

1 800 FLOWERS COM INC
Form 10-Q
May 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

X SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 30, 2014

or

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)

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:

27,307,929

(Number of shares of Class A common stock outstanding as of May 5, 2014)

36,778,594

(Number of shares of Class B common stock outstanding as of May 5, 2014)

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

	March 30,	June 30,
	2014	2013
	<i>(unaudited)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,314	\$ 154
Receivables, net	17,092	14,957
Inventories	61,441	55,756
Deferred tax assets	7,780	5,746
Prepaid and other	5,874	9,941
Current assets of discontinued operations	1,133	6,095
Total current assets	94,634	92,649
Property, plant and equipment, net	55,886	52,943
Goodwill	54,008	47,943
Other intangibles, net	45,176	43,276
Deferred tax assets	1,755	2,127
Other assets	8,264	10,086
Non-current assets of discontinued operations	1,262	1,049
Total assets	\$ 260,985	\$ 250,073
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 18,335	\$ 26,235
Accrued expenses	54,941	45,044
Current maturities of long-term debt	394	-
Current liabilities of discontinued operations	940	4,484
Total current liabilities	74,610	75,763
Other liabilities	5,565	5,039
Total liabilities	80,175	80,802
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	-	-

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Class A common stock, \$.01 par value, 200,000,000 shares authorized; 38,043,473 and 36,280,425 shares issued at March 30, 2014 and June 30, 2013, respectively	380	362
Class B common stock, \$.01 par value, 200,000,000 shares authorized; 42,058,594 and 42,125,465 shares issued at March 30, 2014 and June 30, 2013, respectively	420	421
Additional paid-in capital	302,387	298,580
Retained deficit	(71,973)	(83,937)
Accumulated other comprehensive loss	(52)	-
Treasury stock, at cost – 10,659,119 and 9,257,231 Class A shares at March 30, 2014 and June 30, 2013, respectively, and 5,280,000 Class B shares at March 30, 2014 and June 30, 2013	(53,578)	(46,155)
Total stockholders' equity	177,584	169,271
Noncontrolling interest in subsidiary	3,226	-
Total equity	180,810	169,271
Total liabilities and equity	\$ 260,985	\$ 250,073

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	March 30, 2014	March 31, 2013	March 30, 2014	March 31, 2013
Net revenues	\$179,591	\$191,582	\$568,976	\$562,534
Cost of revenues	106,048	111,125	333,159	328,171
Gross profit	73,543	80,457	235,817	234,363
Operating expenses:				
Marketing and sales	51,581	51,439	143,716	138,645
Technology and development	6,045	5,613	16,762	16,372
General and administrative	13,865	13,757	41,944	40,172
Depreciation and amortization	4,932	4,838	14,657	13,806
Total operating expenses	76,423	75,647	217,079	208,995
Operating income (loss)	(2,880)	4,810	18,738	25,368
Interest expense and other, net	249	199	959	1,024
Income (loss) from continuing operations before income taxes	(3,129)	4,611	17,779	24,344
Income tax expense (benefit)	(1,391)	1,491	6,590	9,161
Income (loss) from continuing operations	(1,738)	3,120	11,189	15,183
Income (loss) from discontinued operations, net of tax	75	(481)	(381)	(1,140)
Adjustment to loss on sale of discontinued operations, net of tax	(62)	-	815	-
Income (loss) from discontinued operations, net of tax	13	(481)	434	(1,140)
Net income (loss)	(1,725)	2,639	11,623	14,043
Less: Net loss attributable to noncontrolling interest	(300)	-	(341)	-
Net income (loss) attributable to 1-800-FLOWERS.COM, Inc.	\$(1,425)	\$2,639	\$11,964	\$14,043
Basic income (loss) per share attributable to 1-800-FLOWERS.COM, Inc.				

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Continuing operations	\$ (0.02)	\$ 0.05	\$ 0.18	\$ 0.24
Discontinued operations	\$ 0.00	\$ (0.01)	\$ 0.01	\$ (0.02)
Net income (loss)	\$ (0.02)	\$ 0.04	\$ 0.19	\$ 0.22

Diluted income (loss) per share attributable to 1-800-FLOWERS.COM,
Inc.

