

1 800 FLOWERS COM INC
Form 10-Q
February 08, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 30, 2012

or

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

For the transition period from to

Commission File No. 0-26841

1-800-FLOWERS.COM, Inc.

(Exact name of registrant as specified in its charter)

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

DELAWARE
(State of
incorporation)

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

One Old Country Road, Carle Place, New York 11514

(Address of principal executive offices)(Zip code)

(516) 237-6000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

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

27,878,249

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

36,858,465

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

Table of Contents

1-800-FLOWERS.COM, Inc.

TABLE OF CONTENTS

INDEX

	Page
<u>Part I.</u>	
<u>Item 1.</u>	
	<u>Financial Information</u>
	<u>Consolidated Financial Statements:</u>
	<u>Consolidated Balance Sheets – December 30, 2012 (Unaudited) and July 1, 2012</u>
	1
	<u>Consolidated Statements of Operations (Unaudited) – Three and Six Months Ended December 30, 2012 and January 1, 2012</u>
	2
	<u>Consolidated Statements of Comprehensive Income (Unaudited) – Three and Six Months Ended December 30, 2012 and January 1, 2012</u>
	3
	<u>Consolidated Statements of Cash Flows (Unaudited) – Six Months Ended December 30, 2012 and January 1, 2012</u>
	4
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>
	5
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>
	19
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	32
<u>Item 4.</u>	<u>Controls and Procedures</u>
	32
<u>Part II.</u>	
	<u>Other Information</u>
<u>Item 1.</u>	<u>Legal Proceedings</u>
	33
<u>Item 1A.</u>	<u>Risk Factors</u>
	33
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	34
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u>
	34
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>
	34
<u>Item 5.</u>	<u>Other Information</u>
	34
<u>Item 6.</u>	<u>Exhibits</u>
	35
<u>Signatures</u>	

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)*

	December 30, 2012 (unaudited)	July 1, 2012
Assets		
Current assets:		
Cash and equivalents	\$ 26,964	\$ 28,854
Receivables, net	36,407	14,968
Inventories	58,435	55,744
Deferred tax assets	5,902	4,993
Prepaid and other	7,262	11,082
Current assets of discontinued operations		100
Total current assets	134,970	115,741
Property, plant and equipment, net	49,757	48,669
Goodwill	47,901	47,901
Other intangibles, net	40,412	41,838
Deferred tax assets	2,822	2,824
Other assets	9,283	7,875
Total assets	\$ 285,145	\$ 264,848
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 26,135	\$ 17,619
Accrued expenses	63,442	52,535
Current maturities of long-term debt and obligations under capital leases	17,250	15,756
Current liabilities of discontinued operations	59	110
Total current liabilities	106,886	86,020
Long-term debt and obligations under capital leases	4,500	13,500
Other liabilities	3,368	3,580
Total liabilities	114,754	103,100
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; 36,100,026 and 34,465,207 shares issued at December 30, 2012 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 December 30, 2012 and July 1, 2012	421	421
Accumulated other comprehensive loss		(17)
Additional paid-in capital	296,167	293,814
Retained deficit	(84,853)	(96,258)

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

Treasury stock, at cost 8,241,187 and 6,767,166 Class A shares at December 30, 2012 and July 1, 2012, respectively, and 5,280,000 Class B shares	(41,705)	(36,556)
Total stockholders' equity	170,391	161,748
Total liabilities and stockholders' equity	\$ 285,145	\$ 264,848

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		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
Net revenues	\$ 253,016	\$ 239,845	\$ 373,884	\$ 357,043
Cost of revenues	148,531	139,519	219,762	210,155
Gross profit	104,485	100,326	154,122	146,888
Operating expenses:				
Marketing and sales	54,901	53,020	87,891	85,302
Technology and development	5,376	4,854	10,791	9,606
General and administrative	13,679	12,932	26,900	25,291
Depreciation and amortization	4,531	4,929	8,989	9,831
Total operating expenses	78,487	75,735	134,571	130,030
Gain on sale of stores		3,789		3,789
Operating income	25,998	28,380	19,551	20,647
Interest expense, net	559	849	861	1,671
Income from continuing operations before income taxes	25,439	27,531	18,690	18,976
Income tax expense from continuing operations	9,428	10,955	7,285	7,533
Income from continuing operations	16,011	16,576	11,405	11,443
Operating income (loss) from discontinued operations, net of tax		63		(23)
Gain on sale of discontinued operations, net of tax				4,478
Income from discontinued operations		63		4,455
Net income	\$ 16,011	\$ 16,639	\$ 11,405	\$ 15,898
Basic net income per common share:				
From continuing operations	\$ 0.25	\$ 0.26	\$ 0.18	\$ 0.18
From discontinued operations				0.07
Net income per common share	\$ 0.25	\$ 0.26	\$ 0.18	\$ 0.25
Diluted net income per common share:				
From continuing operations	\$ 0.24	\$ 0.25	\$ 0.17	\$ 0.17
From discontinued operations				0.07
Net income per common share	\$ 0.24	\$ 0.25	\$ 0.17	\$ 0.24
Weighted average shares used in the calculation of net income per common share				
Basic	64,824	64,841	64,665	64,530
Diluted	66,557	66,050	66,695	65,989

