

1 800 FLOWERS COM INC  
Form 10-Q  
May 10, 2013  
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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 March 31, 2013**

**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)

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**DELAWARE**  
(State of  
incorporation)

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

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

(Address of principal executive offices)(Zip code)

**(516) 237-6000**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

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**26,979,233**

(Number of shares of Class A common stock outstanding as of May 1, 2013)

**36,858,465**

(Number of shares of Class B common stock outstanding as of May 1, 2013)

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

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

|  | <b>March 31,<br/>2013<br/>(unaudited)</b> | <b>July 1,<br/>2012</b> |
|--|---|-------------------------|
| <b>Assets</b>  |   |                         |
| Current assets:  |   |                         |
| Cash and equivalents   | \$ 17,004                                 | \$ 28,854               |
| Receivables, net   | 24,706                                    | 14,968                  |
| Inventories  | 59,877                                    | 55,744                  |
| Deferred tax assets  | 6,332                                     | 4,993                   |
| Prepaid and other  | 6,221                                     | 8,447                   |
| Current assets of discontinued operations  |   | 100                     |
| Total current assets   | 114,140                                   | 113,106                 |
| Property, plant and equipment, net   | 51,365                                    | 48,669                  |
| Goodwill   | 47,901                                    | 47,901                  |
| Other intangibles, net   | 43,944                                    | 41,838                  |
| Deferred tax assets  | 2,822                                     | 2,824                   |
| Other assets   | 9,353                                     | 7,875                   |
| Total assets   | \$ 269,525                                | \$ 262,213              |
| <b>Liabilities and stockholders equity</b>   |   |                         |
| Current liabilities:   |   |                         |
| Accounts payable   | \$ 20,537                                 | \$ 17,619               |
| Accrued expenses   | 55,412                                    | 49,900                  |
| Current maturities of long-term debt and obligations under capital leases  | 18,000                                    | 15,756                  |
| Current liabilities of discontinued operations   |   | 110                     |
| Total current liabilities  | 93,949                                    | 83,385                  |
| Long-term debt and obligations under capital leases  |   | 13,500                  |
| Other liabilities  | 5,242                                     | 3,580                   |
| Total liabilities  | 99,191                                    | 100,465                 |
| 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; 36,121,677 and 34,465,207 shares issued at March 31, 2013 and July 1, 2012, respectively | 361                                       | 344                     |
| Class B common stock, \$.01 par value, 200,000,000 shares authorized; 42,138,465 shares issued at March 31, 2013 and July 1, 2012                              | 421                                       | 421                     |
| Accumulated other comprehensive loss   |   | (17)                    |
| Additional paid-in capital   | 297,243                                   | 293,814                 |
| Retained deficit   | (82,215)                                  | (96,258)                |

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|  |            |            |
|--|------------|------------|
| Treasury stock, at cost 9,142,444 and 6,767,166 Class A shares at March 31, 2013 and July 1, 2012, respectively, and 5,280,000 Class B shares at March 31, 2013 and July 1, 2012 | (45,476)   | (36,556)   |
| Total stockholders' equity   | 170,334    | 161,748    |
| Total liabilities and stockholders' equity   | \$ 269,525 | \$ 262,213 |

*See accompanying Notes to Consolidated Financial Statements.*

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

|  | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | March 31,<br>2013  | April 1,<br>2012 | March 31,<br>2013 | April 1,<br>2012 |
| Net revenues   | \$ 192,624         | \$ 179,659       | \$ 566,508        | \$ 536,702       |
| Cost of revenues   | 112,221            | 106,620          | 331,983           | 316,775          |
| Gross profit   | 80,403             | 73,039           | 234,525           | 219,927          |
| Operating expenses:  |                    |                  |                   |                  |
| Marketing and sales  | 51,836             | 48,598           | 139,727           | 133,900          |
| Technology and development   | 5,624              | 5,646            | 16,415            | 15,252           |
| General and administrative   | 13,998             | 13,766           | 40,898            | 39,057           |
| Depreciation and amortization  | 4,849              | 4,874            | 13,838            | 14,705           |
| Total operating expenses   | 76,307             | 72,884           | 210,878           | 202,914          |
| Gain on sale of stores   |                    |                  |                   | 3,789            |
| Operating income   | 4,096              | 155              | 23,647            | 20,802           |
| Interest expense, net  | 227                | 319              | 1,088             | 1,990            |
| Income (loss) from continuing operations before income taxes                   | 3,869              | (164)            | 22,559            | 18,812           |
| Income tax expense (benefit) from continuing operations                        | 1,231              | (215)            | 8,516             | 7,318            |
| Income from continuing operations  | 2,638              | 51               | 14,043            | 11,494           |
| Operating loss from discontinued operations, net of tax                        |                    |                  |                   | (22)             |
| Gain (loss) on sale of discontinued operations, net of tax                     |                    | (136)            |                   | 4,342            |
| Income (loss) from discontinued operations                                     |                    | (136)            |                   | 4,320            |
| Net income (loss)  | \$ 2,638           | \$ (85)          | \$ 14,043         | \$ 15,814        |
| Basic net income per common share:   |                    |                  |                   |                  |
| From continuing operations   | \$ 0.04            | \$ 0.00          | \$ 0.22           | \$ 0.18          |
| From discontinued operations   | 0.00               | 0.00             | 0.00              | 0.07             |
| Net income per common share  | \$ 0.04            | \$ 0.00          | \$ 0.22           | \$ 0.24          |
| Diluted net income per common share:   |                    |                  |                   |                  |
| From continuing operations   | \$ 0.04            | \$ 0.00          | \$ 0.21           | \$ 0.17          |
| From discontinued operations   | 0.00               | 0.00             | 0.00              | 0.07             |
| Net income per common share  | \$ 0.04            | \$ 0.00          | \$ 0.21           | \$ 0.24          |
| Weighted average shares used in the calculation of net income per common share |                    |                  |                   |                  |
| Basic  | 64,256             | 64,988           | 64,528            | 64,683           |
| Diluted  | 66,111             | 66,299           | 66,647            | 66,257           |

See accompanying Notes to Consolidated Financial Statements.





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

**Consolidated Statements of Comprehensive Income**

*(in thousands)*

*(unaudited)*

|                            | Three Months Ended |                  | Nine Months Ended |                  |
|----------------------------|--------------------|------------------|-------------------|------------------|
|                            | March 31,<br>2013  | April 1,<br>2012 | March 31,<br>2013 | April 1,<br>2012 |
|                            | (in thousands)     |                  |                   |                  |
| Net income                 | \$ 2,638           | \$ (85)          | \$ 14,043         | \$ 15,814        |
| Other comprehensive income |                    | 32               | 17                | 132              |
| Comprehensive income       | \$ 2,638           | \$ (53)          | \$ 14,060         | \$ 15,946        |

*See accompanying Notes to Consolidated Financial Statements.*

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

|  | <b>Nine Months Ended</b>  |                          |
|--|---------------------------|--------------------------|
|  | <b>March 31,<br/>2013</b> | <b>April 1,<br/>2012</b> |
| <b>Operating activities:</b>                                       |                           |                          |
| Net income   | \$ 14,043                 | \$ 15,814                |
| Reconciliation of net income to net cash provided by operations    |                           |                          |
| Operating activities of discontinued operations                    | (10)                      | 1,927                    |
| Gain on sale of discontinued operations                            |                           | (8,733)                  |
| Depreciation and amortization                                      | 13,839                    | 14,705                   |
| Amortization of deferred financing costs                           | 343                       | 343                      |
| Deferred income taxes  | (1,337)                   | 5,720                    |
| Bad debt expense   | 762                       | 692                      |
| Stock-based compensation   | 3,397                     | 3,736                    |
| Other non-cash items   | 213                       | (22)                     |
| Changes in operating items, excluding the effects of acquisitions: |                           |                          |
| Receivables  | (10,500)                  | (9,709)                  |
| Inventories  | (4,133)                   | (7,670)                  |
| Prepaid and other  | 2,226                     | 804                      |
| Accounts payable and accrued expenses                              | 7,694                     | 2,489                    |
| Other assets   | (464)                     | 1,604                    |
| Other liabilities  | 662                       | 1,187                    |
| <b>Net cash provided by operating activities</b>                   | <b>26,735</b>             | <b>22,887</b>            |
| <b>Investing activities:</b>                                       |                           |                          |
| Acquisitions, net of cash acquired                                 | (2,000)                   | (4,336)                  |
| Proceeds from sale of business                                     |                           | 12,826                   |
| Capital expenditures   | (15,118)                  | (11,986)                 |
| Purchase of investment   | (1,337)                   | (1,111)                  |
| Other, net   | 22                        | (271)                    |
| <b>Net cash used in investing activities</b>                       | <b>(18,433)</b>           | <b>(4,878)</b>           |
| <b>Financing activities:</b>                                       |                           |                          |
| Acquisition of treasury stock                                      | (8,921)                   | (1,925)                  |
| Proceeds from exercise of employee stock options                   | 67                        |                          |
| Proceeds from bank borrowings                                      | 47,000                    | 56,000                   |
| Repayment of notes payable and bank borrowings                     | (58,250)                  | (67,250)                 |
| Repayment of capital lease obligations                             | (48)                      | (1,400)                  |
| <b>Net cash used in financing activities</b>                       | <b>(20,152)</b>           | <b>(14,575)</b>          |
| Net change in cash and equivalents                                 | (11,850)                  | 3,434                    |
| Cash and equivalents:  |                           |                          |
| Beginning of period  | 28,854                    | 21,442                   |
| End of period  | \$ 17,004                 | \$ 24,876                |

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 for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and notes required by accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended March 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2013 due to seasonal and other factors. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the fiscal year ended July 1, 2012.