Continuing operations	\$ (0.02)	\$ 0.05	\$ 0.17	\$ 0.23
Discontinued operations	\$ 0.00	\$ (0.01)	\$ 0.01	\$ (0.02)
Net income (loss)	\$ (0.02)	\$ 0.04	\$ 0.18	\$ 0.21

Weighted average shares used in the calculation of income (loss) per
common share

Basic	64,214	64,256	64,010	64,528
Diluted	64,214	66,111	66,429	66,647

See accompanying Notes to Consolidated Financial Statements.

1-800-FLOWERS.COM, Inc. and Subsidiaries**Consolidated Statements of Comprehensive Income***(in thousands)**(unaudited)*

	Three Months Ended		Nine Months Ended	
	March 30,	March 31,	March 30,	March 31,
	2014	2013	2014	2013
	<i>(in thousands)</i>			
Net income (loss)	\$ (1,725)	\$ 2,639	\$ 11,623	\$ 14,043
Other comprehensive income (loss)	(40)	-	(52)	17
Comprehensive income (loss)	(1,765)	2,639	11,571	14,060
Net loss attributable to noncontrolling interest	(300)	-	(341)	-
Other comprehensive loss attributable to noncontrolling interest	(18)	-	(23)	-
Comprehensive loss attributable to noncontrolling interest	(318)	-	(364)	-
Comprehensive income (loss) attributable to 1-800-FLOWERS.COM, Inc.	\$ (1,447)	\$ 2,639	\$ 11,935	\$ 14,060

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended	
	March	March
	30,	31, 2013
	2014	
Operating activities		
Net income	\$ 11,623	\$ 14,043
Reconciliation of net income to net cash provided by operating activities:		
Operating activities of discontinued operations	869	(10)
Adjustment to loss on sale of discontinued ops	(815)	-
Depreciation and amortization	14,657	13,839
Amortization of deferred financing costs	229	343
Deferred income taxes	(1,376)	(1,337)
Bad debt expense	1,027	762
Stock based compensation	3,491	3,397
Other non-cash items	433	213
Changes in operating items, excluding the effects of acquisitions:		
Receivables	(5,492)	(10,500)
Inventories	(5,585)	(4,133)
Prepaid and other	4,162	2,226
Accounts payable and accrued expenses	197	7,694
Other assets	(274)	(464)
Other liabilities	426	662
Net cash provided by operating activities	23,572	26,735
Investing activities		
Acquisitions, net of cash acquired	(1,385)	(2,000)
Capital expenditures, net of non-cash expenditures	(14,458)	(15,118)
Purchase of investment	8	(1,337)
Other, net	10	22
Investing activities of discontinued operation	500	-
Net cash used in investing activities	(15,325)	(18,433)
Financing activities		
Acquisition of treasury stock	(7,423)	(8,921)
Proceeds from exercise of employee stock options	334	67
Proceeds from bank borrowings	120,000	47,000

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Repayment of bank borrowings	(120,002)	(58,250)
Repayment of capital lease obligations	-	(48)
Other	4	-
Net cash used in financing activities	(7,087)	(20,152)
Net change in cash and equivalents	1,160	(11,850)
Cash and equivalents:		
Beginning of period	154	28,854
End of period	\$1,314	\$17,004

See accompanying Notes to Consolidated Financial Statements.

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 U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended March 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending June 29, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended June 30, 2013.

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 quarters. The Easter Holiday, which was in the Company’s third quarter during fiscal 2013, is in the fourth quarter of fiscal 2014.

Use of Estimates

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

Recently Adopted Accounting Pronouncements

In 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. This ASU became effective for annual and interim goodwill impairment tests performed for the Company's fiscal year ending June 29, 2014. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Reclassifications

Certain balances in the prior fiscal years have been reclassified to conform to the presentation in the current fiscal year.

Note 2 – Net Income (Loss) Per Common Share from Continuing Operations

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

	Three Months Ended		Nine Months Ended	
	March 30,	March 31,	March 30,	March 31,
	2014	2013	2014	2013
	<i>(in thousands, except per share data)</i>			
Numerator:				
Income (loss) from continuing operations	\$(1,738)	\$3,120	\$11,189	\$15,183
Less: Net loss attributable to noncontrolling interest	(300)	-	(341)	-
Income (loss) from continuing operations attributable to 1-800-FLOWERS.COM, Inc.	\$(1,438)	\$3,120	\$11,530	\$15,183
Denominator:				
Weighted average shares outstanding	64,214	64,256	64,010	64,528
Effect of dilutive securities:				
Employee stock options (1)	-	769	1,075	610
Employee restricted stock awards	-	1,086	1,344	1,509
	-	1,855	2,419	2,119
Adjusted weighted-average shares and assumed conversions	64,214	66,111	66,429	66,647
Net income (loss) per common share from continuing operations attributable to 1-800-FLOWERS.COM, Inc.				
Basic	\$(0.02)	\$0.05	\$0.18	\$0.24
Diluted	\$(0.02)	\$0.05	\$0.17	\$0.23