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

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

Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
	(in thousands)			
Net income	\$ 16,011	\$ 16,639	\$ 11,405	\$ 15,898
Other comprehensive income		45	17	100
Comprehensive income	\$ 16,011	\$ 16,684	\$ 11,422	\$ 15,998

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)*

	Six Months Ended	
	December 30, 2012	January 1, 2012
Operating activities:		
Net income	\$ 11,405	\$ 15,898
Reconciliation of net income to net cash provided by operations		
Operating activities of discontinued operations	49	1,112
Gain on sale of discontinued operations		(8,953)
Depreciation and amortization	8,989	9,831
Amortization of deferred financing costs	229	229
Deferred income taxes	(909)	6,032
Bad debt expense	477	327
Stock-based compensation	2,304	2,380
Other non-cash items	213	97
Changes in operating items, excluding the effects of acquisitions:		
Receivables	(21,916)	(18,526)
Inventories	(2,691)	(7,896)
Prepaid and other	3,820	307
Accounts payable and accrued expenses	19,687	16,214
Other assets	(306)	2,772
Other liabilities	(212)	16
Net cash provided by operating activities	21,139	19,840
Investing activities:		
Acquisitions, net of cash acquired		(4,336)
Proceeds from sale of business		12,826
Capital expenditures	(9,128)	(8,689)
Purchase of investment	(1,321)	(1,111)
Other, net	34	(299)
Net cash used in investing activities	(10,415)	(1,609)
Financing activities:		
Acquisition of treasury stock	(5,149)	(1,111)
Proceeds from exercise of employee stock options	83	
Proceeds from bank borrowings	47,000	56,000
Repayment of notes payable and bank borrowings	(54,500)	(63,500)
Repayment of capital lease obligations	(48)	(984)
Net cash used in financing activities	(12,614)	(9,595)
Net change in cash and equivalents	(1,890)	8,636
Cash and equivalents:		
Beginning of period	28,854	21,442
End of period	\$ 26,964	\$ 30,078

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by 1-800-FLOWERS.COM, Inc. and subsidiaries (the Company) in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended December 30, 2012 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.

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, will fall in the third quarter of fiscal 2013.

Accordingly, the information in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2012.

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

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

In September 2011, the FASB issued Accounting Standards Update No. 2011-08 Testing Goodwill for Impairment (ASU No. 2011-08) which is intended to reduce the complexity and costs to test goodwill for impairment. The amendment allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendment 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		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
	(in thousands, except per share data)			
Numerator:				
Income from continuing operations	\$ 16,011	\$ 16,576	\$ 11,405	\$ 11,443
Denominator:				
Weighted average shares outstanding	64,824	64,841	64,665	64,530
Effect of dilutive securities:				
Employee stock options (1)	481	14	532	16
Employee restricted stock awards	1,252	1,195	1,498	1,443
	1,733	1,209	2,030	1,459
Adjusted weighted-average shares and assumed conversions				
	66,557	66,050	66,695	65,989
Net income per common share from continuing operations				
Basic	\$ 0.25	\$ 0.26	\$ 0.18	\$ 0.18
Diluted	\$ 0.24	\$ 0.25	\$ 0.17	\$ 0.17

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

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

(1) The effect of options to purchase 3.1 million and 3.4 million shares during the three and six months ended December 30, 2012 and 7.1 million and 6.7 million shares during the three and six months ended January 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, share appreciation rights (SARs), restricted shares, restricted share units, performance shares, performance units, dividend equivalents, and other stock-based awards.

