1 800 FLOWERS COM INC
Form 10-Q
February 10, 2012
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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 January 1, 2012

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)

DELAWARE (State of incorporation)	**11-3117311** (I.R.S. Employer Identification No.)

One Old Country Road, Carle Place, New York 11514

(Address of principal executive offices)(Zip code)

(516) 237-6000

(Registrant s telephone number, including area code)

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

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 x No o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

28,207,093

(Number of shares of Class A common stock outstanding as of February 6, 2012)

36,858,465

(Number of shares of Class B common stock outstanding as of February 6, 2012)

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidated Balance Sheets

(in thousands, except share data)

	January 1, 2012 (unaudited)	July 3, 2011
Assets		
Current assets:		
Cash and equivalents	$ 30,078	$ 21,442
Receivables, net	30,659	11,916
Inventories	59,600	51,185
Deferred tax assets	6,413	5,416
Prepaid and other	7,073	7,360
Current assets of discontinued operations	1,022	3,506
Total current assets	134,845	100,825
Property, plant and equipment, net	48,821	49,908
Goodwill	40,695	39,348
Other intangibles, net	43,051	41,748
Deferred tax assets	9,628	17,181
Other assets	4,325	5,203
Non-current assets from discontinued operations		2,738
Total assets	$ 281,365	$ 256,951
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 82,445	$ 65,603
Current maturities of long-term debt and obligations under capital leases	15,504	16,488
Current liabilities of discontinued operations		956
Total current liabilities	97,949	83,047
Long-term debt and obligations under capital leases	21,750	29,250
Other liabilities	2,738	2,884
Non-current liabilities of discontinued operations		109
Total liabilities	122,437	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; 34,247,441 and 32,987,313 shares issued at January 1, 2012 and July 3, 2011, respectively	342	330
Class B common stock, $.01 par value, 200,000,000 shares authorized; 42,138,465 shares issued at January 1, 2012 and July 3, 2011	421	421
Additional paid-in capital	291,469	289,101
Retained deficit	(98,857)	(114,755)

Accumulated other comprehensive loss, net of tax		(58)		(158)
Treasury stock, at cost 6,040,348 and 5,633,253 Class A shares at January 1, 2012 and July 3, 2011, respectively, and 5,280,000 Class B shares		(34,389)		(33,278)
Total stockholders equity		158,928		141,661
Total liabilities and stockholders equity	$	281,365	$	256,951

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	January 1, 2012	**December 26, 2010**	**January 1, 2012**	**December 26, 2010**
Net revenues	$ 239,845	$ 228,873	$ 357,043	$ 330,613
Cost of revenues	139,519	131,779	210,155	190,513
Gross profit	100,326	97,094	146,888	140,100
Operating expenses:				
Marketing and sales	53,020	50,476	85,302	80,103
Technology and development	4,854	4,721	9,606	9,520
General and administrative	12,932	12,443	25,291	23,894
Depreciation and amortization	4,929	5,189	9,831	10,203
Total operating expenses	75,735	72,829	130,030	123,720
Gain on sale of stores	3,789		3,789	
Operating income	28,380	24,265	20,647	16,380
Interest expense, net	849	1,306	1,671	2,467
Income from continuing operations before income taxes	27,531	22,959	18,976	13,913
Income tax expense from continuing operations	10,955	9,887	7,533	5,789
Income from continuing operations	16,576	13,072	11,443	8,124
Income from discontinued operations, net of tax	63	458	(23)	282
Gain on sale of discontinued operations, net of tax			4,478	
Income from discontinued operations	63	458	4,455	282
Net income	$ 16,639	$ 13,530	$ 15,898	$ 8,406
Basic net income per common share:				
From continuing operations	$ 0.26	$ 0.20	$ 0.18	$ 0.13
From discontinued operations		0.01	0.07	
Net income per common share	$ 0.26	$ 0.21	$ 0.25	$ 0.13
Diluted net income per common share:				
From continuing operations	$ 0.25	$ 0.20	$ 0.17	$ 0.13
From discontinued operations		0.01	0.07	
Net income per common share	$ 0.25	$ 0.21	$ 0.24	$ 0.13
Weighted average shares used in the calculation of net income per common share				
Basic	64,841	63,966	64,530	63,930
Diluted	66,050	64,801	65,989	64,692