Basic net income (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per share from continuing operations, for the three months ended March 30, 2014, is computed using the weighted-average number of common shares outstanding during the period, and excludes the dilutive potential common shares (consisting of employee stock options and unvested restricted stock awards), as their inclusion would be antidilutive. 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)

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

	Three Months Ended		Nine Months Ended	
	March 30,	March 31,	March 30,	March 31,
	2014	2013	2014	2013
	<i>(in thousands)</i>			
Marketing and sales	\$320	\$383	\$968	\$1,189
Technology and development	64	109	239	340
General and administrative	896	601	2,284	1,868
Total	\$1,280	\$1,093	\$3,491	\$3,397

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

	Three Months Ended		Nine Months Ended	
	March 30,	March 31,	March 30,	March 31,
	2014	2013	2014	2013
		(1)		
Weighted average fair value of options granted	\$3.14	n/a	\$3.14	\$ 2.40
Expected volatility	65.3 %	n/a	65.3 %	72.1 %
Expected life (years)	6.6	n/a	6.6	6.4
Risk-free interest rate	1.46 %	n/a	1.46 %	0.69 %
Expected dividend yield	0.0 %	n/a	0.0 %	0.0 %

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

The following table summarizes stock option activity during the nine months ended March 30, 2014:

Options	Weighted Average
----------------	-------------------------

		Weighted Average Exercise Price	Remaining Contractual Term (years)	Aggregate Intrinsic Value (000s)
Outstanding at July 1, 2013	4,723,240	\$ 3.89		
Granted	10,000	\$ 5.08		
Exercised	(94,125)	\$ 2.97		
Forfeited	(234,400)	\$ 6.48		
Outstanding at March 30, 2014	4,404,715	\$ 3.78	4.4	\$ 9,509
Options vested or expected to vest at March 30, 2014	4,288,119	\$ 3.81	4.3	\$ 9,144
Exercisable at March 30, 2014	2,947,315	\$ 4.49	3.1	\$ 4,931

As of March 30, 2014, the total future compensation cost related to non-vested options, not yet recognized in the statement of income, was \$1.9 million and the weighted average period over which these awards are expected to be recognized was 5.0 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 and, in certain cases, holding periods (Restricted Stock). The following table summarizes the activity of non-vested restricted stock awards during the nine months ended March 30, 2014:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at July 1, 2013	3,433,355	\$ 2.80
Granted	1,725,918	\$ 5.08
Vested	(1,602,052)	\$ 2.50
Forfeited	(822,369)	\$ 4.62
Non-vested at March 30, 2014	2,734,852	\$ 3.86

The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of March 30, 2014, there was \$7.9 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 3.1 years.

Note 4 – Acquisitions and Dispositions

Acquisition of Colonial Gifts Limited

On December 3, 2013, the Company completed its acquisition of a controlling interest in Colonial Gifts Limited (iFlorist). iFlorist, located in the UK, is a direct-to-consumer marketer of floral and gift-related products sold and delivered throughout Europe, with annual revenue of approximately \$12.8 million and an operating loss of approximately \$0.9 million in its most recently completed year end, prior to acquisition. The acquisition was achieved in stages and was accounted for using the purchase method of accounting in accordance with the Financial Accounting Standards Board's ("FASB") guidance regarding business combinations.

Prior to December 3, 2013, the Company maintained an investment in iFlorist in the amount of \$1.6 million, which was included on the Company's balance sheet within Other assets. This investment was accounted for under the cost method, as the Company's ownership stake was 19.9%, and it did not have the ability to exercise significant influence.

