

	<b>Three Months Ended</b>	
	<b>October 2, 2011</b>	<b>September 26, 2010</b>
<b>Operating loss from continuing operations</b>	<b>(in thousands)</b>	
Category Contribution Margin (*):		
1-800-Flowers.com Consumer Floral	\$ 5,967	\$ 5,353
BloomNet Wire Service	4,593	4,299
Gourmet Food & Gift Baskets	(1,926)	(1,935)
Category Contribution Margin Subtotal	8,634	7,717
Corporate (**)	(11,465)	(10,588)

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

Depreciation and amortization		(4,902)		(5,014)
Operating loss	\$	(7,733)	\$	(7,885)

---

(\*) Category performance is measured based on contribution margin, which includes only the direct controllable revenue and operating expenses of the categories. As such, management's measure of profitability for these categories does not include corporate overhead (see footnote (\*\*) below), depreciation and amortization, other income, income taxes and stock-based compensation. Assets and liabilities are reviewed at the consolidated level by management and are not accounted for by category.

(\*\*)The Company's enterprise shared service cost centers 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.

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

(unaudited)

**Note 11. Discontinued Operations**

On September 6, 2011, the Company, through its subsidiary The Winetasting Network, 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. The Company has classified the results of operations of 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:

	<b>Three Months Ended</b>	
	<b>October 2, 2011</b>	<b>September 26, 2010</b>
	<b>(in thousands)</b>	
Net revenues from discontinued operations	\$ 2,003	\$ 2,781
Operating loss from discontinued operations, net of tax	\$ (85)	\$ (176)
Gain on sale of discontinued operations, net of tax	\$ 4,478	\$
Income (loss) from discontinued operations	\$ 4,393	\$ (176)

**Note 12 Commitments and Contingencies***Legal Proceedings*

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

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

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

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. Plaintiffs seek to have this case certified as a class action and seek restitution and other damages, all in an amount in excess of \$5 million. The Company intends to defend this action vigorously.

In 2009, the United States Senate Committee on Commerce, Science and Transportation commenced an investigation of post-transaction marketing practices and the Company was one of many involved in that investigation. The Company fully complied with all requests from the committee. In addition, the Company received a civil investigative demand from the Attorney General of the State of New York regarding the same activities. The Company fully complied with that investigation, supplied the information sought and voluntarily entered into an Assurance of Discontinuance with the Attorney General's Office in December 2010. As part of the resolution of that matter, the Company paid the sum of \$325,000 in January 2011 to a fund to be used for consumer education, consumer redress and costs and fees of the investigation.

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.

Table of Contents

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

**Forward Looking Statements**

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

**Overview**

1-800-FLOWERS.COM, Inc. is the world's leading florist and gift shop. For more than 30 years, 1-800-FLOWERS® (1-800-356-9377 or www.1800flowers.com) has been delivering 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 has been honored in Internet Retailer's Hot 100: America's Best Retail Web Sites for 2011 and has earned STELLAService's highest elite ranking versus competitors for customer satisfaction in 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); and wine gifts from Winetasting.com® (www.winetasting.com). The Company's Celebrations® brand (www.celebrations.com) is a leading online destination for fabulous party ideas and planning tips and FineStationery.com® (www.finestationery.com) is the premier site for unique, customizable invitations, announcements and greeting cards. 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 its 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. The Company has classified the results of operations of 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.





Table of Contents**Category Information**

The following table presents the contribution of net revenues, gross profit and category contribution margin from each of the Company's business categories, as well as consolidated EBITDA (earnings before interest, taxes, depreciation and amortization). Additionally, the table adjusts Category Contribution Margin to EBITDA and EBITDA excluding stock-based compensation and reconciles Net Loss from continuing operations to EBITDA, and EBITDA excluding stock-based compensation. As previously noted, the Company's wine fulfillment services business has been classified as discontinued operations and therefore is excluded from category information below.