The Company s quarterly results may experience seasonal fluctuations. Due to the Company s expansion into non-floral products, the Thanksgiving through Christmas holiday season, which falls within the Company s second fiscal quarter, generates the highest proportion of the Company s annual revenues. Additionally, as the result of a number of major floral gifting occasions, including Mother s Day, Valentine s Day and Administrative Professionals Week, revenues also rise during the Company s fiscal third and fourth quarter. The Easter Holiday, which was in the Company s fourth quarter during fiscal 2012, is in the third quarter of fiscal 2013.

*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.

*Recently Adopted 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

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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 is effective for annual and interim goodwill impairment tests performed for the Company's fiscal year ending June 30, 2013. The Company does not expect the adoption of ASU 2011-08 to have a material impact on its consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income (ASU 2011-05), which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminated the option to present the components of other comprehensive income as part of the statement of equity. The Company adopted ASU 2011-05 in its first quarter of fiscal year 2013 by including the required disclosures in two separate but consecutive statements.

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

In July 2012, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment ( ASU No. 2012-02 ), which allows entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU No. 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test. Otherwise, the quantitative impairment test is not required. ASU No. 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of the provisions of ASU No. 2012-02 is not expected to have a material impact on the Company's financial position or results of operations.

**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                    |                  | Nine Months Ended |                  |
|---|---------------------------------------|------------------|-------------------|------------------|
|   | March 31,<br>2013                     | April 1,<br>2012 | March 31,<br>2013 | April 1,<br>2012 |
|   | (in thousands, except per share data) |                  |                   |                  |
| <b>Numerator:</b>   |                                       |                  |                   |                  |
| Income from continuing operations                             | \$ 2,638                              | \$ 51            | \$ 14,043         | \$ 11,494        |
| <b>Denominator:</b>   |                                       |                  |                   |                  |
| Weighted average shares outstanding                           | 64,256                                | 64,988           | 64,528            | 64,683           |
| Effect of dilutive securities:                                |                                       |                  |                   |                  |
| Employee stock options (1)                                    | 769                                   | 65               | 610               | 20               |
| Employee restricted stock awards                              | 1,086                                 | 1,246            | 1,509             | 1,554            |
|   | 1,855                                 | 1,311            | 2,119             | 1,574            |
| Adjusted weighted-average shares and assumed conversions      | 66,111                                | 66,299           | 66,647            | 66,257           |
| <b>Net income per common share from continuing operations</b> |                                       |                  |                   |                  |
| Basic   | \$ 0.04                               | \$ 0.00          | \$ 0.22           | \$ 0.18          |
| Diluted   | \$ 0.04                               | \$ 0.00          | \$ 0.21           | \$ 0.17          |

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Basic net income per common share from continuing operations is computed using the weighted average number of common shares outstanding during the period. Diluted net income from continuing operations 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 1.8 million and 3.2 million shares during the three and nine months ended March 31, 2013 and 5.5 million and 5.6 million shares during the three and nine months ended April 1, 2012, respectively, were excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.

Table of Contents**1-800-FLOWERS.COM, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)***(unaudited)***Note 3 Stock-Based Compensation**

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 12 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2012, that provides for the grant to eligible employees, consultants and directors of stock options, restricted shares, and other stock-based awards.

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

|                                       | Three Months Ended |                  | Nine Months Ended |                  |
|---------------------------------------|--------------------|------------------|-------------------|------------------|
|                                       | March 31,<br>2013  | April 1,<br>2012 | March 31,<br>2013 | April 1,<br>2012 |
|                                       | (in thousands)     |                  |                   |                  |
| Stock options                         | \$ 116             | \$ 316           | \$ 353            | \$ 866           |
| Restricted stock                      | 977                | 1,040            | 3,044             | 2,870            |
| Total                                 | 1,093              | 1,356            | 3,397             | 3,736            |
| Deferred income tax benefit*          | 301                | 502              | 1,210             | 1,373            |
| Stock-based compensation expense, net | \$ 792             | \$ 854           | \$ 2,187          | \$ 2,363         |

\* Tax benefit during the three and nine months ended March 31, 2013, reflects the net impact of the expiration of non-qualified stock options.

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

|                            | Three Months Ended |                  | Nine Months Ended |                  |
|----------------------------|--------------------|------------------|-------------------|------------------|
|                            | March 31,<br>2013  | April 1,<br>2012 | March 31,<br>2013 | April 1,<br>2012 |
|                            | (in thousands)     |                  |                   |                  |
| Marketing and sales        | \$ 383             | \$ 474           | \$ 1,189          | \$ 1,364         |
| Technology and development | 109                | 136              | 340               | 489              |
| General and administrative | 601                | 746              | 1,868             | 1,883            |
| Total                      | \$ 1,093           | \$ 1,356         | \$ 3,397          | \$ 3,736         |



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

|  | Three Months Ended    |                  | Nine Months Ended |                  |
|--|-----------------------|------------------|-------------------|------------------|
|  | March 31,<br>2013 (1) | April 1,<br>2012 | March 31,<br>2013 | April 1,<br>2012 |
| Weighted average fair value of options granted | n/a                   | \$ 2.01          | \$ 2.40           | \$ 1.84          |
| Expected volatility                            | n/a                   | 72.1%            | 72.1%             | 72.1%            |
| Expected life                                  | n/a                   | 8.0 yrs          | 6.4 yrs           | 8.0 yrs          |
| Risk-free interest rate                        | n/a                   | 0.90%            | 0.69%             | 0.90%            |
| Expected dividend yield                        | n/a                   | 0.0%             | 0.0%              | 0.0%             |

(1) no options were granted during the three months ended March 31, 2013.

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

The following table summarizes stock option activity during the nine months ended March 31, 2013:

|                                  | Options     | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value (000s) |
|----------------------------------|-------------|--|---|--|
| Outstanding at July 1, 2012      | 6,711,280   | \$ 4.48                                  |   |  |
| Granted                          | 20,000      | \$ 3.71                                  |   |  |
| Exercised                        | (53,266)    | \$ 2.03                                  |   |  |
| Forfeited                        | (1,782,093) | \$ 6.23                                  |   |  |
| Outstanding at March 31, 2013    | 4,855,921   | \$ 3.85                                  | 5.3 years   | \$ 8,653                               |
| Options vested at March 31, 2013 | 4,719,434   | \$ 3.90                                  | 5.2 years   | \$ 8,286                               |
| Exercisable at March 31, 2013    | 3,634,087   | \$ 5.10                                  | 3.6 years   | \$ 3,777                               |

As of March 31, 2013, the total future compensation cost related to non-vested options, not yet recognized in the statement of income, was \$2.4 million and the weighted average period over which these awards are expected to be recognized was 5.7 years.

The Company grants shares of common stock to its employees that are subject to restrictions on transfer and risk of forfeiture until fulfillment of applicable service conditions (Restricted Stock Awards). The following table summarizes the activity of non-vested restricted stock awards during the nine months ended March 31, 2013:

|                              | Shares      | Weighted<br>Average Grant<br>Date Fair<br>Value |
|------------------------------|-------------|---|
| Non-vested at July 1, 2012   | 3,855,320   | \$ 2.37   |
| Granted                      | 1,668,490   | \$ 3.55   |
| Vested                       | (1,603,204) | \$ 2.48   |
| Forfeited                    | (442,431)   | \$ 3.21   |
| Non-vested at March 31, 2013 | 3,478,378   | \$ 2.78   |

The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of March 31, 2013, 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 2.6 years.

**Note 4 Acquisitions and Dispositions**

*Acquisition of 1-800-Flowers European trademarks*

On March 11, 2013, the Company acquired the European rights to various derivations of the 1-800-Flowers tradename, trademark, URL's and telephone numbers from Flowerscorp Pty Ltd. for a purchase price of \$4.0 million. The purchase agreement requires payment of \$2.0 million on March 11, 2013, and \$1.0 million on each of the first and second anniversary dates of the acquisition.

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

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

(unaudited)

*Sale and Franchise of Fannie May Retail Stores*

On November 21, 2011, the Company and GB Chocolates LLC (GB Chocolates) entered into an agreement whereby the Company sold 17 existing Fannie May stores, to be operated as franchised locations by GB Chocolates, for \$5.6 million, recognizing a gain on the sale of \$3.8 million. Upon completion of the sale, the Company also recognized initial franchise fees associated with these 17 stores in the amount of \$0.5 million. In conjunction with the sale of stores, the Company and GB Chocolates entered into an area development agreement whereby GB Chocolates will open a minimum of 45 new Fannie May franchise stores by December 2014. The agreement provides exclusive development rights for several Midwestern states, as well as specific cities in Florida and Ohio. The terms of the agreement include a non-refundable area development fee of \$0.9 million, store opening fees of \$0.5 million, assuming successful opening of 45 stores, and a non-performance promissory note in the amount of \$1.2 million, which becomes due and payable only if GB Chocolates does not open all 45 stores as set forth in the development agreement. The Company has deferred recognition of \$0.7 million, of the original \$0.9 million area development fee associated with the 45 store area development agreement, based upon the number of stores opened by GB Chocolates as of March 31, 2013. The Company will recognize the remaining deferred revenue of \$0.7 million on a pro-rata basis, when the conditions for revenue recognition under the area development agreement are met. Both store opening fees and area development fees are generally recognized upon the opening of a franchise store, or upon termination of the agreement between the Company and the franchisee. The Company recognized approximately \$0.2 million, of the \$1.2 million promissory note in the second quarter of fiscal 2012, based upon its assessment of the likelihood that the performance criteria under the agreement will be achieved. The fair value of the promissory note is impacted by estimates relating to the probability that GB Chocolates will open 45 stores, discounted for present value, and the risk associated with counterparty payment. Changes in these assumptions could result in an increase or decrease in fair value which would impact the income statement. There were no significant changes in these estimates through the third quarter of fiscal 2013.