On December 3, 2013, the Company acquired an additional interest in iFlorist, bringing the Company's ownership interest to 56.2%. The acquisition of the additional interest was financed through the conversion of \$1.9 million of notes owed by iFlorist to the Company, and a \$1.6 million cash payment to iFlorist's founders. Concurrent with the additional investment, the Company remeasured its initial equity investment in iFlorist, and determined that the acquisition date fair value approximated the Company's carrying value of \$1.6 million, and therefore no gain or loss was recognized. On the acquisition date, the Company also measured the fair value of the noncontrolling interest which amounted to \$3.6 million. The acquisition-date fair values of the Company's previously held equity interest in iFlorist and the noncontrolling interest were determined based on the market price the Company paid for its ownership interest in iFlorist on the acquisition date, assuming that a 20% control premium was paid to obtain the controlling interest. The following summarizes the fair values of the acquisition date purchase price components:

	iFlorist Fair Value of Purchase Price Components
	<i>(in thousands)</i>
Cash	\$ 1,640
Converted debt	1,915
Initial equity investment	1,629
Noncontrolling interest	3,567
Total purchase price	\$ 8,751

The total purchase price was allocated to the identifiable assets acquired and liabilities assumed based on our preliminary estimates of their fair values on the acquisition date. The Company is in the process of finalizing its allocation and this may result in potential adjustments to the carrying value of the respective recorded assets and liabilities, establishment of certain additional intangible assets, revisions of useful lives of intangible assets, and the determination of any residual amount that will be allocated to goodwill. Of the acquired intangible assets, \$1.3 million was assigned to customer lists, which is being amortized over the estimated remaining life of 3 years, \$1.9 million was assigned to trademarks, and \$6.2 million was assigned to goodwill, which is not expected to be deductible for tax purposes. As a result of cumulative tax losses in the foreign jurisdiction, offset in part by the deferred tax liability arising from the amortizable customer list which was considered a source of future income, the Company concluded that a full valuation allowance be recorded in such jurisdiction.

The following table summarizes the allocation of the purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of acquisition of iFlorist:

	iFlorist Preliminary
	Purchase Price Allocation
	<i>(in thousands)</i>
Current assets	\$ 856
Intangible assets	3,177
Goodwill	6,162
Property, plant and equipment	2,006
Other assets	30
Total assets acquired	12,231
Current liabilities, including current maturities of long-term debt	3,014
Deferred tax liabilities	371
Other liabilities assumed	95
	3,480
Net assets acquired	\$ 8,751

Operating results of the Company's membership interest in iFlorist are reflected in the Company's consolidated financial statements from the date of acquisition, essentially all of which is in the 1-800-Flowers.com Consumer Floral segment. Pro forma results of operations have not been presented, as the impact on the Company's consolidated financial results would not have been material.

Acquisition of Pingg

On May 31, 2013, the Company completed the acquisition of Pingg Corp., an online invitation and event planner with annual revenues of approximately \$0.6 million in its most recently completed year end prior to the acquisition. The purchase price, which included the acquisition of software, receivables and certain other assets and related liabilities, was approximately \$1.6 million. Approximately \$0.4 million of the purchase price was assigned to goodwill. The acquisition was financed utilizing available cash balances. Operating results of the acquired entity, which are not significant, are reflected in the Company's consolidated financial statements from the date of acquisition, in the 1-800-Flowers.com Consumer Floral segment.

Acquisition of 1-800-Flowers' European trademarks

On March 11, 2013, the Company acquired the European rights to various derivations of the 1-800-Flowers' tradename, trademark, URL's and telephone numbers from Flowerscorp Pty Ltd. for a purchase price of \$4.0 million, which is included within Other Intangibles, net. The Company has paid \$3.0 million of the \$4.0 million purchase price, and is required to make a final payment of \$1.0 million on March 11, 2015, the balance of which is included on the balance sheet within Accrued Expenses.

Note 5 – Inventory

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

	March 30, 2014	June 30, 2013
	<i>(in thousands)</i>	
Finished goods	\$28,884	\$30,906
Work-in-process	9,589	6,465
Raw materials	22,968	18,385
	\$61,441	\$55,756

Note 6 – Goodwill and Intangible Assets

The following table presents goodwill by segment and the related change in the net carrying amount:

	1-800-Flowers.com Consumer Floral	BloomNet Wire Service	Gourmet Food & Gift Baskets (1)	Total
	<i>(in thousands)</i>			
Balance at June 30, 2013	\$10,251	\$ -	\$ 37,692	\$47,943
Acquisition of iFlorist	6,162	-	-	6,162
Acquisition related adjustment	(97)	-	-	(97)
Balance at March 30, 2014	\$16,316	\$ -	\$ 37,692	\$54,008