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended	
	January 1, 2012	**December 26, 2010**
Operating activities:		
Net income	$ 15,898	$ 8,406
Reconciliation of net income to net cash provided by operating activities:		
Operating activities of discontinued operations	1,112	(1,230)
Gain on sale of discontinued operations	(8,953)	
Depreciation and amortization	9,831	10,203
Amortization of deferred financing costs	229	246
Deferred taxes	6,032	5,475
Bad debt expense	327	944
Stock-based compensation	2,380	1,757
Other non-cash items	97	
Changes in operating items, excluding the effects of acquisitions:		
Receivables	(18,526)	(24,980)
Inventories	(7,896)	(5,184)
Prepaid and other	307	(1,651)
Accounts payable and accrued expenses	16,214	10,959
Other assets	2,772	(288)
Other liabilities	16	(108)
Net cash provided by operating activities	19,840	4,549
Investing activities:		
Acquisitions, net of cash acquired	(4,336)	
Proceeds from sale of business	12,826	
Capital expenditures	(8,689)	(7,559)
Purchase of investment	(1,111)	
Other, net	(299)	73
Investing activities of discontinued operations		(121)
Net cash used in investing activities	(1,609)	(7,607)
Financing activities:		
Acquisition of treasury stock	(1,111)	(98)
Proceeds from bank borrowings	56,000	40,000
Repayment of notes payable and bank borrowings	(63,500)	(46,000)
Debt issuance costs		(17)
Repayment of capital lease obligations	(984)	(962)
Net cash used in financing activities	(9,595)	(7,077)
Net change in cash and equivalents	8,636	(10,135)

Cash and equivalents:				
Beginning of period		21,442		27,843
End of period	$	30,078	$	17,708

See accompanying Notes to Consolidated Financial Statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 Accounting Policies

Basis of Presentation

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

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)

For the three and six months ended January 1, 2012 and December 26, 2010, the Company s comprehensive income was as follows:

	Three Months Ended		Six Months Ended	
	January 1, 2012	December 26, 2010	January 1, 2012	December 26, 2010
	(in thousands)			
Net income	$ 16,639	$ 13,530	$ 15,898	$ 8,406
Change in fair value of cash flow hedge, net of tax	45	84	100	101
Comprehensive income	$ 16,684	$ 13,614	$ 15,998	$ 8,507

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Recent Accounting Pronouncements

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 after December 15, 2011 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.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU No. 2011-04). 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 No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of ASU No. 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Note 2 Net Income Per Common Share from Continuing Operations

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

	Three Months Ended		Six Months Ended	
	January 1, 2012	December 26, 2010	January 1, 2012	December 26, 2010
	(in thousands, except per share data)			
Numerator:				
Income from continuing operations	$ 16,576	$ 13,072	$ 11,443	$ 8,124
Denominator:				
Weighted average shares outstanding	64,841	63,966	64,530	63,930
Effect of dilutive securities:				
Employee stock options (1)	14		16	
Employee restricted stock awards	1,195	835	1,443	762
	1,209	835	1,459	762
Adjusted weighted-average shares and assumed conversions	66,050	64,801	65,989	64,692
Net income per common share from continuing operations				
Basic	$ 0.26	$ 0.20	$ 0.18	$ 0.13
Diluted	$ 0.25	$ 0.20	$ 0.17	$ 0.13

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive common equivalent shares (consisting of employee stock options and unvested restricted stock awards) outstanding during the period.

(1) The effect of options to purchase 7.1 million and 6.7 million shares during the three and six months ended January 1, 2012 and 7.4 million and 7.1 million shares during the three and six months ended December 26, 2010, respectively, were excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.

Note 3 Stock-Based Compensation

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 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.

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

	Three Months Ended		Six Months Ended	
	January 1, 2012	**December 26, 2010**	**January 1, 2012**	**December 26, 2010**
	(in thousands)			
Stock options	$ 293	$ 296	$ 550	$ 585
Restricted stock awards	918	806	1,830	1,172
Total	1,211	1,102	2,380	1,757
Deferred income tax benefit	433	388	871	604
Stock-based compensation expense, net	$ 778	$ 714	$ 1,509	$ 1,153

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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

	Three Months Ended		Six Months Ended	
	January 1, 2012	December 26, 2010	January 1, 2012	December 26, 2010
	(in thousands)			
Marketing and sales	$ 430	$ 430	$ 890	$ 692
Technology and development	123	205	353	336
General and administrative	658	467	1,137	729
Total	$ 1,211	$ 1,102	$ 2,380	$ 1,757

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

	Three Months Ended		Six Months Ended	
	January 1, 2012	December 26, 2010	January 1, 2012	December 26, 2010
Weighted average fair value of options granted	$ 1.85	$ 1.19	$ 1.84	$ 1.19
Expected volatility	72.1%	68.0%	72.1%	68.0%
Expected life	8.0 yrs	7.6 yrs	8.0 yrs	7.6yrs
Risk-free interest rate	0.90%	1.27%	0.90%	1.27%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

The following table summarizes stock option activity during the six months ended January 1, 2012:

	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	1,022,500	$ 2.63		
Exercised		$		
Forfeited	(455,075)	$ 10.62		
Outstanding at January 1, 2012	7,482,960	$ 5.33	4.7 years	$ 518

Options vested at January 1, 2012	6,953,317	$	5.56	4.4 years	$	421
Exercisable at January 1, 2012	4,764,386	$	6.98	2.6 years	$	52

As of January 1, 2012, the total future compensation cost related to nonvested options, not yet recognized in the statement of income, was $2.8 million and the weighted average period over which these awards are expected to be recognized was 5.7 years.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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 and six months ended January 1, 2012:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at July 3, 2011	3,395,261	$ 2.49
Granted	2,031,136	$ 2.61
Vested	(1,260,128)	$ 2.94
Forfeited	(24,500)	$ 2.41
Non-vested at January 1, 2012	4,141,769	$ 2.41

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of January 1, 2012, there was $7.4 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.5 years.