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

	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
	(in thousands)			
Stock options	\$ 131	\$ 293	\$ 237	\$ 550
Restricted stock	1,184	918	2,067	1,830
Total	1,315	1,211	2,304	2,380
Deferred income tax benefit*	919	433	909	871
Stock-based compensation expense, net	\$ 396	\$ 778	\$ 1,395	\$ 1,509

* During the three months ended December 30, 2012, the Company recognized an income tax benefit related to restricted stock which vested during the quarter at a value higher than the original grant price. This amount was offset by income tax expense recognized during the three months ended September 30, 2012, which reflected the 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		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
	(in thousands)			
Marketing and sales	\$ 460	\$ 430	\$ 806	\$ 890
Technology and development	132	123	231	353
General and administrative	723	658	1,267	1,137
Total	\$ 1,315	\$ 1,211	\$ 2,304	\$ 2,380

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

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

	Three Months Ended		Six Months Ended	
	December 30, 2012 (1)	January 1, 2012	December 30, 2012	January 1, 2012
Weighted average fair value of options granted	n/a	\$ 1.85	\$ 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 December 30, 2012.

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 six months ended December 30, 2012:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at July 1, 2012	6,711,280	\$ 4.48		
Granted	20,000	\$ 3.71		
Exercised	(43,000)	\$ 1.84		
Forfeited	(1,166,393)	\$ 6.25		
Outstanding at December 30, 2012	5,521,887	\$ 4.13	5.1 years	\$ 3,504
Options vested at December 30, 2012	5,400,506	\$ 4.17	5.0 years	\$ 3,357
Exercisable at December 30, 2012	3,634,087	\$ 5.10	3.4 years	\$ 1,175

As of December 30, 2012, the total future compensation cost related to non-vested options, not yet recognized in the statement of income, was \$2.6 million and the weighted average period over which these awards are expected to be recognized was 5.9 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 six months ended December 30, 2012:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at July 1, 2012	3,855,320	\$ 2.37
Granted	1,668,490	\$ 3.55
Vested	(1,591,819)	\$ 2.48
Forfeited	(253,055)	\$ 3.25
Non-vested at December 30, 2012	3,678,936	\$ 2.80

The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of December 30, 2012, there was \$9.0 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.8 years.

Table of Contents

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Note 4 Acquisitions and Dispositions

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 December 30, 2012. 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 possibility that GB Chocolates opening 45 stores, discounted for present value, and the risk associated with counterparty payment. Changes in these assumptions could result in an increase or decrease in fair value which would impact the income statement. There were no significant changes in these estimates through the second 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 \$1.3 and \$2.5 million during the three and six months ended December 30, 2012, respectively, compared to \$1.3 and \$2.1 million during the three and six months ended January 1, 2012, respectively, and its loss before income taxes was \$0.1 million and \$0.0 million during the three and six months ended December 30, 2012, respectively, compared to \$0.0 for both the three and six months ended January 1, 2012, respectively.

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:

	Flowerama Purchase Price Allocation (in thousands)	
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.

	Three Months Ended January 1, 2012 (in thousands, except per share data)		Six Months Ended January 1, 2012	
Net revenues from continuing operations	\$	240,230	\$	357,428

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

Operating income from continuing operations	\$	24,600	\$	16,867
Income from continuing operations	\$	16,582	\$	11,450
Net income per common share from continuing operations				
Basic	\$	0.26	\$	0.18
Diluted	\$	0.25	\$	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:

	December 30, 2012		July 1, 2012
	(in thousands)		
Finished goods	\$ 30,049	\$	26,557
Work-in-process	9,348		10,466
Raw materials	19,038		18,721
	\$ 58,435	\$	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 Floral	BloomNet Wire Service	Gourmet Food and Gift Baskets	Total
	(in thousands)			
Balance at December 30, 2012 and July 1, 2012	\$ 9,709	\$	\$ 38,192	\$ 47,901

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

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

	Amortization Period	December 30, 2012			July 1, 2012		
		Gross Carrying Amount	Accumulated Amortization	Net (in thousands)	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets with determinable lives							
Investment in							
licenses	14 - 16 years	\$ 7,420	\$ 5,463	\$ 1,957	\$ 7,420	\$ 5,401	\$ 2,019
Customer lists	3 - 10 years	15,989	10,651	5,338	16,019	9,961	6,058
Other	5 - 8 years	2,538	2,375	163	2,538	2,173	365
		25,947	18,489	7,458	25,977	17,535	8,442
Trademarks with indefinite lives							
		32,954		32,954	33,396		33,396
Total identifiable intangible assets		\$ 58,901	\$ 18,489	\$ 40,412	\$ 59,373	\$ 17,535	\$ 41,838

Table of Contents

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 - \$0.9 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 December 30, 2012 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 six months ended December 30, 2012, in the amount of \$0.0 million and \$0.1 million, respectively, are included within the Consolidated Statement of Operations within the line item Interest expense, net.