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

Note 7 – Investments

The Company has certain investments in non-marketable equity instruments of private companies. The Company accounts for these investments using the equity method if they provide 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 equity method 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 Company's equity method investments are comprised of a 32% interest in Flores Online, a Sao Paulo, Brazil based internet floral and gift retailer, that the Company made on May 31, 2012. The book value of this investment was \$3.5 million as of March 30, 2014 and \$3.8 million as of June 30, 2013, and is included in Other assets within the consolidated balance sheets. The Company's equity in the net loss of Flores Online for the three and nine months ended March 30, 2014 was \$0.1 million and \$0.3 million, respectively.

Investments in non-marketable equity instruments of private companies, where the Company does not possess the ability to exercise significant influence, are accounted for under the cost method. 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 \$0.8 million as of March 30, 2014 and \$2.3 million as of June 30, 2013. In addition, the Company had notes receivable from companies it maintains an investment in of \$0.5 million as of March 30, 2014 and \$2.3 million as of June 30, 2013. As described in Note 4 "Acquisitions and Dispositions", on December 3, 2013, the Company increased its investment in iFlorist, resulting in a majority ownership interest (56%), through the conversion of notes receivable and the purchase of additional shares from the Company's founders. The acquisition of a majority interest in iFlorist resulted in the consolidation of iFlorist's operations, and the reduction of both the Company's cost-basis investment and notes receivable between June 30, 2013 and March 30, 2014.

The Company also holds certain trading securities in a "rabbi trust", associated with its Non-Qualified Deferred Compensation Plan ("NQDC Plan"). These investments are measured using quoted market prices at the reporting date and are included in Other assets in the consolidated balance sheets (see Note 9).

Each reporting period, the Company uses available qualitative and quantitative information to evaluate its investments for impairment. When a decline in fair value, if any, is determined to be other-than-temporary, an impairment charge is recorded in the consolidated statement of operations.

Note 8 – Debt

The Company's current and long-term debt consists of the following:

	March 30, 2014	June 30, 2013
	<i>(in thousands)</i>	
Revolving line of credit (1)	\$ -	\$ -
Bank loan (2)	394	-
Total debt	\$ 394	\$ -
Less current maturities of long-term debt	394	-
Long-term debt	\$ -	\$ -

On April 10, 2013, the Company repaid all amounts outstanding under its 2010 Credit Facility, and entered into a Third Amended and Restated Credit Agreement (the "2013 Credit Facility"). The 2013 Credit Facility consists of a revolving line of credit with a seasonally adjusted limit ranging from \$150.0 to \$200.0 million and a working capital sublimit ranging from \$25.0 to \$75.0 million. The 2013 Credit Facility also revised certain financial and non-financial covenants, including the maintenance of certain financial ratios. The Company was in compliance (1) with these covenants as of March 30, 2014 and June 30, 2013. Outstanding amounts under the 2013 Credit Facility, which matures on April 10, 2018, bear interest at the Company's option at either: (i) LIBOR, plus a spread of between 150 and 225 basis points, as determined by the Company's leverage ratio, or (ii) the agent bank's prime rate plus a margin. The obligations of the Company and its subsidiaries under the 2013 Credit Facility are secured by liens on all personal property of the Company and its domestic subsidiaries.

(2) Bank loan assumed through the Company's acquisition of a majority interest in iFlorist.

Note 9-Fair Value Measurements

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 Company's investments in non-marketable equity instruments of private companies are carried at cost 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 remaining financial assets and liabilities are measured and recorded at fair value (see table below). 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 circumstance indicates that an other-than-temporary decline in value may have occurred. Goodwill and indefinite lived intangibles are also tested for impairment annually, as required under the accounting standards.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the guidance are described below:

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

The following table presents by level, within the fair value hierarchy, financial assets and liabilities measured at fair value on a recurring basis as of March 30, 2014:

Fair Value Measurements

Assets (Liabilities)
Carrying Level Level Level
Value 1 2 3
(in thousands)

Assets (liabilities):

Trading securities held in a "rabbi trust" (1)	\$2,135	\$2,135	\$ -	\$-
Non-performance promissory note	205	-	-	205
	\$2,340	\$2,135	\$ -	\$205

Trading securities held in a rabbi trust are measured using quoted market prices at the reporting date and are included in Other assets in the consolidated balance sheets. 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" which is restricted for payment to participants of the NQDC Plan.