Note 4 Acquisitions and dispositions

Sale and franchise of Fannie May retail stores

On November 21, 2011, Fannie May Franchise LLC, a wholly-owned subsidiary of Fannie May Confections Brands, Inc., which in turn is a wholly-owned subsidiary of 1-800-Flowers.com, Inc., and GB Chocolates LLC (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.

In addition to the 45 store area development agreement, the Company also 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.

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 $4.6 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. The acquisition was financed utilizing available cash balances. Of the acquired intangible assets, $1.9 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Investment in Colonial Gifts Limited

On July 29, 2011, the Company purchased an equity investment in Colonial Gifts Limited (iflorist) in the amount of $1.2 million. Combined with prior purchases, the total equity investment, which the Company is accounting for under the cost method, in iflorist is $1.6 million. In addition, the Company has loaned iflorist $0.8 million through a senior secured debt financing at a rate of 7%. Iflorist, located in England, with revenue in its last fiscal year of approximately $7.0 million, is a direct-to-consumer marketer of floral and gift-related products sold and delivered throughout Europe, with wire-service operations within the same territory.

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 and annual operating income of $0.4 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. 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.

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:

	Flowerama Purchase Price Allocation	Fine Stationery Purchase Price Allocation (in thousands)	Mrs. Beasley s Purchase Price Allocation
Current assets	$ 1,090	$ 360	$ 353
Intangible assets	1,902	1,674	585
Goodwill	2,348	1,051	308
Property, plant and equipment	104	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

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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 2011The pro forma information has been adjusted to give effect to items that are directly attributable to the transactions and are expected to have a continuing impact on the combined results. The adjustments primarily include amortization expense associated with acquired identifiable intangible assets. This information has not been adjusted to reflect any changes in the operations of the businesses subsequent to its acquisition by the Company. Changes in operations of the acquired businesses include, but are not limited to, discontinuation of products, integration of systems and personnel, changes in manufacturing processes or locations, and changes in marketing and advertising programs. Had any of these changes been implemented by the former managements of the businesses acquired prior to acquisition by us, the sales and net income information might have been materially different than the actual results achieved and from the pro forma information provided. The following unaudited pro forma information is not necessarily indicative of the results of operations in future periods or results that would have been achieved had the acquisitions taken place at the beginning of the periods presented.

	Three Months Ended December 26, 2010	Six Months Ended January 1, 2012	Six Months Ended December 26, 2010
	(in thousands, except per share data)		
Net revenues from continuing operations	$ 236,360	$ 357,516	$ 340,531
Operating income from continuing operations	$ 25,173	$ 20,449	$ 17,191
Income from continuing operations	$ 13,779	$ 11,323	$ 8,778
Net income per common share from continuing operations			
Basic	$ 0.22	$ 0.18	$ 0.14
Diluted	$ 0.21	$ 0.17	$ 0.13

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:

	January 1, 2012	July 3, 2011

	(in thousands)	
Finished goods	$ 30,591	$ 26,629
Work-in-process	11,933	15,313
Raw materials	17,076	9,243
	$ 59,600	$ 51,185

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Note 6 Goodwill and Intangible Assets

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:

	1-800-Flowers.com Consumer Floral	BloomNet Wire Service	Gourmet Food and Gift Baskets	Total
		(in thousands)		
Balance at July 3, 2011	$ 6,779	$	$ 32,569	$ 39,348
Acquisition of Flowerama	2,348			2,348
Sale of Fannie May stores			(1,001)	(1,001)
Balance at January 1, 2012	$ 9,127	$	$ 31,568	$ 40,695

The Company s other intangible assets consist of the following:

	Amortization Period	January 1, 2012 Gross Carrying Amount	January 1, 2012 Accumulated Amortization	January 1, 2012 Net	July 3, 2011 Gross Carrying Amount	July 3, 2011 Accumulated Amortization	July 3, 2011 Net
				(in thousands)			
Intangible assets with determinable lives							
Investment in licenses	14 - 16 years	$ 7,216	$ 5,314	$ 1,902	$ 5,314	$ 5,314	$
Customer lists	3 - 10 years	15,998	9,232	6,765	15,804	8,619	7,185
Other	5 - 8 years	2,538	1,972	567	2,538	1,770	768
		25,752	16,518	9,234	23,656	15,703	7,953

Trademarks with indefinite lives		33,817				33,817		33,795				33,795
Total identifiable intangible assets	$	59,569	$	16,518	$	43,051	$	57,451	$	15,703	$	41,748

Future estimated amortization expense is as follows: remainder of fiscal 2012 - $0.9 million, fiscal 2013 - $1.7 million, fiscal 2014 - $1.4 million, fiscal 2015 - $1.4 million, fiscal 2016 - $1.3 million, and thereafter - $2.5 million.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Note 7 Long-Term Debt

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

	January 1, 2012	July 3, 2011
	(in thousands)	
Term loan (1)	$ 36,750	$ 44,250
Revolving line of credit (1)		
Obligations under capital leases (2)	504	1,488
	37,254	45,738
Less current maturities of long-term debt and obligations under capital leases	15,504	16,488
	$ 21,750	$ 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 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 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 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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.