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 December 30, 2012 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 \$1.0 million as of December 30, 2012 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

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

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

	December 30, 2012		July 1, 2012
	(in thousands)		
Term loan (1)	\$ 21,750	\$	29,250
Revolving line of credit (1)			
Obligations under capital leases (2)			6
	21,750		29,256
Less current maturities of long-term debt and obligations under capital leases	17,250		15,756
	\$ 4,500	\$	13,500

Table of Contents

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. The Amended 2008 Credit Facility, effective March 28, 2009, also revised certain financial and non-financial covenants.

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

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

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

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

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 designated this swap as a cash flow hedge of the interest rate risk attributable to forecasted variable interest (LIBOR) payments at inception. The effective portion of the after tax fair value gains or losses on this swap is included as a component of accumulated other comprehensive income. The ineffective portion, if any, is recorded within interest expense in the consolidated statement of operations.

(2) Equipment leases with certain manufacturing equipment vendors.

Table of Contents

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 December 30, 2012:

Fair Value Measurements			
Assets (Liabilities)			
Total	Level 1	Level 2	Level 3
(in thousands)			

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

Assets:					
Cash equivalents (money market accounts)	\$	26,856	\$	26,856	
Trading securities held in a rabbi trust (1)		1,332		1,332	
Fair value of non-performance promissory note (2)		205			\$ 205
	\$	28,393	\$	28,188	\$ 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

Table of Contents**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) Level 2 (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 six months ended December 30, 2012 was 37.1% and 39.0%, respectively, compared to 39.8% and 39.7% 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.

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

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

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 December 30, 2012 the Company has an unrecognized tax position of approximately \$0.9 million, including accrued interest and penalties of \$0.2 million. During the quarter, the Company recorded a gross unrecognized tax position of \$0.6 million. The Company believes that approximately \$0.6 million of its unrecognized tax positions will be resolved over the next twelve months.

Table of Contents**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.

Net revenues	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
	(in thousands)			
Segment Net Revenues:				
Consumer Floral	\$ 91,826	\$ 91,041	\$ 164,603	\$ 161,181
BloomNet Wire Service	18,734	18,272	38,501	36,777
Gourmet Food & Gift Baskets	142,736	131,100	171,142	159,725
Corporate (**)	200	189	394	376
Intercompany eliminations	(480)	(757)	(756)	(1,016)
Total net revenues	\$ 253,016	\$ 239,845	\$ 373,884	\$ 357,043

Operating Income	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
	(in thousands)			

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

Segment Contribution Margin (*):					
Consumer Floral	\$	10,286	\$	9,984	\$ 17,172 \$ 15,951
Bloomnet Wire Service		6,049		5,074	11,845 9,667
Gourmet Food & Gift Baskets (***)		26,868		30,166	24,381 28,240
Segment Contribution Margin Subtotal		43,203		45,224	53,398 53,858
Corporate (**)		(12,674)		(11,915)	(24,858) (23,380)
Depreciation and amortization		(4,531)		(4,929)	(8,989) (9,831)
Operating income	\$	25,998	\$	28,380	\$ 19,551 \$ 20,647

(*) 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.

(***) GFGB segment contribution margin during the three and six months ended January 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.

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

(unaudited)

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. (Based upon preliminary revenue reports provided by the buyer, the first annual specified revenue target was not achieved.)

Results for discontinued operations are as follows:

	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
	(in thousands)			
Net revenues from discontinued operations	\$	\$	\$	\$ 2,003
Operating income (loss) from discontinued operations	\$	\$	\$	\$ (23)
Gain on sale of discontinued operations, net of tax	\$	\$	\$	\$ 4,478
Income from discontinued operations	\$	\$ 63	\$	\$ 4,455

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.

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

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.

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.

Table of Contents

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.

Table of Contents

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

Forward Looking Statements

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

Overview

1-800-FLOWERS.COM, Inc. is the world's leading florist and gift shop. For more than 30 years, 1-800-FLOWERS® (1-800-356-9377 or www.1800flowers.com) has been 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.

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

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

Table of Contents**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			Six Months Ended		
	December 30, 2012	January 1, 2012	% Change	December 30, 2012	January 1, 2012	% Change
	(dollars in thousands)			(dollars in thousands)		
Net revenues from continuing operations:						
Consumer Floral	\$ 91,826	\$ 91,041	0.9%	\$ 164,603	\$ 161,181	2.1%
BloomNet Wire Service	18,734	18,272	2.5%	38,501	36,777	4.7%
Gourmet Food & Gift Baskets	142,736	131,100	8.9%	171,142	159,725	7.1%
Corporate (*)	200	189	5.8%	394	376	4.8%
Intercompany eliminations	(480)	(757)	36.6%	(756)	(1,016)	25.6%
Total net revenues from continuing operations	\$ 253,016	\$ 239,845	5.5%	\$ 373,884	\$ 357,043	4.7%