*Acquisition of Flowerama*

On August 1, 2011, the Company completed the acquisition of Flowerama of America, Inc. (Flowerama), a franchisor and operator of retail flower shops under the Flowerama trademark, with annual revenue of approximately \$6.1 million and annual operating income of \$0.1 million in its most recent year end prior to acquisition. The purchase price, which included the acquisition of receivables, inventory, eight retail store locations and certain other assets and related liabilities, was approximately \$4.3 million. Of the acquired intangible assets, \$2.1 million was assigned to amortizable investment in licenses, which is being amortized over the estimated useful life of 20 years, based upon the estimated remaining life of the franchise agreements. Approximately \$2.4 million of purchase price was assigned to goodwill which is not deductible for tax purposes. The acquisition was financed utilizing available cash balances. Flowerama's net revenues were \$4.1 million during the nine months ended March 31, 2013, compared to \$4.2 million during the nine months ended April 1, 2012, and its earnings before income taxes was \$0.2 million during the nine months ended March 31, 2013 and April 1, 2012.

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

(unaudited)

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:

|                               | <b>Flowerama<br/>Purchase Price<br/>Allocation<br/>(in thousands)</b> |       |
|-------------------------------|---|-------|
| Current assets                | \$  | 1,090 |
| Intangible assets             |   | 2,106 |
| Goodwill                      |   | 2,440 |
| Property, plant and equipment |   | 76    |
| Total assets acquired         |   | 5,712 |
| Current liabilities           |   | 620   |
| Other liabilities assumed     |   | 756   |
|                               |   | 1,376 |
| Net assets acquired           | \$  | 4,336 |

*Pro forma Results of Operation*

The following unaudited pro forma consolidated financial information has been prepared as if the acquisition of Flowerama had taken place at the beginning of fiscal year 2012. The 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 business acquired prior to acquisition by the Company, 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.

|   | <b>Nine Months<br/>Ended<br/>April 1,<br/>2012<br/>(in thousands, except per<br/>share data)</b> |         |
|---|--|---------|
| Net revenues from continuing operations | \$   | 537,175 |

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|   |    |        |
|---|----|--------|
| Operating income from continuing operations             | \$ | 20,603 |
| Income from continuing operations                       | \$ | 11,374 |
| Net income per common share from continuing operations: |    |        |
| Basic   | \$ | 0.18   |
| Diluted   | \$ | 0.17   |

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

(unaudited)

**Note 5 Inventory**

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

|                 | March 31,<br>2013 |    | July 1,<br>2012 |
|-----------------|-------------------|----|-----------------|
|                 | (in thousands)    |    |                 |
| Finished goods  | \$ 32,395         | \$ | 26,557          |
| Work-in-process | 8,317             |    | 10,466          |
| Raw materials   | 19,165            |    | 18,721          |
|                 | \$ 59,877         | \$ | 55,744          |

**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:

|  | Consumer<br>Floral |    | BloomNet<br>Wire<br>Service |    | Gourmet<br>Food & Gift<br>Baskets (1) |    | Total  |
|--|--------------------|----|-----------------------------|----|---------------------------------------|----|--------|
|  | (in thousands)     |    |                             |    |                                       |    |        |
| Balance at March 31, 2013 and July 1, 2012 | \$ 9,709           | \$ |                             | \$ | 38,192                                | \$ | 47,901 |

(1) The total carrying amount of goodwill for all periods in the table above is reflected net of \$71.1 million of accumulated impairment charges, which were recorded in the GFGB segment during fiscal 2009.

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

|   | Amortization<br>Period | March 31, 2013              |                             |                       | July 1, 2012                |                             |           |
|---|------------------------|-----------------------------|-----------------------------|-----------------------|-----------------------------|-----------------------------|-----------|
|   |                        | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>(in thousands) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net       |
| Intangible assets with determinable lives |                        |                             |                             |                       |                             |                             |           |
| Investment in licenses                    | 14 - 16 years          | \$ 7,420                    | \$ 5,489                    | \$ 1,931              | \$ 7,420                    | \$ 5,401                    | \$ 2,019  |
| Customer lists                            | 3 - 10 years           | 15,989                      | 10,993                      | 4,996                 | 16,019                      | 9,961                       | 6,058     |
| Other                                     | 5 - 8 years            | 2,538                       | 2,475                       | 63                    | 2,538                       | 2,173                       | 365       |
|   |                        | 25,947                      | 18,957                      | 6,990                 | 25,977                      | 17,535                      | 8,442     |
| Trademarks with indefinite lives          |                        |                             |                             |                       |                             |                             |           |
|   |                        | 36,954                      |                             | 36,954                | 33,396                      |                             | 33,396    |
| Total identifiable intangible assets      |                        | \$ 62,901                   | \$ 18,957                   | \$ 43,944             | \$ 59,373                   | \$ 17,535                   | \$ 41,838 |



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

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

(unaudited)

Future estimated amortization expense is as follows: remainder of fiscal 2013 - \$0.4 million, fiscal 2014 - \$1.4 million, fiscal 2015 - \$1.3 million, fiscal 2016 - \$1.2 million, fiscal 2017 - \$0.7 million and thereafter - \$2.0 million.

**Note 7 Investments**

Investments are accounted for using the equity method if the investment provides the Company the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if the Company has an ownership interest in the voting stock of the investee between 20% and 50%, although other factors, such as representation on the investee's Board of Directors, are considered in determining whether the equity method is appropriate. The Company records these investments initially at cost, and adjusts the carrying amount to reflect the Company's share of the earnings or losses of the investee, including all adjustments similar to those made in preparing consolidated financial statements. The book value of investments that the Company accounted for under the equity method of accounting was \$3.7 million as of March 31, 2013 and \$3.6 million as of July 1, 2012. This amount is comprised of the Company's 32% interest in Flores Online, a Sao Paulo, Brazil based internet floral and gift retailer, that the Company made an investment in on May 31, 2012, and is included in Other assets within the Consolidated Balance Sheet. Operating results of Flores Online for the three and nine months ended March 31, 2013 were not material.

All other equity investments, which consist of investments for which the Company does not possess the ability to exercise significant influence, are accounted for under the cost method as they are privately held. Cost method investments are originally recorded at cost, and are included within Other Assets in the Company's Consolidated Balance Sheets. The aggregate carrying amount of the Company's cost method investments was \$2.8 million as of March 31, 2013 and \$1.7 million as of July 1, 2012. In addition, the Company had notes receivable from a company it maintains an investment in of \$1.8 million as of March 31, 2013 and \$0.9 million as of July 1, 2012.

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

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

**Note 8 Long-Term Debt**

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

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|  | March 31,<br>2013 | July 1,<br>2012 |
|--|-------------------|-----------------|
|  | (in thousands)    |                 |
| Term loan (1)  | \$ 18,000         | \$ 29,250       |
| Revolving line of credit (1)   |                   |                 |
| Obligations under capital leases (2)   |                   | 6               |
|  | 18,000            | 29,256          |
| Less current maturities of long-term debt and obligations under capital leases | 18,000            | 15,756          |
| Long-term debt and obligations under capital leases                            | \$ 0              | \$ 13,500       |

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

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

(unaudited)

(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.

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.

On April 10, 2013, the Company entered into a Third Amended and Restated Credit Agreement (the 2013 Credit Facility). The 2013 Credit Facility consists of a revolving line of credit with a seasonally adjusted limit ranging from \$150.0 to \$200.0 million and a working capital sublimit ranging from \$25.0 to \$75.0 million. The 2013 Credit Facility also revises certain financial and non-financial covenants, including the maintenance of certain financial ratios. Outstanding amounts under the 2013 Credit Facility, which matures on April 10, 2018, will bear interest at the Company's option at either: (i) LIBOR, plus a spread of between 150 and 225 basis points, as determined by the Company's leverage ratio, or (ii) the agent bank's prime rate plus a margin. On April 10, 2013, the Company borrowed approximately \$19.0 million against the 2013 Credit Facility to repay the \$18.0 million balance outstanding under its term loan and to pay related financing costs.

(2) Equipment leases with certain manufacturing equipment vendors.

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

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

(unaudited)

**Note 9-Fair Value Measurements**

The Company's financial assets and liabilities are measured and recorded at fair value, except for the Company's investments in certain privately-held companies, which are accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment, when an event or circumstances indicate that an other-than-temporary decline in value may have occurred. The Company's non-financial assets, such as goodwill, intangible assets, and property, plant and equipment, are recorded at cost and are assessed for impairment when an event or circumstances indicate that an other-than-temporary decline in value may have occurred. 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, due to its variable nature.