	October 2, 2011	Three Months Ended September 26, 2010	% Change
	(in thousands)		
<b>Net revenues from continuing operations:</b>			
1-800-Flowers.com Consumer Floral	\$ 70,140	\$ 62,603	12.0%
BloomNet Wire Service	18,505	14,959	23.7%
Gourmet Food & Gift Baskets	28,625	24,128	18.6%
Corporate (**)	187	215	(13.0)%
Intercompany eliminations	(259)	(165)	57.0%
<b>Total net revenues from continuing operations</b>	<b>\$ 117,198</b>	<b>\$ 101,740</b>	<b>15.2%</b>

	October 2, 2011	Three Months Ended September 26, 2010	% Change
	(in thousands)		
<b>Gross profit from continuing operations:</b>			
1-800-Flowers.com Consumer Floral	\$ 26,689	\$ 23,839	12.0%
	38.1%	38.1%	
BloomNet Wire Service	8,529	8,463	0.8%
	46.1%	56.6%	
Gourmet Food & Gift Baskets	11,215	10,629	5.5%
	39.2%	44.1%	
Corporate (**)	129	75	72.0%
<b>Total gross profit from continuing operations</b>	<b>\$ 46,562</b>	<b>\$ 43,006</b>	<b>8.3%</b>
	39.7%	42.3%	

	October 2, 2011	Three Months Ended September 26, 2010	% Change
	(in thousands)		
<b>Category Contribution Margin and EBITDA from continuing operations, excluding stock-based compensation (*):</b>			
1-800-Flowers.com Consumer Floral	\$ 5,967	\$ 5,353	11.5%
BloomNet Wire Service	4,593	4,299	6.8%
Gourmet Food & Gift Baskets	(1,926)	(1,935)	(0.5)%
<b>Category Contribution Margin Subtotal</b>	<b>8,634</b>	<b>7,717</b>	<b>11.9%</b>
Corporate (**)	(11,465)	(10,588)	(8.3)%
<b>EBITDA from continuing operations</b>	<b>(2,831)</b>	<b>(2,871)</b>	<b>1.4%</b>
Stock-based compensation	(1,169)	(655)	(78.5)%
	<b>\$ (1,662)</b>	<b>\$ (2,216)</b>	<b>25.0%</b>

**EBITDA from continuing operations,  
excluding stock-based compensation**

Table of Contents

	October 2, 2011	Three Months Ended September 26, 2010	% Change
	(in thousands)		
<b>Discontinued operations:</b>			
Net revenues from discontinued operations	\$ 2,003	\$ 2,781	(28.0)%
Gross profit from discontinued operations	\$ 405	\$ 575	(29.6)%
EBITDA from discontinued operations	\$ (190)	\$ (227)	16.3%

(\*) Performance is measured based on category contribution margin or EBITDA, which includes only the direct controllable revenue and operating expenses of the categories. As such, management's measure of profitability for these categories does not include the effect of corporate overhead, described above, depreciation and amortization, other income (net), income taxes 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 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.

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

	October 2, 2011	Three Months Ended September 26, 2010
	(in thousands)	
<b>Reconciliation of net loss from continuing operations to EBITDA from continuing operations, excluding stock-based compensation:</b>		
Net loss from continuing operations	\$ (5,133)	\$ (4,948)
Add:		
Interest expense, net	822	1,161
Depreciation and amortization	4,902	5,014
Less:		
Income tax benefit	3,422	4,098
<b>EBITDA from continuing operations (**)</b>	<b>\$ (2,831)</b>	<b>\$ (2,871)</b>
Stock-based compensation	(1,169)	(655)
<b>EBITDA from continuing operations, excluding stock-based compensation</b>	<b>\$ (1,662)</b>	<b>\$ (2,216)</b>



Table of Contents**Results of Operations***Net Revenues*

	October 2, 2011	Three Months Ended September 26, 2010	% Change
	(in thousands)		
Net revenues:			
E-Commerce	\$ 78,790	\$ 71,213	10.6%
Other	38,408	30,527	25.8%
Total net revenues	\$ 117,198	\$ 101,740	15.2%

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

During the three months ended October 2, 2011, revenues increased by 15.2% in comparison to the prior year period primarily as a result of growth across all categories. This improvement was driven by a combination of growth from: (i) the core Consumer Floral category, due to increased average order value resulting from merchandising initiatives, as well as the revenue contributions of several small acquisitions, including Fine Stationery in May 2011 and Flowerama in August 2011, (ii) an increase in product sales and shop-to-shop order volume by BloomNet, and (iii) higher sales from the Gourmet Food & Gift Baskets category. Revenue growth for the quarter, excluding the impact of acquisitions, was approximately 12.3%.