	Three Months Ended			Six Months Ended		
	December 30, 2012	January 1, 2012	% Change	December 30, 2012	January 1, 2012	% Change
	(dollars in thousands)			(dollars in thousands)		
Gross profit from continuing operations:						
Consumer Floral	\$ 35,954	\$ 35,524	1.2%	\$ 64,246	\$ 62,213	3.3%
	39.2%	39.0%		39.0%	38.6%	
BloomNet Wire Service	9,792	8,992	8.9%	19,592	17,521	11.8%
	52.3%	49.2%		50.9%	47.6%	
Gourmet Food & Gift Baskets	58,577	55,650	5.3%	69,782	66,865	4.4%
	41.0%	42.4%		40.8%	41.9%	
Corporate (*)	162	160	1.3%	502	289	73.7%
	81.0%	84.7%		127.4%	76.9%	
Total gross profit from continuing operations	\$ 104,485	\$ 100,326	4.1%	\$ 154,122	\$ 146,888	4.9%
	41.3%	41.8%		41.2%	41.1%	

Table of Contents

	Three Months Ended			Six Months Ended		
	December 30, 2012 (dollars in thousands)	January 1, 2012 (dollars in thousands)	% Change	December 30, 2012 (dollars in thousands)	January 1, 2012 (dollars in thousands)	% Change
Adjusted EBITDA from continuing operations:						
Segment Contribution Margin (**)						
Consumer Floral	\$ 10,286	\$ 9,984	3.0%	\$ 17,172	\$ 15,951	7.7%
BloomNet Wire Service	6,049	5,074	19.2%	11,845	9,667	22.5%
Gourmet Food & Gift Baskets (***)	26,868	30,166	(10.9)%	24,381	28,240	(13.7)%
Segment Contribution Margin Subtotal	43,203	45,224	(4.5)%	53,398	53,858	(0.9)%
Corporate (*)	(12,674)	(11,915)	(6.4)%	(24,858)	(23,380)	(6.4)%
EBITDA from continuing operations	30,529	33,309	(8.3)%	28,540	30,478	(6.4)%
Add: Stock-based compensation	1,315	1,211	8.6%	2,304	2,380	(3.2)%
EBITDA from continuing operations, excluding stock-based compensation	31,844	34,520	(7.8)%	30,844	32,858	(6.1)%
Less: Gain on sale of stores (***)		3,789			3,789	
Adjusted EBITDA from continuing operations	\$ 31,844	\$ 30,731	3.6%	\$ 30,844	\$ 29,069	6.1%

	Three Months Ended			Six Months Ended		
	December 30, 2012 (in thousands)	January 1, 2012 (in thousands)	% Change	December 30, 2012 (in thousands)	January 1, 2012 (in thousands)	% Change
Discontinued Operations:						
Net revenues				\$ 2,003		
Gross profit				\$ 405		
Contribution margin				\$ (190)		
Gain on sale of discontinued operations, net of tax				\$ 4,478		
Income from discontinued operations		63		\$ 4,455		

	Three Months Ended			Six Months Ended		
	December 30, 2012 (in thousands)	January 1, 2012 (in thousands)	% Change	December 30, 2012 (in thousands)	January 1, 2012 (in thousands)	% Change
Reconciliation of Net Income from continuing operations to Adjusted EBITDA from continuing operations (**):						
Net income from continuing operations	\$ 16,011	\$ 16,576		\$ 11,405	\$ 11,443	
Add:						
Interest expense, net	559	849		861	1,671	
Depreciation and amortization	4,531	4,929		8,989	9,831	
Income tax expense	9,428	10,955		7,285	7,533	
EBITDA	30,529	33,309		28,540	30,478	
Add: Stock-based compensation	1,315	1,211		2,304	2,380	

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

EBITDA, excluding stock-based compensation	31,844		34,520		30,844		32,858
Less: Gain on sale of stores			3,789				3,789
Adjusted EBITDA from continuing operations	\$ 31,844	\$	30,731	\$	30,844	\$	29,069

Table of Contents

	Three Months Ended		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
(in thousands, except per share data)				
Reconciliation of Net Income and EPS from continuing operations to Adjusted Net Income and EPS from continuing operations:				
Net income from continuing operations	\$ 16,011	\$ 16,576	\$ 11,405	\$ 11,443
Less: Gain on sale of stores, net of tax		2,281		2,281
Adjusted Net Income from continuing operations	\$ 16,011	\$ 14,295	\$ 11,405	\$ 9,162
Net Income per common share from continuing operations				
Basic	\$ 0.25	\$ 0.26	\$ 0.18	\$ 0.18
Diluted	\$ 0.24	\$ 0.25	\$ 0.17	\$ 0.17
Adjusted Net Income per common share from continuing operations				
Basic	\$ 0.25	\$ 0.22	\$ 0.18	\$ 0.14
Diluted	\$ 0.24	\$ 0.22	\$ 0.17	\$ 0.14
Weighted average shares used in the calculation of net income per common share from continuing operations				
Basic	64,824	64,841	64,665	64,530
Diluted	66,537	66,050	66,695	65,989

(*) 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. 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 three and six months ended January 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.