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

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

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

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

The following table presents by level, within the fair value hierarchy, assets and liabilities measured at fair value on a recurring basis as of March 31, 2013:

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|   | Fair Value Measurements |           |                      |         |
|---|-------------------------|-----------|----------------------|---------|
|   | Total                   | Level 1   | Assets (Liabilities) |         |
|   |                         |           | Level 2              | Level 3 |
|   | (in thousands)          |           |                      |         |
| <b>Assets:</b>                                    |                         |           |                      |         |
| Cash equivalents (money market accounts)          | \$ 12,265               | \$ 12,265 |                      |         |
| Trading securities held in a rabbi trust (1)      | 1,573                   | 1,573     |                      |         |
| Fair value of non-performance promissory note (2) | 205                     |           |                      | \$ 205  |
|   | \$ 14,043               | \$ 13,838 | \$                   | \$ 205  |

(1) Trading securities held in a rabbi trust are included in Other assets in the consolidated balance sheets (Note 14 Employee Retirement Plans, in the Company's Annual Report on Form 10-K). The Company established a Non-qualified Deferred Compensation Plan for certain members of senior management in fiscal 2009. Deferred compensation is invested in mutual funds held in a rabbi trust and are restricted for payment to participants of the NQDC Plan.

(2) Refer to Note 4. Acquisitions and Dispositions *Sale and Franchise of Fannie May Retail Stores* for more detail, including the valuation techniques used to calculate fair value. Included in Other assets on the consolidated balance sheet.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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

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

(1) Trading securities held in a rabbi trust are included in Other assets in the consolidated balance sheets (Note 14 Employee Retirement Plans, in the Company's Annual Report on Form 10-K). The Company established a Non-qualified Deferred Compensation Plan for certain members of senior management in fiscal 2009. Deferred compensation is invested in mutual funds held in a rabbi trust and is restricted for payment to participants of the NQDC Plan.

(2) Refer to Note 4. Acquisitions and Dispositions *Sale and Franchise of Fannie May Retail Stores*. Included in Other assets on the consolidated balance sheet.

(3) Included in Other liabilities on the consolidated balance sheet.

**Note 10 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 nine months ended March 31, 2013 was 31.8% and 37.7%, respectively, compared to 131.1% and 38.9% in same periods of the prior year. The forecasted effective rates for fiscal 2013 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, permanent differences and a change in uncertain tax positions.

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

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. At March 31, 2013 the Company has an unrecognized tax position of approximately \$0.8 million, including accrued interest and penalties of \$0.2 million. During the nine months ended March 31, 2013, the Company recorded a gross unrecognized tax position of \$0.6 million, of which \$0.1million was resolved during the quarter ended March 31, 2013. The Company believes that an additional \$0.5 million of its unrecognized tax positions will be resolved over the next twelve months.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

**Note 11 Business Segments**

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

- Consumer Floral,
- BloomNet Wire Service, and
- Gourmet Food and Gift Baskets

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 Food & Gift Baskets segment. 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 a discontinued operation for all periods presented.

|                             | Three Months Ended |                  | Nine Months Ended |                  |
|-----------------------------|--------------------|------------------|-------------------|------------------|
|                             | March 31,<br>2013  | April 1,<br>2012 | March 31,<br>2013 | April 1,<br>2012 |
|                             | (in thousands)     |                  |                   |                  |
| <b>Net revenues</b>         |                    |                  |                   |                  |
| Segment Net Revenues:       |                    |                  |                   |                  |
| Consumer Floral             | \$ 121,005         | \$ 112,987       | \$ 285,608        | \$ 274,168       |
| BloomNet Wire Service       | 22,819             | 24,060           | 61,320            | 60,837           |
| Gourmet Food & Gift Baskets | 49,341             | 43,104           | 220,483           | 202,829          |
| Corporate (**)              | 200                | 199              | 594               | 575              |
| Intercompany eliminations   | (741)              | (691)            | (1,497)           | (1,707)          |
| Total net revenues          | \$ 192,624         | \$ 179,659       | \$ 566,508        | \$ 536,702       |

|                                  | Three Months Ended |                  | Nine Months Ended |                  |
|----------------------------------|--------------------|------------------|-------------------|------------------|
|                                  | March 31,<br>2013  | April 1,<br>2012 | March 31,<br>2013 | April 1,<br>2012 |
|                                  | (in thousands)     |                  |                   |                  |
| <b>Operating Income</b>          |                    |                  |                   |                  |
| Segment Contribution Margin (*): |                    |                  |                   |                  |
| Consumer Floral                  | \$ 13,902          | \$ 10,948        | \$ 31,074         | \$ 26,899        |
| Bloomnet Wire Service            | 6,952              | 6,258            | 18,797            | 15,925           |



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|                                      |          |          |           |           |
|--------------------------------------|----------|----------|-----------|-----------|
| Gourmet Food & Gift Baskets (***)    | 970      | 948      | 25,351    | 29,188    |
| Segment Contribution Margin Subtotal | 21,824   | 18,154   | 75,222    | 72,012    |
| Corporate (**)                       | (12,879) | (13,125) | (37,737)  | (36,505)  |
| Depreciation and amortization        | (4,849)  | (4,874)  | (13,838)  | (14,705)  |
| Operating income                     | \$ 4,096 | \$ 155   | \$ 23,647 | \$ 20,802 |

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

(\*\*) 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 segments based upon usage, are included within corporate expenses, which include stock-based compensation, as they are not directly allocable to a specific segment.

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(unaudited)

(\*\*\*) GFGB segment contribution margin during the nine months ended April 1, 2012 includes a \$3.8 million gain on the sale of 17 Fannie May stores, which are being operated as franchised locations post-sale.

**Note 12-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 first annual specified revenue target was not achieved.)

Results for discontinued operations are as follows:

|  | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | March 31,<br>2013  | April 1,<br>2012 | March 31,<br>2013 | April 1,<br>2012 |
|  | (in thousands)     |                  |                   |                  |
| Net revenues from discontinued operations                  | \$                 | \$               | \$                | \$ 2,003         |
| Operating loss from discontinued operations                | \$                 | \$               | \$                | \$ (232)         |
| Gain (loss) on sale of discontinued operations, net of tax | \$                 | \$ (136)         | \$                | \$ 4,342         |
| Income (loss) from discontinued operations                 | \$                 | \$ (136)         | \$                | \$ 4,320         |

**Note 13 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.

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On November 10, 2010, a purported class action complaint was filed in the United States District Court for the Eastern District of New York naming the Company (along with Trilegiant Corporation, Inc., Affinion, Inc. and Chase Bank USA, N.A.) as defendants in an action purporting to assert claims against the Company alleging violations arising under the Connecticut Unfair Trade Practices Act among other statutes, and for breach of contract and unjust enrichment in connection with certain post-transaction marketing practices in which certain of the Company's subsidiaries previously engaged in with certain third-party vendors. On December 23, 2011, plaintiff filed a notice of voluntary dismissal seeking to dismiss the entire action without prejudice. The court entered an Order on November 28, 2012, dismissing the case in its entirety. This case was subsequently refiled in the United States District Court for the District of Connecticut.

On March 6, 2012 and March 15, 2012, two additional purported class action complaints were filed in the United States District Court for the District of Connecticut naming the Company and numerous other parties as defendants in actions purporting to assert claims substantially similar to those asserted in the lawsuit filed on November 10, 2010. In each case, plaintiffs seek to have the respective case certified as a class action and seek restitution and other damages, each in an amount in excess of \$5.0 million. On April 26, 2012, the two Connecticut cases were consolidated with a third case previously pending in the United States District Court for the District of Connecticut in which the Company is not a party. A consolidated amended complaint was filed by plaintiffs on September 7, 2012, purporting to assert claims substantially similar to those originally asserted. The Company moved to dismiss the consolidated amended complaint on December 7, 2012.

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

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

(unaudited)

On December 5, 2012, the same plaintiff from the action voluntarily dismissed in the United States District Court for the Eastern District of New York filed a purported class action complaint in the United States District Court for the District of Connecticut naming the Company and numerous other parties as defendants, purporting to assert claims substantially similar to those asserted in the consolidated amended complaint. On January 23, 2013, plaintiffs in the consolidated action filed a motion to transfer and consolidate the action filed on December 5, 2012 with the consolidated action. The Company intends to defend each of these actions vigorously.

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

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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); delicious cut-fruit arrangements from FruitBouquets.com (www.fruitbouquets.com); wine gifts from Winetasting.com® (www.winetasting.com); ultra-premium meats from Stockyards.com (www.stockyards.com); as well as exquisite, customizable invitations and personal stationery from FineStationery.com (www.finestationery.com). The Company's Celebrations® brand (www.celebrations.com) is a new premier online destination for fabulous party ideas and planning tips. 1-800-FLOWERS.COM, Inc. is involved in a broad range of corporate social responsibility initiatives including continuous expansion and enhancement of its environmentally-friendly green programs as well as various philanthropic and charitable efforts.

On September 6, 2011, the Company, through 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 segment, as discontinued operations for all periods presented.