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.

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 Assets (Liabilities) (in thousands)			
		Total	**Level 1**	**Level 2**	**Level 3**
Interest rate swap (1)	January 1, 2012	$ (97)		$ (97)	
Interest rate swap (1)	July 3, 2011	$ (263)		$ (263)	

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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 and six months ended January 1, 2012 was 39.8% and 39.7%, respectively, compared to 43.1% and 41.6% 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.

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.

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.

Net revenues	**Three Months Ended January 1, 2012**	**Three Months Ended December 26, 2010**	**Six Months Ended January 1, 2012**	**Six Months Ended December 26, 2010**
		(in thousands)		
Net revenues:				
1-800-Flowers.com Consumer Floral	$ 91,041	$ 82,574	$ 161,181	$ 145,177
BloomNet Wire Service	18,272	16,219	36,777	31,178
Gourmet Food & Gift Baskets	131,100	130,139	159,725	154,267
Corporate (**)	189	339	376	554
Intercompany eliminations	(757)	(398)	(1,016)	(563)
Total net revenues	$ 239,845	$ 228,873	$ 357,043	$ 330,613

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Operating Income	**Three Months Ended January 1, 2012**	**Three Months Ended December 26, 2010**	**Six Months Ended January 1, 2012**	**Six Months Ended December 26, 2010**
		(in thousands)		
Category Contribution Margin (*):				
1-800-Flowers.com Consumer Floral	$ 9,984	$ 8,180	$ 15,951	$ 13,533
Bloomnet Wire Service	5,074	5,363	9,667	9,662
Gourmet Food & Gift Baskets (***)	30,166	27,669	28,240	25,734
Category Contribution Margin Subtotal	45,224	41,212	53,858	48,929
Corporate (**)	(11,915)	(11,758)	(23,380)	(22,346)
Depreciation and amortization	(4,929)	(5,189)	(9,831)	(10,203)
Operating income	$ 28,380	$ 24,265	$ 20,647	$ 16,380

(*) 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, which includes stock-based compensation, (see footnote (**) below), depreciation and amortization, other income and income taxes. 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. 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, which includes stock-based compensation, as they are not directly allocable to a specific category.

(***) Category contribution margin, during the three and six months ended January 1, 2012, includes a $3.8 million gain on the sale of Fannie May retail stores, which are being operated as franchised locations post-sale.

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:

	Three Months Ended		Six Months Ended	
	January 1, 2012	December 26, 2010	January 1, 2012	December 26, 2010
	(in thousands)			
Net revenues from discontinued operations	$	$ 6,530	$ 2,003	$ 9,311
Operating income (loss) from discontinued operations	$	$ 816	$ (232)	$ 468
Gain on sale of discontinued operations, net of tax	$	$	$ 4,478	$
Income from discontinued operations	$ 63	$ 458	$ 4,455	$ 282

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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 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. At this time, we are unable to estimate a possible loss or range of possible loss for the 2010 action 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 class 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.

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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 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); wine gifts from Winetasting.com® (www.winetasting.com); top quality steaks and chops from Stockyards.com (www.stockyards.com); as well as premium branded customizable invitations and personal stationery from FineStationery.com (www.finestationery.com). The Company s Celebrations® brand (www.celebrations.com) is a 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 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.

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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, EBITDA excluding stock-based compensation, and Adjusted EBITDA, and reconciles Net Income from continuing operations to EBITDA, EBITDA excluding stock-based compensation and Adjusted EBITDA. As previously noted, the Company s wine fulfillment services business has been classified as discontinued operations and therefore is excluded from category information below.

	Three Months Ended (in thousands)			Six Months Ended (in thousands)		
	Jan 1, 2012	Dec 26, 2010	% Change	Jan 1, 2012	Dec 26, 2010	% Change
Net revenues from continuing operations:						
1-800-Flowers.com Consumer Floral	$ 91,041	$ 82,574	10.3%	$ 161,181	$ 145,177	11.0%
BloomNet Wire Service	18,272	16,219	12.7%	36,777	31,178	18.0%
Gourmet Food & Gift Baskets	131,100	130,139	0.7%	159,725	154,267	3.5%
Corporate (*)	189	339	(44.2)%	376	554	(32.1)%
Intercompany eliminations	(757)	(398)	90.0%	(1,016)	(563)	(80.5)%
Total net revenues from continuing operations	$ 239,845	$ 228,873	4.8%	$ 357,043	$ 330,613	8.0%