Results of Operations

Net Revenues

	December 30, 2012	Three Months Ended January 1, 2012	% Change	December 30, 2012	Six Months Ended January 1, 2012	% Change
	(dollars in thousands)					
Net revenues:						
E-Commerce	\$ 172,629	\$ 165,130	4.5%	\$ 254,090	\$ 243,920	4.2%
Other	80,387	74,715	7.6%	119,794	113,123	5.9%
Total net revenues	\$ 253,016	\$ 239,845	5.5%	\$ 373,884	\$ 357,043	4.7%

Table of Contents

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

During the three and six months ended December 30, 2012, revenues increased by 5.5% and 4.7%, respectively in comparison to the prior year periods as a result of growth across all segments. This improvement was primarily due to growth within the Gourmet Food and Gift Baskets segment, which was primarily attributable to a rebound in the wholesale gift basket business, after several years of declines, as well as strong e-commerce growth from the Cheryl's, Fannie May Chocolates and The Popcorn Factory brands, offset in part by lower revenue from the Fannie May retail and wholesale channel, as a result of the 17 store franchise conversion completed in the second quarter of the prior year. Further contributing to the growth during the three and six months ended December 30, 2012 were continued improvements within the Consumer Floral and BloomNet segments, despite the combination of significant economic headwinds, including the impacts of Superstorm Sandy, and the effects of weakening consumer confidence, stemming from worries over the fiscal cliff.

E-Commerce revenues increased 4.5% and 4.2% during the three and six months ended December 30, 2012, respectively, in comparison to the prior year periods, due to increased order volume, as the Company fulfilled approximately 3,009,000 and 4,243,000 orders through its e-commerce sales channels (online and telephonic sales) during the three and six months ended December 30, 2012, representing an increase of 6.4% and 5.3% over the same periods of the prior year. The increase in orders was primarily attributable to the Gourmet Food & Gift Baskets segment, and the resulting change in sales mix caused a slight reduction in average order value, which decreased to \$57.37 and \$59.88 during the three and six months ended December 30, 2012, representing reductions of 1.7% and 1.1% over the respective prior year periods.

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 7.6% and 5.9% during the three and six months ended December 30, 2012 in comparison to the prior year periods, primarily as a result of the aforementioned growth within the Gourmet Food and Gift Baskets wholesale gift basket business, as well as increased service offerings within the BloomNet Wire Service segment, offset in part by lower revenue from the Fannie May retail and wholesale channel, reflecting economic headwinds, weather impacts and the aforementioned conversion of 17 Fannie May retail 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 six months ended December 30, 2012 increased by 0.9% and 2.1% over the respective prior year periods, despite the impacts on business operations caused by Superstorm Sandy, which affected sales and delivery capabilities throughout the northeast region of the U.S. The revenue growth within the Consumer Floral segment was also affected by softer consumer demand reflecting declines in the Consumer Confidence Index.

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 and six months ended December 30, 2012 increased by 2.5% and 4.7% over the respective prior year periods driven by technology and other service offerings, offset in part by lower wholesale product orders from florists, also reflecting the impact of Superstorm Sandy.

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 six months ended

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

December 30, 2012 increased by 8.9% and 7.1% over the respective prior year periods, primarily as a result of aforementioned growth within the wholesale gift basket business during the holiday season, as well as strong e-commerce growth from Cheryl's baked gifts, Fannie May Chocolates and The Popcorn Factory, offset in part by lower revenue from Fannie May's retail and wholesale channels, as a result of economic headwinds, poor weather during the holiday selling season, and store count reductions due to the 17 store franchise conversion completed in second quarter of the prior year.

Table of Contents

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

	December 30, 2012	Three Months Ended January 1, 2012	% Change	December 30, 2012	Six Months Ended January 1, 2012	% Change
	(dollars in thousands)					
Gross profit	\$ 104,485	\$ 100,326	4.1%	\$ 154,122	\$ 146,888	4.9%
Gross margin %	41.3%	41.8%		41.2%	41.1%	

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

Gross profit increased by 4.1% and 4.9%, respectively, during the three and six months ended December 30, 2012, in comparison to the prior year periods, primarily as a result of the aforementioned revenue growth across all segments, combined with improved gross margin percentage within the Consumer Floral and BloomNet WireService segments. Overall gross margin percentage for the six months ended December 30, 2012 was consistent with the prior year, while gross margin for the three months ended December 30, 2012 decreased to 41.3% primarily as a result of sales mix within the Gourmet Food & Gift Baskets segment, reflecting strong growth within the wholesale gift basket business.