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

## Segment Information

The following table presents the contribution of net revenues, gross profit and segment contribution margin from each of the Company's business segments, as well as consolidated EBITDA (earnings before interest, taxes, depreciation and amortization). Additionally, the table adjusts Segment Contribution Margin to EBITDA, EBITDA excluding stock-based compensation, and Adjusted EBITDA, and reconciles Net Income to EBITDA, EBITDA excluding stock-based compensation, Adjusted EBITDA, and Adjusted Net Income. As noted previously, the Company's wine fulfillment services business, which had previously been included within its Gourmet Foods & Gift Baskets segment has been classified as discontinued operations and therefore excluded from segment information below.

|  | Three Months Ended                          |                   |             | Nine Months Ended                           |                    |             |
|--|---|-------------------|-------------|---|--------------------|-------------|
|  | March 31,<br>2013<br>(dollars in thousands) | April 1,<br>2012  | % Change    | March 31,<br>2013<br>(dollars in thousands) | January 1,<br>2012 | % Change    |
| <b>Net revenues from continuing operations:</b>      |   |                   |             |   |                    |             |
| Consumer Floral                                      | \$ 121,005                                  | \$ 112,987        | 7.1%        | \$ 285,608                                  | \$ 274,168         | 4.2%        |
| BloomNet Wire Service                                | 22,819                                      | 24,060            | (5.2)%      | 61,320                                      | 60,837             | 0.8%        |
| Gourmet Food & Gift Baskets                          | 49,341                                      | 43,104            | 14.5%       | 220,483                                     | 202,829            | 8.7%        |
| Corporate (*)  | 200   | 199               | 0.5%        | 594   | 575                | 3.3%        |
| Intercompany eliminations                            | (741)                                       | (691)             | (7.2)%      | (1,497)                                     | (1,707)            | 12.3%       |
| <b>Total net revenues from continuing operations</b> | <b>\$ 192,624</b>                           | <b>\$ 179,659</b> | <b>7.2%</b> | <b>\$ 566,508</b>                           | <b>\$ 536,702</b>  | <b>5.6%</b> |

|  | Three Months Ended                          |                  |              | Nine Months Ended                           |                   |             |
|--|---|------------------|--------------|---|-------------------|-------------|
|  | March 31,<br>2013<br>(dollars in thousands) | April 1,<br>2012 | % Change     | March 31,<br>2013<br>(dollars in thousands) | April 1,<br>2012  | % Change    |
| <b>Gross profit from continuing operations:</b>      |   |                  |              |   |                   |             |
| Consumer Floral                                      | \$ 48,455                                   | \$ 44,045        | 10.0%        | \$ 112,701                                  | \$ 106,258        | 6.1%        |
|  | 40.0%                                       | 39.0%            |              | 39.5%                                       | 38.8%             |             |
| BloomNet Wire Service                                | 11,382                                      | 10,733           | 6.0%         | 30,974                                      | 28,254            | 9.6%        |
|  | 49.9%                                       | 44.6%            |              | 50.5%                                       | 46.4%             |             |
| Gourmet Food & Gift Baskets                          | 20,418                                      | 18,116           | 12.7%        | 90,200                                      | 84,981            | 6.1%        |
|  | 41.4%                                       | 42.0%            |              | 40.9%                                       | 41.9%             |             |
| Corporate (*)  | 148   | 145              | 2.1%         | 650   | 434               | 49.8%       |
|  | 74.0%                                       | 72.9%            |              | 109.4%                                      | 75.6%             |             |
| <b>Total gross profit from continuing operations</b> | <b>\$ 80,403</b>                            | <b>\$ 73,039</b> | <b>10.1%</b> | <b>\$ 234,525</b>                           | <b>\$ 219,927</b> | <b>6.6%</b> |
|  | 41.7%                                       | 40.7%            |              | 41.4%                                       | 41.0%             |             |

|  | Three Months Ended                          |                  |          | Nine Months Ended                           |                  |          |
|--|---|------------------|----------|---|------------------|----------|
|  | March 31,<br>2013<br>(dollars in thousands) | April 1,<br>2012 | % Change | March 31,<br>2013<br>(dollars in thousands) | April 1,<br>2012 | % Change |
| <b>Adjusted EBITDA from continuing operations:</b> |   |                  |          |   |                  |          |
| <b>Segment Contribution Margin (**)</b>            |   |                  |          |   |                  |          |
| Consumer Floral                                    | \$ 13,902                                   | \$ 10,948        | 27.0%    | \$ 31,074                                   | \$ 26,899        | 15.5%    |
| BloomNet Wire Service                              | 6,952                                       | 6,258            | 11.1%    | 18,797                                      | 15,925           | 18.0%    |
| Gourmet Food & Gift Baskets (***)                  | 970   | 948              | 2.3%     | 25,351                                      | 29,188           | (13.1)%  |

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|  |           |          |         |           |           |        |  |
|--|-----------|----------|---------|-----------|-----------|--------|--|
| Segment Contribution Margin  |           |          |         |           |           |        |  |
| Subtotal   | 21,824    | 18,154   | 20.2%   | 75,222    | 72,012    | 4.5%   |  |
| Corporate (*)  | (12,879)  | (13,125) | 1.9%    | (37,737)  | (36,505)  | (3.4)% |  |
| <b>EBITDA from continuing operations</b>                                     | 8,945     | 5,029    | 77.9%   | 37,485    | 35,507    | 5.6%   |  |
| Add: Stock-based compensation  | 1,093     | 1,356    | (19.4)% | 3,397     | 3,736     | (9.1)% |  |
| <b>EBITDA from continuing operations, excluding stock-based compensation</b> | 10,038    | 6,385    | 57.2%   | 40,882    | 39,243    | 4.2%   |  |
| Less: Gain on sale of stores (***)   |           |          |         |           | 3,789     |        |  |
| <b>Adjusted EBITDA from continuing operations</b>                            | \$ 10,038 | \$ 6,385 | 57.2%   | \$ 40,882 | \$ 35,454 | 15.3%  |  |



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|  | March 31,<br>2013<br>(in thousands) | Three Months Ended<br>April 1,<br>2012 | % Change | March 31,<br>2013<br>(in thousands) | Nine Months Ended<br>April 1,<br>2012 | % Change |
|--|-------------------------------------|--|----------|-------------------------------------|---------------------------------------|----------|
| <b>Discontinued Operations:</b>                            |                                     |  |          |                                     |                                       |          |
| Net revenues   |                                     |  |          |                                     | \$ 2,003                              |          |
| Gross profit   |                                     |  |          |                                     | \$ 405                                |          |
| Contribution margin  |                                     |  |          |                                     | \$ (190)                              |          |
| Gain (loss) on sale of discontinued operations, net of tax |                                     | (136)                                  |          |                                     | \$ 4,342                              |          |
| Income from discontinued operations                        |                                     | (136)                                  |          |                                     | \$ 4,320                              |          |

|  | March 31,<br>2013 | Three Months Ended<br>April 1,<br>2012 | % Change | March 31,<br>2013 | Nine Months Ended<br>April 1,<br>2012 | % Change |
|--|-------------------|--|----------|-------------------|---------------------------------------|----------|
| <b>Reconciliation of Net Income from continuing operations to Adjusted EBITDA from continuing operations (**):</b> |                   |  |          |                   |                                       |          |
| Net income from continuing operations  | \$ 2,638          | \$ 51                                  |          | \$ 14,043         | \$ 11,494                             |          |
| Add:   |                   |  |          |                   |                                       |          |
| Interest expense, net  | 227               | 319                                    |          | 1,088             | 1,990                                 |          |
| Depreciation and amortization  | 4,849             | 4,874                                  |          | 13,838            | 14,705                                |          |
| Income tax expense   | 1,231             |  |          | 8,516             | 7,318                                 |          |
| Less:  |                   |  |          |                   |                                       |          |
| Income tax benefit   |                   | 215                                    |          |                   |                                       |          |
| <b>EBITDA</b>  | <b>8,945</b>      | <b>5,029</b>                           |          | <b>37,485</b>     | <b>35,507</b>                         |          |
| Add: Stock-based compensation  | 1,093             | 1,356                                  |          | 3,397             | 3,736                                 |          |
| <b>EBITDA, excluding stock-based compensation</b>  | <b>10,038</b>     | <b>6,385</b>                           |          | <b>40,882</b>     | <b>39,243</b>                         |          |
| Less: Gain on sale of stores   |                   |  |          |                   | 3,789                                 |          |
| <b>Adjusted EBITDA from continuing operations</b>  | <b>\$ 10,038</b>  | <b>\$ 6,385</b>                        |          | <b>\$ 40,882</b>  | <b>\$ 35,454</b>                      |          |

|   | March 31,<br>2013 | Three Months Ended<br>April 1,<br>2012 | % Change | March 31,<br>2013 | Nine Months Ended<br>April 1,<br>2012 | % Change |
|---|-------------------|--|----------|-------------------|---------------------------------------|----------|
| <b>Reconciliation of Net Income and EPS from continuing operations to Adjusted Net Income and EPS from continuing operations:</b> |                   |  |          |                   |                                       |          |
| Net income from continuing operations   | \$ 2,638          | \$ 51                                  |          | \$ 14,043         | \$ 11,494                             |          |
| Less: Gain on sale of stores, net of tax (***)  |                   |  |          |                   | 2,315                                 |          |
| <b>Adjusted Net Income from continuing operations</b>   | <b>\$ 2,638</b>   | <b>\$ 51</b>                           |          | <b>\$ 14,043</b>  | <b>\$ 9,179</b>                       |          |
| Net Income per common share from continuing operations  |                   |  |          |                   |                                       |          |
| Basic   | \$ 0.04           | \$ 0.00                                |          | \$ 0.22           | \$ 0.18                               |          |
| Diluted   | \$ 0.04           | \$ 0.00                                |          | \$ 0.21           | \$ 0.17                               |          |
| <b>Adjusted Net Income per common share from continuing operations</b>  |                   |  |          |                   |                                       |          |
| <b>Basic</b>  | <b>\$ 0.04</b>    | <b>\$ 0.00</b>                         |          | <b>\$ 0.22</b>    | <b>\$ 0.14</b>                        |          |
| <b>Diluted</b>  | <b>\$ 0.04</b>    | <b>\$ 0.00</b>                         |          | <b>\$ 0.21</b>    | <b>\$ 0.14</b>                        |          |
| Weighted average shares used in the calculation of net income per common share from continuing operations                         |                   |  |          |                   |                                       |          |
| Basic   | 64,256            | 64,988                                 |          | 64,528            | 64,683                                |          |
| Diluted   | 66,111            | 66,299                                 |          | 66,647            | 66,257                                |          |



