1 800 FLOWERS COM INC
Form 10-Q
November 10, 2011
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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 October 2, 2011

or

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

For the transition period from to

Commission File No. 0-26841

1-800-FLOWERS.COM, Inc.

(Exact name of registrant as specified in its charter)

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:

28,187,767

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

36,858,465

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

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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)

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

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

See accompanying Notes to Consolidated Financial Statements.

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

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

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

See accompanying Notes to Consolidated Financial Statements.

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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 months ended October 2, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending July 1, 2012.

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

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

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

Use of Estimates

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

Comprehensive Income (Loss)

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

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

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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 ASU 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment which is intended to reduce the complexity and costs to test goodwill for impairment. The amendment allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendment becomes effective for annual and interim goodwill impairment tests performed for the Company s fiscal year ending June 30, 2013. Early adoption is permitted. The Company does not expect the adoption of ASU 2011-04 to have a material impact on its consolidated financial statements.

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

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

Reclassifications

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

Note 2 Net Income (Loss) Per Common Share

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

Note 3 Stock-Based Compensation

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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

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

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

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

Note 4 Acquisitions

Acquisition of Flowerama

On August 1, 2011, the Company completed the acquisition of Flowerama of America, Inc. (Flowerama), a franchisor and operator of retail flower shops under the Flowerama trademark. The purchase price, which included the acquisition of receivables, inventory, eight retail store locations and certain other assets and related liabilities, was approximately $4.3 million. The acquisition was financed utilizing available cash balances. Of the acquired intangible assets, $1.5 million was assigned to amortizable investment in licenses, which is being amortized over the estimated useful life of 20 years, based upon the estimated remaining life of the franchise agreements. Approximately $2.3 million of purchase price was assigned to goodwill which is not deductible for tax purposes.

Acquisition of FineStationery

On May 10, 2011, the Company acquired selected assets of FineStationery Solutions, Inc. (Fine Stationery), a retailer of personalized stationery, invitations and announcements. The purchase price, which included the acquisition of inventory, production equipment and certain other assets, was approximately $3.3 million, including cash consideration of $2.8 million, plus additional consideration of $0.5 million based upon achieving specified operating results during fiscal 2012 through 2014, which is included in other liabilities in the Company s consolidated balance sheet. The acquisition was financed utilizing available cash balances. Of the $1.7 million of acquired intangible assets, $1.6 million was assigned to trademarks that are not subject to amortization, while the remaining acquired intangibles of $0.1 million were allocated to customer related intangibles which are being amortized over the estimated useful life of 3 years. In addition, approximately $1.1 million of the purchase price was assigned to goodwill, which is expected to be deductible for tax purposes.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Acquisition of Selected Assets of Mrs. Beasley s

On March 9, 2011, the Company acquired selected assets of Mrs. Beasley s Bakery, LLC (Mrs. Beasley s), a baker and marketer of cakes, muffins and gourmet gift baskets for cash consideration of approximately $1.5 million, expanding the breadth of the Company s baked goods and gourmet gift baskets product line. The acquisition included inventory and certain manufacturing equipment, which was consolidated within the Company s baked goods manufacturing facilities. Approximately $0.6 million of the purchase price was assigned to tradenames that are not subject to amortization, while $0.3 million was assigned to goodwill which is expected to be deductible for tax purposes.

The Company is in the process of finalizing its allocation of the purchase prices to individual assets acquired and liabilities assumed as a result of the acquisitions of Flowerama, Fine Stationery and Mrs. Beasley s. This will result in potential adjustments to the carrying value of their respective recorded assets and liabilities, the establishment of certain additional intangible assets, revisions of useful lives of intangible assets, some of which will have indefinite lives not subject to amortization, and the determination of any residual amount that will be allocated to goodwill. The preliminary allocation of the purchase price included in the current period balance sheet is based on the best estimates of management and is subject to revision based on final determination of asset fair values and useful lives.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Pro forma Results of Operation

The following unaudited pro forma consolidated financial information has been prepared as if the acquisitions of Flowerama, Fine Stationery and Mrs. Beasley s had taken place at the beginning of fiscal year 2011. The following unaudited pro forma information is not necessarily indicative of the results of operations in future periods or results that would have been achieved had the acquisitions taken place at the beginning of the periods presented.

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

Note 5 Inventory

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

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

Note 6 Goodwill and Intangible Assets

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
Balance at October 2, 2011	$ 9,127	$	$ 32,569	$ 41,696

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The Company s other intangible assets consist of the following:

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

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

Note 7 Long-Term Debt

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

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

Less current maturities of long-term debt and obligations under capital leases		54,002		16,488
	$	25,500	$	29,250

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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

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

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

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

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

Note 8-Fair Value Measurements

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

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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