	Three Months Ended (in thousands)			Six Months Ended (in thousands)		
	Jan 1, 2012	Dec 26, 2010	% Change	Jan 1, 2012	Dec 26, 2010	% Change
Gross profit from continuing operations:						
1-800-Flowers.com Consumer Floral	$ 35,254	$ 31,854	11.5%	$ 62,213	$ 55,693	11.7%
	39.0%	38.6%		38.6%	38.4%	
BloomNet Wire Service	8,992	9,086	(1.0)%	17,521	17,549	(0.2)%
	49.2%	56.0%		47.6%	56.3%	
Gourmet Food & Gift Baskets	55,650	55,941	(0.5)%	66,865	66,570	0.4%
	42.4%	43.0%		41.9%	43.2%	
Corporate (*)	160	213	(24.9)%	289	288	0.3%
	84.7%	62.8%		76.9%	52.0%	
Total gross profit from continuing operations	$ 100,326	$ 97,094	3.3%	$ 146,888	$ 140,100	4.8%
	41.8%	42.4%		41.1%	42.4%	

	Three Months Ended		% Change	Six Months Ended		% Change

	Jan 1, 2012	Dec 26, 2010		Jan 1, 2012	Dec 26, 2010	
	(in thousands)			(in thousands)		
Adjusted EBITDA from continuing operations, excluding stock-based compensation (**):						
1-800-Flowers.com Consumer Floral	$ 9,984	$ 8,180	22.1%	$ 15,951	$ 13,533	17.9%
BloomNet Wire Service	5,074	5,363	(5.4)%	9,667	9,662	0.1%
Gourmet Food & Gift Baskets (***)	30,166	27,669	9.0%	28,240	25,734	9.7%
Category Contribution Margin Subtotal	45,224	41,212	9.7%	53,858	48,929	10.1%
Corporate (*)	(11,915)	(11,758)	(1.3)%	(23,380)	(22,346)	(4.6)%
EBITDA	$ 33,309	$ 29,454	13.1%	$ 30,478	$ 26,583	14.7%
Add: Stock-based compensation	1,211	1,102	(9.9)%	2,380	1,757	(35.5)%
EBITDA, excluding stock-based compensation	$ 34,520	$ 30,556	13.0%	$ 32,858	$ 28,340	15.9%
Less: Gain on sale of stores (***)	3,789		%	3,789		%
Adjusted EBITDA from continuing operations, excluding stock-based compensation	$ 30,731	$ 30,556	0.6%	$ 29,069	$ 28,340	2.6%

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	Three Months Ended Jan 1, 2012	Three Months Ended Dec 26, 2010	% Change	Six Months Ended Jan 1, 2012	Six Months Ended Dec 26, 2010	% Change
	(in thousands)			(in thousands)		
Discontinued Operations:						
Net revenues		6,530		2,003	9,311	(78.5)%
Gross profit		1,738		405	2,313	(82.5)%
Contribution margin		913		(190)	686	(127.7)%

	Three Months Ended Jan 1, 2012	Three Months Ended Dec 26, 2010	Six Months Ended Jan 1, 2012	Six Months Ended Dec 26, 2010
	(in thousands)		(in thousands)	
Reconciliation of Net Income from continuing operations to EBITDA and Adjusted EBITDA from continuing operations, less stock-based compensation:				
Net income from continuing operations	$ 16,576	$ 13,072	$ 11,443	$ 8,124
Add:				
Interest expense	849	1,306	1,671	2,467
Depreciation and amortization	4,929	5,189	9,831	10,203
Income tax expense	10,955	9,887	7,533	5,789
EBITDA	$ 33,309	$ 29,454	$ 30,478	$ 26,583
Stock-based compensation	1,211	1,102	2,380	1,757
EBITDA, less stock-based compensation	$ 34,520	$ 30,556	$ 32,858	$ 28,340
Gain on sale of stores	(3,789)		(3,789)	
Adjusted EBITDA from continuing operations, less stock-based compensation	$ 30,731	$ 30,556	$ 29,069	$ 28,340

	Three Months Ended Jan 1, 2012	Three Months Ended Dec 26, 2010	Six Months Ended Jan 1, 2012	Six Months Ended Dec 26, 2010
	(in thousands, except per share data)		(in thousands, except per share data)	
Reconciliation of Net Income from continuing operations to Adjusted Net Income from continuing operations:				
Net income from continuing operations	$ 16,576	$ 13,072	$ 11,443	$ 8,124
Less: Gain on sale of stores, net of tax	(2,281)		(2,281)	
Adjusted Net Income from continuing operations	$ 14,295	$ 13,072	$ 9,162	$ 8,124
Basic and Diluted Adjusted Net Income per common share from continuing operations	$ 0.22	$ 0.20	$ 0.14	$ 0.13

(*) 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. 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, which includes stock-based compensation, 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 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), 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

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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.

(***) GFGB category contribution margin, during the three and six months ended January 1, 2012, includes a $3.8 million gain on the sale of Fannie May retail stores, which are being operated as franchised locations post-sale.