E-Commerce revenues increased 10.6% in comparison to the prior year period as the Company fulfilled approximately 1,212,000 orders through its E-commerce sales channels (online and telephonic sales) during the three months ended October 2, 2011, an increase of 5.3% from the same period of the prior year. Average order value of \$64.99 during the three months ended October 2, 2011, increased by 5.1% over the prior year period, reflecting improved merchandising programs, including the development of innovative and original products designed to wow our customers gift recipients, which also enabled the Company to reduce its promotional activities.

Other revenues increased 25.8% during the three months ended October 2, 2011, in comparison to the prior year period primarily as a result of the aforementioned sales growth in the BloomNet Wire Service business as well as improvements within the Gourmet Food & Gift Baskets category, as the wholesale business increased within several brands, due in part to timing of shipments for which certain customers requested early delivery.

The 1-800-Flowers.com Consumer Floral category includes the operations of the 1-800-Flowers brand which derives revenue from the sale of consumer floral products through its E-Commerce sales channels (telephonic and online sales) and company-owned and operated retail floral stores, 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 three months ended October 2, 2011 increased by 12.0% over the prior year period primarily as a result of an increase average order value, driven by enhanced marketing programs and merchandising initiatives that encourage our customers to wow their recipients by sending only the best gifts. In addition, during August 2011, the Company acquired the stock of Flowerama of America, Inc, a floral franchisor. For the quarter, revenue growth for the Consumer Floral category, excluding the impact of the acquisitions of Fine Stationery in May 2011 and Flowerama in August 2011, was approximately 8.0%

The BloomNet Wire Service category includes revenues from membership fees as well as other product and service offerings to florists. Net revenues during the three months ended October 2, 2011 increased by 23.7% over the prior year period, primarily as a result of revenues associated with increased shop-to-shop order volume. 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 expects to monetize this increased order volume through increasing membership, technology, services and product fees. Further contributing to the increased revenue within the BloomNet category during the quarter, was higher wholesale product sales.

The Gourmet Food & Gift Baskets category includes the operations of 1-800-Baskets, Cheryl's Cookies & Brownies, Fannie May Confections, The Popcorn Factory, Winetasting.com and DesignPac businesses. Revenue is derived from

Table of Contents

the sale of cookies, baked gifts, premium chocolates and confections, gourmet popcorn, wine gifts and gift baskets through its E-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Cheryl's and Fannie May brand names, as well as wholesale operations. Net revenue during the three months ended October 2, 2011 increased by 18.6%, compared to the prior year period, as a result of several factors: (i) e-commerce growth in its 1-800 Baskets.com and Cheryl's brands, (ii) an increase in same store sales in the Fannie May brand resulting from increased store traffic, and (iii) an increase in wholesale business in several brands, due in part to early shipments requested by certain customers.

**Gross Profit**

	October 2, 2011	Three Months Ended September 26, 2010	% Change
	(in thousands)		
Gross profit	\$ 46,562	\$ 43,006	8.3%
Gross margin %	39.7%	42.3%	

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 three months ended October 2, 2011, compared to the prior year period, primarily as a result of the aforementioned revenue growth across all categories as described above. The decrease in gross margin percentage reflects the impact of increased wholesale product mix from the Company's BloomNet and Gourmet Food and Gift Basket categories, as well as higher commodity and shipping costs due to an increase in fuel surcharges passed on by third party carriers.

The 1-800-Flowers.com Consumer Floral category gross profit increased by 12.0% during the three months ended October 2, 2011, compared to the prior year period, due to the higher revenue described above, including the incremental gross profit generated by the acquisitions of Fine Stationery and Flowerama. Gross margin percentage of 38.1% was consistent with the prior year, as improvements in product sourcing and logistical improvements were offset by higher shipping costs and the impact of higher average order value on margin.

The BloomNet Wire Service category gross profit during the three months ended October 2, 2011 was up slightly in comparison to the prior year period, while gross margin percentage decreased due to the increase in mix 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 and thereby improve gross margin over time.

The Gourmet Food & Gift Baskets category gross profit increased by 5.5% during the three months ended October 2, 2011, compared to the prior year, due to the higher revenue described above. Gross margin percentage decreased by 490 basis points, primarily reflecting product mix with a higher portion of wholesale business due in part to requests for early shipment of product, as well as increases in commodity and shipping

costs.

During the remainder of fiscal 2012, the Company expects its gross margin percentage will improve in comparison to fiscal 2011 as a result of a reduction in promotional activity, as well as improvements in product sourcing, supply chain and manufacturing efficiencies.