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

(\*\*) Performance is measured based on segment contribution margin or segment Adjusted EBITDA, reflecting only the direct controllable revenue and operating expenses of the segments. As such, management's measure of profitability for these segments does not include the effect of corporate overhead, 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 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 segment contribution margin during the nine months ended April 1, 2012 includes a \$3.8 million gain on the sale (\$2.3 million, net of tax) of 17 Fannie May stores, which are being operated as franchised locations post-sale.

**Results of Operations***Net Revenues*

|                    | March 31,<br>2013      | Three Months Ended<br>April 1,<br>2012 | % Change | March 31,<br>2013 | Nine Months Ended<br>April 1,<br>2012 | % Change |
|--------------------|------------------------|--|----------|-------------------|---------------------------------------|----------|
|                    | (dollars in thousands) |  |          |                   |                                       |          |
| Net revenues:      |                        |  |          |                   |                                       |          |
| E-Commerce         | \$ 144,888             | \$ 132,190                             | 9.6%     | \$ 398,978        | \$ 376,110                            | 6.1%     |
| Other              | 47,736                 | 47,469                                 | 0.6%     | 167,530           | 160,592                               | 4.3%     |
| Total net revenues | \$ 192,624             | \$ 179,659                             | 7.2%     | \$ 566,508        | \$ 536,702                            | 5.6%     |

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

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During the three months ended March 31, 2013, revenues increased by 7.2% in comparison to the prior year period as a result of: (i) growth within the Consumer Floral segment, driven by a strong Valentine's Day holiday by the 1-800-Flowers.com brand, as well as the shift of the Easter holiday into the third quarter, compared with the prior year when Easter fell in the fourth quarter, and (ii) growth within the Gourmet Food & Gift Baskets category driven primarily by the shift of the Easter holiday, as well as the launch of the Fannie May Berries line of chocolate covered strawberries. This growth was partially offset by lower revenues with the BloomNet Wire Service segment, which is discussed in more detail below. During the nine months ended March 31, 2013, revenues increased by 5.6% in comparison to the prior year period as a result of growth across all segments. As noted above, the Consumer Floral segment growth is largely attributable to a strong Valentine's Day holiday, aided by the shift of the Easter holiday, while the Gourmet Food and Gift Baskets segment, was primarily attributable to a rebound in the wholesale gift basket business during the second quarter holiday season, after several years of declines, as well as strong e-commerce growth from the Cheryl's, Fannie May Chocolates and The Popcorn Factory brands, and the shift of the Easter holiday, offset in part

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by lower revenue from the Fannie May retail and wholesale channel, which is partially the result of the 17 store franchise conversion completed in the second quarter of the prior year. Excluding the impact of the shift in the timing of the Easter holiday, revenues increased by 3.6% and 4.3% during the three and nine months ended March 31, 2013, respectively.

E-Commerce revenues increased 9.6% and 6.1% during the three and nine months ended March 31, 2013, respectively, in comparison to the prior year periods, due to increased order volume, as the Company fulfilled approximately 2,318,000 and 6,561,000 orders through its e-commerce sales channels (online and telephonic sales) during the three and nine months ended March 31, 2013, representing an increase of 13.7% and 8.1% over the same periods of the prior year. These increases were primarily attributable to: (i) continued improved performance of the 1-800-Flowers brand, especially during the Valentine's Day holiday, (ii) increased order volume within the Gourmet Food & Gift Baskets segment during the Christmas Holiday season, as well as from the launch of the Fannie May Berries line of chocolate dipped strawberries, and (iii) the aforementioned shift of the Easter holiday. Average order value decreased slightly to \$62.50 and \$60.81 during the three and nine months ended March 31, 2013, representing reductions of 3.6% and 1.9% over the respective prior year periods as a result of product and segment mix due to the shift of the Easter holiday, as well as an increase in lower price point gifts within the Gourmet Food & Gift Baskets category as a result of the Company's strategy to increase customer purchase frequency through social gifting programs.

Other revenues, comprised of the Company's BloomNet Wire Service segment, as well as the wholesale and retail channels of its Consumer Floral and Gourmet Food and Gift Baskets segments, increased 0.6% during the three months ended March 31, 2013 in comparison to the prior year period, as a result of the growth within the Gourmet Food and Gift Baskets wholesale business, partially offset by a decline in BloomNet wholesale product revenues. Other revenues increased 4.3% during the nine months ended March 31, 2013, in comparison to the prior year period, primarily as a result of growth within the Gourmet Food and Gift Baskets wholesale gift basket business during the second quarter, as well as membership services growth within the BloomNet WireService segment, partially offset by a decrease in Fannie May retail store sales, resulting from the aforementioned conversion of 17 stores into franchise operations in the second quarter of the prior year.

The Consumer Floral segment 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), 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 nine months ended March 31, 2013 increased by 7.1% and 4.2% over the respective prior year periods, as a result of the continued improvement within the flagship 1-800-Flowers brand, especially during the Valentine's Day holiday, due in part to the favorable Thursday day placement, compared to the prior year when Valentine's Day fell on Tuesday, as well as the shift of the Easter holiday. Excluding the impact of the shift in the timing of the Easter holiday, Consumer Floral revenues increased by 5.2% and 3.4% during the three and nine months ended March 31, 2013, respectively.

The BloomNet Wire Service segment includes revenues from membership fees as well as other product and service offerings to florists. Net revenues during the three months ended March 31, 2013 decreased by 5.2% over the prior year period reflecting changes in the mix of products, services and order volumes, as well as lower revenue of wholesale products to florists. Net revenues during the nine months ended March 31, 2013 increased by 0.8% over the prior year period, due to increases in technology and other service offerings, offset in part by lower order volumes and wholesale product sales to florists.

The Gourmet Food & Gift Baskets segment 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. Revenue is derived from the sale of gift baskets, cookies, baked gifts, premium chocolates and confections, gourmet popcorn, wine gifts and prime steaks and chops through its e-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Cheryl's and Fannie May brand names, royalties from Fannie May franchise operations, as well as wholesale operations. Net revenue during the three and nine months ended March 31, 2013 increased by 14.5% and 8.7% over the respective prior year periods, primarily as a result of aforementioned contributions from the shift in

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the Easter holiday, the launch of Fannie May Berries, and strong e-commerce growth from Cheryl's, Fannie May and The Popcorn Factory. Further contributing to the growth for the nine month period ending March 31, 2013 was the increased wholesale gift basket business during the second quarter holiday season,

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offset in part by lower revenue from Fannie May's wholesale and retail channel, which is partially the result of store count reductions due to the 17 store franchise conversion completed in second quarter of the prior year. Excluding the impact of the shift in the timing of the Easter holiday, Gourmet Food & Gift Basket revenues increased by 4.4% and 6.6% during the three and nine months ended March 31, 2013, respectively.

The Company expects to achieve annual revenue growth in Fiscal 2013 across all of its business segments, with consolidated revenue growth in the mid-single-digit range.

**Gross Profit**

|                | March 31,<br>2013 | Three Months Ended<br>April 1,<br>2012 | % Change<br>(dollars in thousands) | March 31,<br>2013 | Nine Months Ended<br>April 1,<br>2012 | % Change |
|----------------|-------------------|--|------------------------------------|-------------------|---------------------------------------|----------|
| Gross profit   | \$ 80,403         | \$ 73,039                              | 10.1%                              | \$ 234,525        | \$ 219,927                            | 6.6%     |
| Gross margin % | 41.7%             | 40.7%                                  |                                    | 41.4%             | 41.0%                                 |          |

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 during the three and nine months ended March 31, 2013 increased by 10.1% and 6.6% in comparison to the respective prior year periods, as a result of the aforementioned revenue growth within the Consumer Floral and Gourmet Food & Gift Baskets segments, combined with higher gross margin percentages within the Consumer Floral and BloomNet WireService segments. As a result, overall gross margin percentage increased by 100 basis points, to 41.7%, during the three months ended March 31, 2013, and 40 basis points, to 41.4%, during the nine months ended March 31, 2013, in comparison to the respective periods of the prior year.

Consumer Floral segment gross profit increased by 10.0% and 6.1%, respectively, during the three and nine months ended March 31, 2013, in comparison to the prior year periods, due to the revenue growth described above, especially during the Valentine's Day holiday, combined with higher gross margin percentages achieved through improved product sourcing and logistics initiatives.