Results of Operations

Net Revenues

	Three Months Ended January 1, 2012	Three Months Ended December 26, 2010	% Change	Six Months Ended January 1, 2012	Six Months Ended December 26, 2010	% Change
Net revenues:						
E-Commerce	$ 165,130	$ 154,599	6.8%	$ 243,920	$ 225,812	8.0%
Other	74,715	74,274	0.6%	113,123	104,801	7.9%
Total net revenues	$ 239,845	$ 228,873	4.8%	$ 357,043	$ 330,613	8.0%

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

During the three and six months ended January 1, 2012, revenues increased by 4.8% and 8.0%, respectively, in comparison to prior year periods as a result of growth across all categories. This improvement was primarily due to growth within the 1-800-Flowers.com Consumer Floral category, which increased 10.3% and 11.0% during the three and six months ended January 1, 2012, respectively, 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. Further contributing to the growth was an increase in shop-to-shop order volume and wholesale product sales within the BloomNet Wire Service category, as well as 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 and began operating the website and direct-to-consumer business in late November 2011. Excluding the impact of acquisitions and new license agreements noted above, and the net effect of the Fannie May store sales and franchise agreement described below, revenues increased by 1.0% and 4.5% during the three and six months ended January 1, 2012, respectively.

E-Commerce revenues increased by 6.8% and 8.0% during the three and six months ended January 1, 2012, respectively, in comparison to the prior year periods, due to increases of 10.5% and 9.1% in average order value to $58.36 and $60.53, during the three and six months ended January 1, 2012, respectively. These increases in average order value reflect 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. The Company fulfilled approximately 2,829,000 and 4,029,000 orders through its E-commerce sales channels (online and telephonic sales) during the three and six months ended January 1, 2012, respectively, reflecting a decrease of 3.4% and 0.9% from the respective periods of the prior year.

Other revenues increased 0.6% and 7.9% during the three and six months ended January 1, 2012, respectively, in comparison to the prior year periods primarily as a result of the aforementioned sales growth within the BloomNet Wire Service category as well as contributions from Flowerama, a floral franchise operation purchased in August 2011.

Additionally, during the second quarter of fiscal 2012, the Company completed the previously announced 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 during Fannie May s holiday selling season 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.

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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 and six months ended January 1, 2012 increased by 10.3% and 11.0% over the respective prior year periods 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 during the holiday, as well as the revenue contributions of several small acquisitions, including Fine Stationery in May 2011 and Flowerama in August 2011. For the three months and six months ended January 1, 2012, revenue growth for the Consumer Floral category, excluding the impact of the acquisitions above, was approximately 3.5% and 5.4%, respectively.

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 and six months ended January 1, 2012 increased by 12.7% and 18.0%, respectively, over the prior year periods, primarily reflecting 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 by increasing membership, technology, services and product fees. Further contributing to the revenue growth within the BloomNet category during the three and six month periods, was increased wholesale product sales.

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, as well as wholesale operations. Net revenue during the three and six months ended January 1, 2012 increased by 0.7% and 3.5%, respectively, compared to the prior year periods, as a result of e-commerce growth of 4.7% and 5.2%, respectively, including the contributions 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 and began operating the website and direct-to-consumer business in late November 2011. This growth was largely offset by reduced wholesale basket orders from mass market customers during the holiday season, as well as the impact of the above mentioned sale of Fannie May stores. For the three months and six months ended January 1, 2012, revenue growth for the Gourmet Food & Gift Baskets category, excluding the impact of the acquisitions above and the sale of the Fannie May retail stores, was approximately -1.7% and 1.3%, respectively.

The Company expects that annual revenue growth for the total Company in Fiscal 2012 will be in the mid-to-upper single digits.

Gross Profit

	Three Months Ended January 1, 2012	Three Months Ended December 26, 2010	% Change	Six Months Ended January 1, 2012	Six Months Ended December 26, 2010	% Change
			(in thousands)			
Gross profit	$ 100,326	$ 97,094	3.3%	$ 146,888	$ 140,100	4.8%
Gross margin %	41.8%	42.4%		41.1%	42.4%	

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 and six months ended January 1, 2012, 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 primarily reflects 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. Gross profit margins on the Company s e-commerce channel increased 30 basis points during the three months ended January 1, 2012, driven by a continued focus on reducing promotional pricing and enhanced manufacturing efficiencies, while gross profit margins on the Company s e-commerce channel during the six months ended January 1, 2012 were consistent with the prior year period.

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The 1-800-Flowers.com Consumer Floral category gross profit increased by 11.5% and 11.7% during the three and six months ended January 1, 2012, respectively, compared to the prior year periods, due to the higher revenue growth described above, including the incremental gross profit generated by the acquisitions of Fine Stationery and Flowerama. Gross margin percentages during the three and six months ended January 1, 2012, increased by 40 basis points and 20 basis points over the respective prior year periods, as improvements in product sourcing, logistics, and product mix, due to the addition of higher margin stationery product sales, more than offset higher shipping costs and the impact of higher average order value on margin.