Consumer Floral segment gross profit increased by 1.2% and 3.3%, respectively, during the three and six months ended December 30, 2012, in comparison to the prior year periods, due to the revenue growth described above, combined with higher gross margin percentages achieved through improved product sourcing and logistics.

BloomNet Wire Service segment gross profit increased by 8.9% and 11.8%, respectively, during the three and six months ended December 30, 2012 in comparison to the prior year periods, due to the above mentioned revenue growth, combined with increased gross margin percentages due to the mix of higher margin service offerings including increased technology and other service offerings.

The Gourmet Food & Gift Baskets segment gross profit increased by 5.3% and 4.4%, respectively, during the three and six months ended December 30, 2012 in comparison to the prior year periods, due to the aforementioned sales growth, including the wholesale gift basket business, which also had the effect of reducing gross margin percentage as a result of the impact this growth had on sales mix within the segment. Further negatively impacting the gross margin percentages were operational issues associated with the relocation of a warehouse and distribution facility prior to the holiday season.

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

During the remainder of fiscal 2013, 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.

Marketing and Sales Expense

	December 30, 2012	Three Months Ended January 1, 2012	% Change (dollars in thousands)	December 30, 2012	Six Months Ended January 1, 2012	% Change
Marketing and sales	\$ 54,901	\$ 53,020	3.5%	\$ 87,891	\$ 85,302	3.0%
Percentage of net revenues	21.7%	22.1%		23.5%	23.9%	

Table of Contents

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 3.5% and 3.0%, respectively, during the three and six months ended December 30, 2012 in comparison to the prior year periods, as a result of: (i) variable costs associated with the increase in revenue, (ii) increased advertising, primarily by the Consumer Floral and Gourmet Food & Gift Baskets segments in order to continue to drive cost-efficiently revenue growth, 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 40 basis points during both the three and six months ended December 30, 2012 in comparison to the same periods of the prior year, reflecting the Company's continued focus on improving its merchandising programs, re-focusing its marketing messages, and enhancing the efficiency of its advertising efforts, while leveraging its infrastructure.

During the three and six months ended December 30, 2012 the Company added approximately 642,000 and 994,000 new e-commerce customers. Of the 1,641,000 and 2,446,000 total customers who placed e-commerce orders during the three and six months ended December 30, 2012, approximately 61% and 59% represented repeat customers.

Technology and Development Expense

	December 30, 2012	Three Months Ended January 1, 2012	% Change	December 30, 2012	Six Months Ended January 1, 2012	% Change
	(dollars in thousands)					
Technology and development	\$ 5,376	\$ 4,854	10.8%	\$ 10,791	\$ 9,606	12.3%
Percentage of net revenues	2.1%	2.0%		2.9%	2.7%	

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

During the three and six months ended December 30, 2012, technology and development expense increased by 10.8% and 12.3%, respectively, compared to the same periods of 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 six months ended December 30, 2012, the Company expended \$8.5 million and \$16.8 million, respectively, on technology and development, of which \$3.1 million and \$6.0 million, respectively, has been capitalized.

Table of Contents*General and Administrative Expense*

	December 30, 2012	Three Months Ended January 1, 2012	% Change (dollars in thousands)	December 30, 2012	Six Months Ended January 1, 2012	% Change
General and administrative	\$ 13,679	\$ 12,932	5.8%	\$ 26,900	\$ 25,291	6.4%
Percentage of net revenues	5.4%	5.4%		7.2%	7.1%	

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

General and administrative expense increased by 5.8% and 6.4% during the three and six months ended December 30, 2012, compared to the prior year periods, as a result of increased professional fees and insurance costs, as well as the impact of annual wage increases.

Depreciation and Amortization Expense

	December 30, 2012	Three Months Ended January 1, 2012	% Change (dollars in thousands)	December 30, 2012	Six Months Ended January 1, 2012	% Change
Depreciation and amortization	\$ 4,531	\$ 4,929	(8.1)%	\$ 8,989	\$ 9,831	(8.6)%
Percentage of net revenues	1.8%	2.1%		2.4%	2.8%	

Depreciation and amortization expense decreased by 8.1% and 8.6%, respectively, during the three and six months ended December 30, 2012 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

	December 30, 2012	Three Months Ended January 1, 2012	% Change (dollars in thousands)	December 30, 2012	Six Months Ended January 1, 2012	% Change
--	----------------------	--	------------------------------------	----------------------	--	----------

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

Interest expense, net	\$	559	\$	849	(34.2)%	\$	861	\$	1,671	(48.5)%
-----------------------	----	-----	----	-----	---------	----	-----	----	-------	---------

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 six months ended December 30, 2012 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.