Table of Contents**Marketing and Sales Expense**

	October 2, 2011	Three Months Ended September 26, 2010	% Change
	(in thousands)		
Marketing and sales	\$ 32,282	\$ 29,627	9.0%
Percentage of net revenues	27.5%	29.1%	

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

Marketing and sales expense increased during the three months ended October 2, 2011, compared to the prior year, as a result of (i) variable costs associated with the increase in revenue, (ii) increased labor due to 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 increased incentive compensation expense compared with the prior year, partially offset by reductions in advertising spending, reflecting the Company's continued focus on improving its merchandising programs, re-focusing its marketing messages, and enhancing the efficiency of its advertising efforts. As a result, marketing and sales expense, as a percentage of net revenues, decreased from 29.1% in fiscal 2011 to 27.5% in fiscal 2012.

During the three months ended October 2, 2011 the Company added approximately 385,000 new E-commerce customers. Of the 1,004,000 million total customers who placed E-commerce orders during the three months ended October 2, 2011, approximately 62%, represented repeat customers, compared to 64% during the prior year period.

**Technology and Development Expense**

	October 2, 2011	Three Months Ended September 26, 2010	% Change
	(in thousands)		
Technology and development	\$ 4,752	\$ 4,799	(1.0)%
Percentage of net revenues	4.1%	4.7%	

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.

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

During the three months ended October 2, 2011, technology and development expense decreased by 1.0% compared to the prior year period, as a result of decreased labor and consulting costs, as well as reductions in web hosting costs due to footprint reductions and the relocation to lower costing facilities during fiscal 2011, partially offset by higher equipment and software maintenance costs to support the Company's IT infrastructure.

During the three months ended October 2, 2011 and September 26, 2010, the Company expended \$7.1 million and \$6.2 million, respectively, on technology and development, of which \$2.3 million and \$1.4 million, respectively, has been capitalized.

Table of Contents*General and Administrative Expense*

	October 2, 2011	Three Months Ended September 26, 2010	% Change
	(in thousands)		
General and administrative	\$ 12,359	\$ 11,451	7.9%
Percentage of net revenues	10.5%	11.3%	

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 7.9% during the three months ended October 2, 2011, compared to the prior year, as a result of increased legal and professional fees, the impact of the acquisitions of Mrs. Beasley's, Fine Stationery and Flowerama, as well as increased incentive compensation expense compared with the prior year.

*Depreciation and Amortization Expense*

	October 2, 2011	Three Months Ended September 26, 2010	% Change
	(in thousands)		
Depreciation and amortization	\$ 4,902	\$ 5,014	(2.2)%
Percentage of net revenues	4.2%	4.9%	

Depreciation and amortization expense decreased by 2.2% during the three months ended October 2, 2011 in comparison to the same period of the prior year as a result of the Company's efforts over the last three years to reduce capital expenditures.

*Interest Expense, net*

	October 2, 2011	Three Months Ended September 26, 2010	% Change
	(in thousands)		
Interest expense, net	\$ (822)	\$ (1,161)	(29.2)%

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 interest expense decreased during the three months ended October 2, 2011 compared to the prior year period, due to scheduled paydowns of amounts outstanding under the Company's term loans, as well as reduced borrowing costs.

***Income Taxes***

During the three months ended October 2, 2011 and September 26, 2010, the Company recorded an income tax benefit from continuing operations of \$3.4 million and \$4.1 million, respectively. The Company's effective tax rate from continuing operations for the three months ended October 2, 2011 was 40.0%, compared to 45.3% in the prior year period. These effective tax rates from continuing operations differed from the U.S. federal statutory rate of 35% primarily due to state income taxes and other permanent non-deductible items, offset by various tax credits.

Table of Contents**Discontinued Operations**

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. The Company has classified the results of operations of 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:

	October 2, 2011	Three Months Ended September 26, 2010 (in thousands)	% Change
<b>Discontinued Operations:</b>			
Net revenues from discontinued operations	\$ 2,003	\$ 2,781	(28.0)%
Gross profit from discontinued operations	405	575	(29.6)%
Operating expenses of discontinued operations, excluding depreciation and amortization	595	802	25.8%
EBITDA from discontinued operations	(190)	(227)	16.3%
Gain on sale of discontinued operations, net of tax	\$ 4,478	\$	n/a
Income (loss) from discontinued operations	\$ 4,393	\$	n/a

The Company's wine fulfillment services business, which was previously included within the Gourmet Food and Gift Baskets category, derived its revenue from the warehousing and fulfillment of wine and wine related products, primarily on behalf of California wineries.