The BloomNet Wire Service category gross profit during the three and six months ended January 1, 2012 was relatively consistent compared to the respective prior year periods, while gross margin percentage decreased due to growth in 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 and thereby improve gross margin over time through increasing membership, technology, services and product fees.

The Gourmet Food & Gift Baskets category gross profit during the three and six months ended January 1, 2012 was relatively consistent with the respective prior year periods, while gross margin percentage decreased by 60 basis points and 130 basis points, respectively, driven primarily by lower gross margins from the Company s wholesale basket business during the holiday, as well as increases in commodity and shipping costs.

During the remainder of fiscal 2012, the Company expects its gross margin percentage for the total Company, 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.

Marketing and Sales Expense

	Three Months Ended			Six Months Ended		
	January 1, 2012	December 26, 2010	% Change	January 1, 2012	December 26, 2010	% Change
			(in thousands)			
Marketing and sales	$ 53,020	$ 50,476	5.0%	$ 85,302	$ 80,103	6.5%
Percentage of net revenues	22.1%	22.1%		23.9%	24.2%	

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.

Marketing and sales expense increased by 5.0% and 6.5% during the three and six months ended January 1, 2012, respectively, compared to the prior year periods, as a result of: (i) increased advertising, primarily related to new brands, (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 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. As a result, marketing and sales expense, as a percentage of net revenues, during the three months ended January 1, 2012 was consistent with the prior year, but decreased by 30 basis points during the six months ended January 1, 2012, reflecting the Company s continued focus on improving its merchandising programs, re-focusing its marketing messages, and enhancing the efficiency of its advertising efforts.

During the three and six months ended January 1, 2012 the Company added approximately 611,600 and 996,700 new E-commerce customers. Of the 1,556,000 and 2,369,000 million total customers who placed E-commerce orders during

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the three and six months ended January 1, 2012, approximately 61% and 58%, respectively represented repeat customers, which was consistent with respective prior year periods.

Technology and Development Expense

	Three Months Ended January 1, 2012	Three Months Ended December 26, 2010	% Change (in thousands)	Six Months Ended January 1, 2012	Six Months Ended December 26, 2010	% Change
Technology and development	$ 4,854	$ 4,721	2.8%	$ 9,606	$ 9,520	0.9%
Percentage of net revenues	2.0%	2.1%		2.7%	2.9%	

Technology and development expense consists primarily of payroll and operating expenses of the Company s information technology group, costs associated with its web sites, including hosting, design, content development and maintenance and support costs related to the Company s order entry, customer service, fulfillment and database systems.

During the three and six months ended January 1, 2012, technology and development expense increased by 2.8% and 0.9%, respectively, as compared to the same periods of the prior year, driven by increased web hosting and maintenance costs associated with the recent acquisitions, offset in part by decreased labor costs.

During the three and six months ended January 1, 2012, the Company expended $8.6 million and $15.7 million, respectively, on technology and development, of which $3.7 million and $6.1 million, respectively, has been capitalized.

General and Administrative Expense

	Three Months Ended January 1, 2012	Three Months Ended December 26, 2010	% Change (in thousands)	Six Months Ended January 1, 2012	Six Months Ended December 26, 2010	% Change
General and administrative	$ 12,932	$ 12,443	3.9%	$ 25,291	$ 23,894	5.8%
Percentage of net revenues	5.4%	5.4%		7.1%	7.2%	

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 3.9% and 5.8% during the three and six months ended January 1, 2012, respectively, compared to the prior year periods, as a result of the following: (i) incremental costs associated with the acquisitions of Mrs. Beasley s, Fine Stationery and Flowerama, (ii) increased annual compensation expense, and (iii) an increase in expenses associated with franchise expansion plans, partially offset by reductions in bad debt expense.

Depreciation and Amortization Expense

	Three Months Ended			Six Months Ended		
	January 1, 2012	December 26, 2010	% Change	January 1, 2012	December 26, 2010	% Change
			(in thousands)			
Depreciation and amortization	$ 4,929	$ 5,189	(5.0)%	$ 9,831	$ 10,203	(3.6)%
Percentage of net revenues	2.1%	2.3%		2.8%	3.1%	

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Depreciation and amortization expense decreased by 5.0% and 3.6% during the three and six months ended January 1, 2012, respectively, in comparison to the same periods of the prior year as a result of the Company s efforts over the last three years to reduce capital expenditures.

Gain on Sale of Stores

On November 21, 2011, Fannie May Franchise LLC, a wholly-owned subsidiary of Fannie May Confections Brands, Inc., which in turn is a wholly-owned subsidiary of 1-800-Flowers.com, Inc., and GB Chocolates LLC (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.

In addition to the 45 store area development agreement, the Company also 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.