Income Taxes

The Company recorded income tax expense from continuing operations of \$9.4 million and \$7.3 million during the three and six months ended December 30, 2012, respectively, compared to \$11.0 million and \$7.5 million in the respective prior year periods. The Company's effective tax rate from continuing operations for the three and six months ended December 30, 2012, was 37.1% and 39.0%, respectively, compared to 39.8% and 39.7% 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.

Table of Contents**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		Six Months Ended	
	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012
	(in thousands)			
Net revenues from discontinued operations	\$	\$	\$	\$ 2,003
Gross profit from discontinued operations	\$	\$	\$	\$ 405
EBITDA from discontinued operations	\$	\$	\$	\$ (190)
Gain on sale of discontinued operations, net of tax	\$	\$	\$	\$ 4,478
Income from discontinued operations	\$	\$ 63	\$	\$ 4,455

Liquidity and Capital Resources

At December 30, 2012, the Company had working capital of \$28.1 million, including cash and equivalents of \$27.0 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 \$21.1 million for the six months ended December 30, 2012 was primarily due to the Company's net income, adjusted for non-cash charges related to depreciation and amortization and stock-based compensation, slightly offset by seasonal changes in working capital, which included seasonal increases in accounts receivable related to the December holiday selling season, offset by increases in accounts payable for the upcoming Valentine's Day/spring selling season.

Net cash used in investing activities of \$10.4 million for the six months ended December 30, 2012 was primarily attributable to capital expenditures, primarily related to the Company's technology infrastructure and the purchase of minority interests in two privately held floral operators.

Net cash used in financing activities of \$12.6 million for the six months ended December 30, 2012 was primarily due to the repayment of bank borrowings on outstanding term-loan debt, as well as the acquisition of \$5.1 million 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.

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

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.

Table of Contents

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

Outstanding amounts under the 2010 Credit Facility 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.

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

On January 21, 2008, the Company's Board of Directors authorized an increase to its stock repurchase plan which, when added to the funds remaining on its earlier authorization, increased the amount available for repurchase to \$15.0 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of December 30, 2012, \$3.4 million remains authorized but unused.

At December 30, 2012, the Company's contractual obligations from continuing operations consist of:

	Total	Payments due by period (in thousands)			
		Less than 1 year	1 2 years	3 5 years	More than 5 years
Long-term debt and capital lease obligations, including interest	\$ 22,672	\$ 18,111	\$ 4,561	\$	\$
Operating lease obligations	56,109	12,975	17,922	13,268	11,944
Sublease obligations	3,427	1,607	1,378	442	
Purchase commitments (*)	28,713	28,713			
Total	\$ 110,921	\$ 61,406	\$ 23,861	\$ 13,710	\$ 11,944

(*) 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

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

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

Table of Contents

are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in preparation of its consolidated financial statements.

Revenue Recognition

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

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

Accounts Receivable

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

Inventory

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

Goodwill and Other Intangible Assets

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

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

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

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.

Table of Contents

Capitalized Software

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

Stock-based Compensation

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

Income Taxes

The Company has established deferred 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 to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether

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

it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendment 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.

Table of Contents

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

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

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

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Forms 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission. Our Annual Report on Form 10-K filing for the fiscal year ended July 1, 2012 listed various important factors that could cause actual results to differ materially from expected and historic results.

Table of Contents

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

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 December 30, 2012, the Company's outstanding debt, including current maturities, approximated \$21.8 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 six months ended December 30, 2012.

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 December 30, 2012. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 30, 2012.

Changes in Internal Control over Financial Reporting

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

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 December 30, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

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.

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 six months of fiscal 2013, which includes the period July 2, 2012 through December 30, 2012:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
(in thousands, except average price paid per share)				
7/2/12 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
Total	1,474.0	\$ 3.47	1,474.0	

On January 21, 2008, the Company's Board of Directors authorized an increase to its stock repurchase plan which, when added to the funds remaining on its earlier authorization, increased the amount available for repurchase to \$15.0 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. As of December 30, 2012, \$3.4 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.

Table of Contents

ITEM 6. EXHIBITS

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

* Filed herewith.

Table of Contents

SIGNATURES

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

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

Date: February 8, 2013

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

Date: February 8, 2013

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