During the three months ended October 2, 2011, net revenues and gross profit from discontinued operations decreased in comparison to the prior year period primarily as a result of the timing of the divestiture which occurred on September 6, 2011.

**Liquidity and Capital Resources**

At October 2, 2011, the Company had working capital of \$15.0 million, including cash and equivalents of \$5.7 million, compared to working capital of \$17.8 million, including cash and equivalents of \$21.4 million, at July 3, 2011.

Net cash used in operating activities of \$52.5 million for the three months ended October 2, 2011 was primarily related to the net loss for the quarter, adjusted for the gain on the sale of the Company's wine fulfillment services business in September 2011, as well as seasonal changes in working capital, including increases in inventory, accounts receivable and prepaid expenses related to the upcoming holiday season, offset in part by seasonal increases in accounts payable and non-cash charges for depreciation and amortization, and stock-based compensation.

Net cash provided by investing activities of \$3.0 million for the three months ended October 2, 2011 was primarily attributable to proceeds from the sale of the Company's wine fulfillment services business in September 2011 for approximately \$12.0 million, offset in part by the acquisition of Flowerama in August 2011 and capital expenditures, primarily related to the Company's technology infrastructure.

Net cash provided by financing activities of \$33.8 million for the three months ended October 2, 2011 was primarily from revolving credit borrowings required to fund seasonal working capital needs, net of the repayment of bank borrowings on outstanding term-loan debt and long-term capital lease obligations. The Company expects that all borrowings under its revolver, which amounted to \$38.0 million at October 2, 2011, will be repaid by the end of its fiscal second quarter.

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

On April 16, 2010, the Company entered into a Second Amended and Restated Credit Agreement (the 2010 Credit Facility). The 2010 Credit Facility included a prepayment of approximately \$12.1 million, comprised primarily of the

Table of Contents

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 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.

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.

During March 2009, the Company obtained a \$5.0 million equipment lease line of credit with a bank and a \$5.0 million equipment lease line of credit with a vendor. Interest under these lines, which both mature in April 2012, range from 2.99% to 7.48%. The borrowings are payable in 36 monthly installments of principal and interest commencing in April 2009.

Despite the current challenging economic environment, the Company believes that cash flows from operations along with available borrowings from its 2010 Credit Facility will be a sufficient source of liquidity. The Company 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 funds remaining on its earlier authorization, increased the amount available for repurchase to \$15.0 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of October 2, 2011, \$11.8 million remains authorized but unused.

At October 2, 2011, the Company's contractual obligations from continuing operations consist of:

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

	Total	Payments due by period (in thousands)				More than 5 years
		Less than 1 year	1 2 years	3 5 years		
Long-term debt, including interest	\$ 86,186	\$ 55,253	\$ 30,933	\$	\$	
Capital lease obligations, including interest	1,101	1,098	3			
Operating lease obligations	63,200	12,957	21,371	12,690		16,182
Sublease obligations	3,437	1,498	1,390	463		86
Purchase commitments (*)	36,107	36,107				
Total	\$ 190,031	\$ 106,913	\$ 53,697	\$ 13,153	\$	16,268

---

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



Table of Contents

**Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial position and results of operations are based upon the consolidated financial statements of 1-800-FLOWERS.COM, Inc., which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, inventory and long-lived assets, including goodwill and other intangible assets related to acquisitions. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in preparation of its consolidated financial statements.

*Revenue Recognition*

Net revenues are generated by E-commerce operations from the Company's online and telephonic sales channels as well as other operations (retail/wholesale) and primarily consist of the selling price of merchandise, service or outbound shipping charges, less discounts, returns and credits. Net revenues are recognized upon product shipment. Shipping terms are FOB shipping point. Net revenues generated by the Company's BloomNet Wire Service operations include membership fees as well as other products and service offerings to florists. Membership fees are recognized monthly in the period earned, and products sales are recognized upon product shipment with shipping terms of FOB shipping point.

*Accounts Receivable*

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

*Inventory*

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

*Goodwill and Other Intangible Assets*

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

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

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

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.