Interest Expense, net

	Three Months Ended January 1, 2012	Three Months Ended December 26, 2010	% Change	Six Months Ended January 1, 2012	Six Months Ended December 26, 2010	% Change
			(in thousands)			
Interest expense, net	$ 849	$ 1,306	(35.0)%	$ 1,671	$ 2,467	(32.3)%

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 and six months ended January 1, 2012 compared to the respective prior year periods, due to the scheduled paydowns of amounts outstanding under the Company s term loans, as well as reduced borrowing rates.

Income Taxes

During the three and six months ended January 1, 2012, the Company recorded an income tax expense from continuing operations of $11.0 million and $7.5 million, respectively, compared to $9.9 million and $5.8 million in the respective prior year periods. The Company s effective tax rate from continuing operations for the three and six months ended January 1, 2012 was 39.8% and 39.7%, respectively, compared to 43.1% and 41.6% in the respective prior year periods. 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.

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.

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Results for discontinued operations are as follows:

	Three Months Ended		Six Months Ended	
	January 1, 2012	December 26, 2010	January 1, 2012	December 26, 2010
			(in thousands)	
Net revenues from discontinued operations	$	$ 6,530	$ 2,003	$ 9,311
Contribution margin from discontinued operations		913	(190)	686
Gain on sale of discontinued operations, net of tax			4,478	
Income (loss) from discontinued operations	$ 63	$ 458	$ 4,455	$ 282

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.

During the three and six months ended January 1, 2012, net revenues from discontinued operations decreased in comparison to the respective prior year periods primarily as a result of the timing of the divestiture which occurred on September 6, 2011.

Liquidity and Capital Resources

At January 1, 2012, the Company had working capital of $36.9 million, including cash and equivalents of $30.1 million, compared to working capital of $17.8 million, including cash and equivalents of $21.4 million, at July 3, 2011.

Net cash provided by operating activities of $19.8 million for the six months ended January 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, stock-based compensation, offset in part by seasonal changes in working capital, including increases in inventory and accounts payable for the upcoming Valentine s Day/spring selling season, and increases in accounts receivable related to the December holiday season.

Net cash used in investing activities of $1.6 million for the six months ended January 1, 2012 was primarily attributable to proceeds from the sale of the Company s wine fulfillment services business in September 2011, offset in part by the acquisition of Flowerama in August 2011, and capital expenditures, primarily related to the Company s technology infrastructure.

Net cash used in financing activities of $9.6 million for the six months ended January 1, 2012 was primarily due to the repayment of bank borrowings on outstanding term-loan debt and long-term capital lease obligations. All borrowings under the Company s revolving credit facility were repaid by the end of the 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 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.

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Outstanding amounts under the 2010 Credit Facility 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 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 January 1, 2012, $10.7 million remains authorized but unused.

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

	Payments due by period (in thousands)				
	Total	**Less than 1 year**	**1 2 years**	**3 5 years**	**More than 5 years**
Long-term debt, including interest	$ 39,400	$ 16,728	$ 22,672	$	$
Capital lease obligations, including interest	564	564			
Operating lease obligations	62,494	12,830	20,992	13,315	15,357
Sublease obligations	5,115	2,085	2,206	765	59
Purchase commitments (*)	22,945	22,945			
Total	$ 130,518	$ 55,152	$ 45,870	$ 14,080	$ 15,416

(*) Purchase commitments consist primarily of inventory, equipment purchase orders and online marketing agreements 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, 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

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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.

Store opening 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. 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 last annual 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.

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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 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 after December 15, 2011 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.

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In May 2011, the FASB issued Accounting Standards Update No. 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU No. 2011-04). 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 No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of ASU No. 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;

- 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

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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.

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 January 1, 2012, the Company s outstanding debt, including current maturities, approximated $37.3 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 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 and $0.2 million during the three and six months ended January 1, 2012.

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 January 1, 2012. 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 January 1, 2012.

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 and six months ended January 1, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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. 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. At this time, we are unable to estimate a possible loss or range of possible loss for the 2010 action 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 class 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 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 six months of fiscal 2012, which includes the period July 4, 2011 through January 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)
	(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
Total	407.1	$ 2.73	407.1	

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

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transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of January 1, 2012, $10.7 million remains authorized but unused.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

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) (incorporated by reference to Definitive Proxy filed on October 31, 2009 (No 111168049, Annex A))
10.20	Form of Restricted Share Agreement under 2003 Long Term Incentive and Share Award Plan*
10.21	Form of Performance Restricted Share Agreement under 2003 Long Term Incentive and Share Award Plan*
10.22	Form of Non-Statutory Stock Option Agreement under 2003 Long Term Incentive and Share Award Plan*
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. *
32.1.1	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 Linlinkbase Document
101.LAB	XBRL Taxonomy Extension Label Document
101.PRE	XBRL Taxonomy Definition Presentation Document

* Filed herewith.

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SIGNATURES

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

	1-800-FLOWERS.COM, Inc. (Registrant)
Date: February 10, 2012	/s/ James F. McCann James F. McCann Chief Executive Officer and Chairman of the Board of Directors
Date: February 10, 2012	/s/ William E. Shea William E. Shea Senior Vice President of Finance and Administration and Chief Financial Officer