BloomNet Wire Service segment gross profit increased by 6.0% and 9.6%, respectively, during the three and nine months ended March 31, 2013 in comparison to the prior year periods, primarily due to increased gross margin percentages attributable to the mix of products, consisting of a greater proportion of higher margin offerings, including increased technology and other service revenue, combined with reduced sales of lower margin wholesale products to florists.

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The Gourmet Food & Gift Baskets segment gross profit increased by 12.7% and 6.1%, respectively, during the three and nine months ended March 31, 2013 in comparison to the prior year periods, due to the aforementioned revenue growth, including contributions from the shift in the Easter holiday into the Company's third quarter, compared with the same periods of the prior year. The impact of the revenue growth was partially offset by operational issues associated with the relocation of a warehouse and distribution facility, which impacted the Company's second quarter, and to a lesser extent, third quarter margins, as well as the mix of sales, which, during the nine months ended March 31, 2013, were influenced by the significant increase in the wholesale gift baskets business, which is comprised of lower margin products.

The Company expects its gross margin percentage will improve in comparison to fiscal 2012 as a result of continued improvements in product sourcing, supply chain and manufacturing efficiencies.



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|                            | March 31,<br>2013 | Three Months Ended<br>April 1,<br>2012 | % Change<br>(dollars in thousands) | March 31,<br>2013 | Nine Months Ended<br>April 1,<br>2012 | % Change |
|----------------------------|-------------------|--|------------------------------------|-------------------|---------------------------------------|----------|
| Marketing and sales        | \$ 51,836         | \$ 48,598                              | 6.7%                               | \$ 139,727        | \$ 133,900                            | 4.4%     |
| Percentage of net revenues | 26.9%             | 27.1%                                  |                                    | 24.7%             | 24.9%                                 |          |

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 6.7% and 4.4%, respectively, during the three and nine months ended March 31, 2013 in comparison to the prior year periods, as a result of: (i) variable costs associated with the aforementioned increase in revenue, (ii) increased advertising by the Consumer Floral segment in order to continue to drive cost-efficient revenue growth, and within the Gourmet Food & Gift Baskets segment to launch the new Fannie May Berries line of chocolate dipped strawberries, and (iii) increased labor due to several growth initiatives, offset in part by the conversion of 17 Fannie May retail stores into franchise operations. As a percentage of net revenues, marketing and sales expense decreased 20 basis points during both the three and nine months ended March 31, 2013, respectively, in comparison to the same periods of the prior year, reflecting the Company's continued focus on enhanced merchandising programs that emphasize better and best gift offerings, and disciplined marketing programs that encourage customers to wow their recipients, while leveraging its infrastructure.

During the three and nine months ended March 31, 2013 the Company added approximately 702,000 and 1,749,000 new e-commerce customers. Of the 1,686,000 and 3,784,000 total customers who placed e-commerce orders during the three and nine months ended March 31, 2013, approximately 58% and 54% represented repeat customers, reflecting the Company's successful efforts to engage with its customers and deepen its relationships as their trusted Florist and Gift shop for all of their celebratory occasions.

**Technology and Development Expense**

|                            | March 31,<br>2013 | Three Months Ended<br>April 1,<br>2012 | % Change<br>(dollars in thousands) | March 31,<br>2013 | Nine Months Ended<br>April 1,<br>2012 | % Change |
|----------------------------|-------------------|--|------------------------------------|-------------------|---------------------------------------|----------|
| Technology and development | \$ 5,624          | \$ 5,646                               | (0.4)%                             | \$ 16,415         | \$ 15,252                             | 7.6%     |
| Percentage of net revenues | 2.9%              | 3.1%                                   |                                    | 2.9%              | 2.8%                                  |          |

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.

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During the three months ended March 31, 2013, technology and development expense was consistent with the prior year period, whereas technology and development expense during the nine months ended March 31, 2013 increased 7.6%, over the prior year, due to labor and consulting costs associated with strategic supply chain and architecture improvements to the Company's multi-branded websites, and an increase in platform maintenance costs.

During the three and nine months ended March 31, 2013, the Company expended \$10.7 million and \$27.5 million, respectively, on technology and development, of which \$5.1 million and \$11.1 million, respectively, has been capitalized.

Table of Contents*General and Administrative Expense*

|                            | March 31,<br>2013 | Three Months Ended<br>April 1,<br>2012 | % Change<br>(dollars in thousands) | March 31,<br>2013 | Nine Months Ended<br>April 1,<br>2012 | % Change |
|----------------------------|-------------------|--|------------------------------------|-------------------|---------------------------------------|----------|
| General and administrative | \$ 13,998         | \$ 13,766                              | 1.7%                               | \$ 40,898         | \$ 39,057                             | 4.7%     |
| Percentage of net revenues | 7.3%              | 7.7%                                   |                                    | 7.2%              | 7.3%                                  |          |

General and administrative expense consists of payroll and other expenses in support of the Company's executive, finance and accounting, legal, human resources and other administrative functions, as well as professional fees and other general corporate expenses.

General and administrative expense increased by 1.7% and 4.7% during the three and nine months ended March 31, 2013, compared to the prior year periods, as a result of increased professional fees, insurance costs, and the impact of annual wage increases. However, as a percentage of net revenues, general and administrative costs decreased 40 basis points and 10 basis points, over the three and nine month periods ending March 31, 2013, compared to the respective periods of the prior year, reflecting the Company's ability to leverage its business platform.

*Depreciation and Amortization Expense*

|                               | March 31,<br>2013 | Three Months Ended<br>April 1,<br>2012 | % Change<br>(dollars in thousands) | March 31,<br>2013 | Nine Months Ended<br>April 1,<br>2012 | % Change |
|-------------------------------|-------------------|--|------------------------------------|-------------------|---------------------------------------|----------|
| Depreciation and amortization | \$ 4,849          | \$ 4,874                               | (0.5)%                             | \$ 13,838         | \$ 14,705                             | (5.9)%   |
| Percentage of net revenues    | 2.5%              | 2.7%                                   |                                    | 2.4%              | 2.7%                                  |          |

Depreciation and amortization expense decreased by 0.5% and 5.9%, respectively, during the three and nine months ended March 31, 2013 in comparison to the same periods of the prior year, as a result of the Company's efforts to reduce capital expenditures as the Company continues to leverage its technology platform.

*Interest Expense, net*

|  | March 31,<br>2013 | Three Months Ended<br>April 1,<br>2012 | % Change<br>(dollars in thousands) | March 31,<br>2013 | Nine Months Ended<br>April 1,<br>2012 | % Change |
|--|-------------------|--|------------------------------------|-------------------|---------------------------------------|----------|
|--|-------------------|--|------------------------------------|-------------------|---------------------------------------|----------|

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|                       |    |     |    |     |         |    |       |    |       |         |
|-----------------------|----|-----|----|-----|---------|----|-------|----|-------|---------|
| Interest expense, net | \$ | 227 | \$ | 319 | (28.8)% | \$ | 1,088 | \$ | 1,990 | (45.3)% |
|-----------------------|----|-----|----|-----|---------|----|-------|----|-------|---------|

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 and earnings from the Company's non-controlling interest in a foreign subsidiary.

Net interest expense decreased during the three and nine months ended March 31, 2013 in comparison to the respective prior year periods, due to the scheduled repayments of amounts outstanding under the Company's term loans and reduced borrowing costs.

On April 10, 2013, the Company entered into a Third Amended and Restated Credit Agreement (the 2013 Credit Facility). The 2013 Credit Facility consists of a revolving line of credit with a seasonally adjusted limit ranging from \$150.0 to \$200.0 million and a working capital sublimit ranging from \$25.0 to \$75.0 million. The 2013 Credit Facility also revises certain financial and non-financial covenants, including the maintenance of certain financial ratios. Outstanding amounts under the 2013 Credit Facility, which matures

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on April 10, 2018, will bear interest at the Company's option at either: (i) LIBOR, plus a spread of between 150 and 225 basis points, as determined by the Company's leverage ratio, or (ii) the agent bank's prime rate plus a margin. On April 10, 2013, the Company borrowed approximately \$19.0 million against the 2013 Credit Facility to repay the \$18.0 million balance outstanding under its term loan and to pay related financing costs.

**Income Taxes**

The Company recorded income tax expense from continuing operations of \$1.2 million and \$8.5 million during the three and nine months ended March 31, 2013, respectively, compared to an income tax benefit of \$0.2 million and income tax expense of \$7.3 million in the respective prior year periods. The Company's effective tax rate from continuing operations for the three and nine months ended March 31, 2013, was 31.8% and 37.7%, respectively, compared to 131.1% and 38.9% 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, permanent differences, and a change to uncertain tax positions.

**Discontinued Operations**

On September 6, 2011, the Company 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 sale resulted in a gain of \$4.5 million, net of taxes. 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 segment, as discontinued operations for all periods presented.

Results for discontinued operations are as follows:

|  | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | March 31,<br>2013  | April 1,<br>2012 | March 31,<br>2013 | April 1,<br>2012 |
|  | (in thousands)     |                  |                   |                  |
| Net revenues from discontinued operations                  | \$                 | \$               | \$                | \$ 2,003         |
| Gross profit from discontinued operations                  | \$                 | \$               | \$                | \$ 405           |
| Contribution margin from discontinued operations           | \$                 | \$               | \$                | \$ (232)         |
| Gain (loss) on sale of discontinued operations, net of tax | \$                 | \$ (136)         | \$                | \$ 4,342         |
| Income (loss) from discontinued operations                 | \$                 | \$ (136)         | \$                | \$ 4,320         |

**Liquidity and Capital Resources**

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At March 31, 2013, the Company had working capital of \$20.2 million, including cash and equivalents of \$17.0 million, compared to working capital of \$29.7 million, including cash and equivalents of \$28.9 million, at July 1, 2012.