Table of Contents

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

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

**Recent Accounting Pronouncements**

In September 2011, the FASB issued ASU 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment, 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

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

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 ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-05 is not expected to have a material impact on the Company's consolidated financial statements, except for the required change in presentation.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This standard results in a common requirement between the FASB and the International Accounting Standards Board (IASB) for measuring fair

Table of Contents

value and for disclosing information about fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-04 to have a material impact on its consolidated financial statements.

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

Our disclosure and analysis in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent the Company's current expectations or beliefs concerning future events and can generally be identified by the use of statements that include words such as estimate, project, believe, anticipate, intend, plan, foresee, likely, target or similar words or phrases. These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of the Company's control, that could cause actual results to differ materially from the results expressed or implied in the forward-looking statements, including:

- the Company's ability:
- to achieve revenue and profitability;
- to leverage its operating platform and reduce operating expenses;
- to grow its 1-800-Baskets.com business;
- to manage the increased seasonality of its business;
- to cost effectively acquire and retain customers;
- to effectively integrate and grow acquired companies;
- to reduce working capital requirements and capital expenditures;

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

- to compete against existing and new competitors;
- to manage expenses associated with sales and marketing and necessary general and administrative and technology investments; and
- to cost efficiently manage inventories;
- the outcome of contingencies, including legal proceedings in the normal course of business; and
- general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products.

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

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Forms 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission. Our Annual Report on Form 10-K filing for the fiscal year ended July 3, 2011 listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them in Part I, Item 1A, of that filing under the heading "Cautionary Statements Under the Private Securities Litigation Reform Act of 1995". We incorporate that section of that Form 10-K in this filing and investors should refer to it.

Table of Contents

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's earnings and cash flows are subject to fluctuations due to changes in interest rates primarily from its investment of available cash balances in money market funds and investment grade corporate and U.S. government securities, as well as from outstanding debt. As of October 2, 2011, the Company's outstanding debt, including current maturities, approximated \$79.5 million.

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

In July 2009, the Company entered into a \$45.0 million notional amount swap agreement that exchanges a variable interest rate (LIBOR) for a 1.92% fixed rate of interest over the term of the agreement. This swap matures on July 25, 2012. The Company has designated this swap as a cash flow hedge of the interest rate risk attributable to forecasted variable interest (LIBOR) payments. The effective portion of the after tax fair value gains or losses on these swaps is included as a component of accumulated other comprehensive loss. If in the future the interest rate swap agreements were determined to be ineffective or were terminated before the contractual termination dates, or if it became probable that the hedged variable cash flows associated with the variable-rate borrowings would stop, the Company would be required to reclassify into earnings all or a portion of the unrealized losses on cash flow hedges included in accumulated other comprehensive income (loss).

Exclusive of the impact of the Company's interest rate swap agreement, each 50 basis point change in interest rates would have had a corresponding effect on our interest expense of approximately \$0.1 million during the three months ended October 2, 2011.

**ITEM 4. CONTROLS AND PROCEDURES**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of October 2, 2011. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of October 2, 2011.

There were no changes in our internal control over financial reporting identified in connection with the Company's evaluation required by Rules 13a-15(d) or 15d-15(d) of the Securities Exchange Act of 1934 that occurred during the three months ended October 2, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS.**

There were no material changes to the Company's risk factors as discussed in Part 1, Item 1A-Risk Factors in the Company's Annual Report on Form 10-K for the year ended July 3, 2011.

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

The following table sets forth, for the months indicated, the Company's purchase of common stock during the first three months of fiscal 2012, which includes the period July 4, 2011 through October 2, 2011:

Period	Total Number of Shares Purchased (in thousands, except average price paid per share)	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)
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
Total	7.6	\$ 2.43	7.6	

On January 21, 2008, the Company's Board of Directors authorized an increase to its stock repurchase plan which, when added to the \$8.7 million remaining on its earlier authorization, increased the amount available for repurchase to \$15.0 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of October 2, 2011, \$11.8 million remains authorized but unused.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**



Not applicable.

**ITEM 4. REMOVED AND RESERVED**

**ITEM 5. OTHER INFORMATION**

None.

Table of Contents

**ITEM 6. EXHIBITS**

31.1	Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
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

---

\* Filed herewith.

Table of Contents

**SIGNATURES**

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

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

Date: November 10, 2011

/s/ James F. McCann  
James F. McCann  
Chief Executive Officer and  
Chairman of the Board of Directors

Date: November 10, 2011

/s/ William E. Shea  
William E. Shea  
Senior Vice President of Finance and  
Administration and Chief Financial Officer