Net cash provided by operating activities of \$26.7 million for the nine months ended March 31, 2013 was primarily due to the Company's net income, adjusted for non-cash charges related to depreciation and amortization and stock-based compensation, offset by seasonal changes in working capital, which included increases in accounts receivable related to the Easter holiday selling season, and inventory for the upcoming Mother's Day holiday, offset by increases in accounts payable for the upcoming spring selling season.

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Net cash used in investing activities of \$18.4 million for the nine months ended March 31, 2013 was primarily attributable to capital expenditures, primarily related to the Company's technology infrastructure and the acquisition of the Company's European trademarks, as well as minority interest investments in two privately held floral operators.

Net cash used in financing activities of \$20.2 million for the nine months ended March 31, 2013 was primarily due to the repayment of bank borrowings on outstanding term-loan debt, as well as the acquisition of treasury stock under the Company's stock repurchase plan. All revolving credit facility borrowings used to finance working capital needs leading up to the December holiday selling season 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.

On April 10, 2013, the Company entered into a Third Amended and Restated Credit Agreement (the 2013 Credit Facility). The 2013 Credit Facility consists of a revolving line of credit with a seasonally adjusted limit ranging from \$150.0 to \$200.0 million and a working capital sublimit ranging from \$25.0 to \$75.0 million. The 2013 Credit Facility also revises certain financial and non-financial covenants, including the maintenance of certain financial ratios. Outstanding amounts under the 2013 Credit Facility, which matures on April 10, 2018, will bear interest at the Company's option at either: (i) LIBOR, plus a spread of between 150 and 225 basis points, as determined by the Company's leverage ratio, or (ii) the agent bank's prime rate plus a margin. On April 10, 2013, the Company borrowed approximately \$19.0 million against the 2013 Credit Facility to repay the \$18.0 million balance outstanding under its term loan and to pay related financing costs.

Despite the current challenging economic environment, the Company believes that cash flows from operations along with available borrowings from its 2013 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.

In March 2013, the Company's Board of Directors authorized an increase of \$20.0 million to its existing stock repurchase plan. Any such purchases could be made from time to time in the open market or through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of March 31, 2013, \$19.6 million remains authorized but unused.

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At March 31, 2013, the Company's contractual obligations from continuing operations consist of:

|  | Total      | Payments due by period<br>(in thousands) |           |           |                      |
|--|------------|--|-----------|-----------|----------------------|
|  |            | Less than<br>1 year                      | 1 2 years | 3 5 years | More than 5<br>years |
| Long-term debt and capital lease obligations, including interest | \$ 18,625  | \$ 18,625                                | \$        | \$        | \$                   |
| Operating lease obligations                                      | 53,609     | 12,974                                   | 17,244    | 12,515    | 10,876               |
| Sublease obligations   | 2,934      | 1,425                                    | 1,194     | 315       |                      |
| Purchase commitments (*)   | 38,736     | 38,736                                   |           |           |                      |
| Total  | \$ 113,904 | \$ 71,760                                | \$ 18,438 | \$ 12,830 | \$ 10,876            |

(\*) 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 different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in preparation of its consolidated financial statements.

*Revenue Recognition*

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

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



and area development fees are generally recognized upon the opening of a franchise store or upon termination of the agreement between the Company and the franchisee.

*Accounts Receivable*

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

*Inventory*

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

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*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.

Based on the annual impairment test performed in the fourth quarter at fiscal 2012, the Company's reporting units had significant safety margins, representing the excess of the estimated fair value of each reporting unit less its respective carrying value (including goodwill allocated to each respective reporting unit). Future events could cause the Company to conclude that impairment indicators exist and that goodwill and other intangible assets associated with our acquired businesses is impaired.

*Capitalized Software*

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

*Stock-based Compensation*

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

*Income Taxes*

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

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

### **Recently Adopted 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

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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 is effective for annual and interim goodwill impairment tests performed for the Company's fiscal year ending June 30, 2013. The Company does not expect the adoption of ASU 2011-08 to have a material impact on its consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income (ASU 2011-05), which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminated the option to present the components of other comprehensive income as part of the statement of equity. The Company adopted ASU 2011-05 in its first quarter of fiscal year 2013 by including the required disclosures in two separate but consecutive statements.

**Recent Accounting Pronouncements**

In July 2012, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment ( ASU No. 2012-02 ), which allows entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU No. 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test. Otherwise, the quantitative impairment test is not required. ASU No. 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of the provisions of ASU No. 2012-02 is not expected to have a material impact on the company's financial position or results of operations.

**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;

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- 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;

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- 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 1, 2012 listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them in Part I, Item 1A, of that filing under the heading "Cautionary Statements Under the Private Securities Litigation Reform Act of 1995". We incorporate that section of that Form 10-K in this filing and investors should refer to it.

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

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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 March 31, 2013, the Company's outstanding debt, including current maturities, was \$18.0 million.

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

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

Each 50 basis point change in interest rates would have a corresponding effect on our interest expense of approximately \$0.1 million and \$0.2 million during the three and nine months ended March 31, 2013.

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**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of March 31, 2013. 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 March 31, 2013.

*Changes in Internal Control over Financial Reporting*

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 during the quarter ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

*Legal Proceedings*

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

On November 10, 2010, a purported class action complaint was filed in the United States District Court for the Eastern District of New York naming the Company (along with Trilegiant Corporation, Inc., Affinion, Inc. and Chase Bank USA, N.A.) as defendants in an action purporting to assert claims against the Company alleging violations arising under the Connecticut Unfair Trade Practices Act among other statutes, and for breach of contract and unjust enrichment in connection with certain post-transaction marketing practices in which certain of the Company's subsidiaries previously engaged in with certain third-party vendors. On December 23, 2011, plaintiff filed a notice of voluntary dismissal seeking to dismiss the entire action without prejudice. The court entered an Order on November 28, 2012, dismissing the case in its entirety. This case was subsequently refiled in the United States District Court for the District of Connecticut.

On March 6, 2012 and March 15, 2012, two additional purported class action complaints were filed in the United States District Court for the District of Connecticut naming the Company and numerous other parties as defendants in actions purporting to assert claims substantially similar to those asserted in the lawsuit filed on November 10, 2010. In each case, plaintiffs seek to have the respective case certified as a class action and seek restitution and other damages, each in an amount in excess of \$5.0 million. On April 26, 2012, the two Connecticut cases were consolidated with a third case previously pending in the United States District Court for the District of Connecticut in which the Company is not a party. A consolidated amended complaint was filed by plaintiffs on September 7, 2012, purporting to assert claims substantially similar to those originally asserted. The Company moved to dismiss the consolidated amended complaint on December 7, 2012.

On December 5, 2012, the same plaintiff from the action voluntarily dismissed in the United States District Court for the Eastern District of New York filed a purported class action complaint in the United States District Court for the District of Connecticut naming the Company and numerous other parties as defendants, purporting to assert claims substantially similar to those asserted in the consolidated amended complaint. On January 23, 2013, plaintiffs in the consolidated action filed a motion to transfer and consolidate the action filed on December 5, 2012 with the consolidated action. The Company intends to defend each of these actions vigorously.

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

**ITEM 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 1, 2012.

Table of Contents**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 nine months of fiscal 2013, which includes the period July 2, 2012 through March 31, 2013:

| Period             | Total Number of Shares Purchased<br>(in thousands, except average price paid per share) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) |
|--------------------|---|------------------------------|--|---|
| 7/2/12 7/29/12     |   | \$                           |  | \$ 8,548  |
| 7/30/12 8/26/12    | 5.3   | \$ 3.74                      | 5.3  | \$ 8,528  |
| 8/27/12 9/30/12    | 241.7   | \$ 3.86                      | 241.7  | \$ 7,595  |
| 10/01/12 10/28/12  | 289.4   | \$ 3.55                      | 289.4  | \$ 6,567  |
| 10/29/12 11/25/12  | 565.9   | \$ 3.39                      | 565.9  | \$ 4,647  |
| 11/26/12 12/30/12  | 371.7   | \$ 3.36                      | 371.7  | \$ 3,399  |
| 12/31/12 - 1/27/13 | 193.7   | \$ 3.70                      | 193.7  | \$ 2,677  |
| 1/28/13 2/24/13    | 414.1   | \$ 4.13                      | 414.1  | \$ 954  |
| 2/25/13 3/31/13    | 293.5   | \$ 4.49                      | 293.5  | \$ 19,626   |
| Total              | 2,375.3   | \$ 3.73                      | 2,375.3  |   |

In March 2013, the Company's Board of Directors authorized an increase of \$20.0 million to its existing stock repurchase plan. Any such purchases could be made from time to time in the open market or through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of March 31, 2013, \$19.6 million remains authorized but unused.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

|         |  |
|---------|--|
| 31.1    | Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *              |
| 31.2    | Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *              |
| 32.1    | Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. * |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Document   |
| 101.PRE | XBRL Taxonomy Definition Presentation Document   |

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\* 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: May 10, 2013

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

Date: May 10, 2013

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