The following table presents, by level, within the fair value hierarchy, financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2013:

	Fair Value Measurements			
	Carrying Value	Assets (Liabilities)		
		Level 1	Level 2	Level 3
	<i>(in thousands)</i>			
Assets (liabilities):				
Trading securities held in a “rabbi trust” (1)	\$1,708	\$1,708	\$ -	\$ -
Non-performance promissory note	205	-	-	205
	\$1,913	\$1,708	\$ -	\$205

Trading securities held in a rabbi trust are measured using quoted market prices at the reporting date and are included in Other assets in the consolidated balance sheets. 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” which is restricted for payment to participants of the NQDC Plan.

Note 10 – Income Taxes

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. This estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The Company’s effective tax rate from continuing operations for the three and nine months ended March 30, 2014 was 44.5% and 37.1% respectively, compared to 32.3% and 37.6% in the same periods of the prior year. The effective rate for fiscal 2014 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, and other permanent differences, offset by tax credits and incentives as well as the reversal of certain unrecognized tax positions. The effective rate for fiscal 2013 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, other 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 concluded its federal examination for fiscal 2011 during the quarter ended December 29, 2013, however, fiscal years 2012 and 2013 remain subject to federal examination. Due to ongoing state examinations and 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. During the three months ended March 30, 2014, the Company reversed approximately \$0.2 million of unrecognized tax position as a result of expiring statute of limitations. As such, at March 30, 2014 the Company has remaining unrecognized tax positions of approximately \$0.6 million, including accrued interest and penalties of \$0.1 million. The Company believes that an additional \$0.2 million of its unrecognized tax positions will be resolved over the next twelve months.

Note 11 – Business Segments

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

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

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 the effect of corporate overhead (see (1) below), nor does it include depreciation and amortization, other income, and income taxes, or stock-based compensation, which is included within corporate overhead. Assets and liabilities are reviewed at the consolidated level by management and not accounted for by segment.

	Three Months Ended		Nine Months Ended	
	March 30,	March 31,	March 30,	March 31,
Net Revenues from Continuing Operations	2014	2013	2014	2013
	<i>(in thousands)</i>			
Segment Net Revenues:				
1-800-Flowers.com Consumer Floral	\$122,256	\$121,006	\$290,938	\$285,608
BloomNet Wire Service	22,571	22,819	62,829	61,320
Gourmet Food & Gift Baskets	35,330	48,298	216,193	216,509
Corporate (1)	202	200	600	594
Intercompany eliminations	(768)	(741)	(1,584)	(1,497)
Total net revenues	\$179,591	\$191,582	\$568,976	\$562,534

	Three Months Ended		Nine Months Ended	
	March 30,	March 31,	March 30,	March 31,
Operating Income from Continuing Operations	2014	2013	2014	2013
	<i>(in thousands)</i>			
Segment Contribution Margin:				
1-800-Flowers.com Consumer Floral	\$11,165	\$13,902	\$26,274	\$31,074
Bloomnet Wire Service	7,079	6,952	20,043	18,797
Gourmet Food & Gift Baskets	(3,180)	1,605	25,817	26,926
Segment Contribution Margin Subtotal	15,064	22,459	72,134	76,797
Corporate (1)	(13,012)	(12,811)	(38,739)	(37,623)
Depreciation and amortization	(4,932)	(4,838)	(14,657)	(13,806)
Operating income	(2,880)	4,810	18,738	25,368

Corporate expenses consist of the Company's enterprise shared service cost centers, and include, among other items, Information Technology, Human Resources, Accounting and Finance, Legal, Executive and Customer Service Center functions, as well as Stock-Based Compensation. In order to leverage the Company's infrastructure, (1) 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, as they are not directly allocable to a specific segment.

Note 12 – Discontinued Operations

During the fourth quarter of fiscal 2013, the Company made the strategic decision to divest the e-commerce and procurement businesses of The Winetasting Network in order to focus on growth opportunities in its Gourmet Foods and Gift Baskets business segment. The Company closed on the sale of its Winetasting Network business on December 31, 2013, at an estimated loss of \$1.0 million (\$0.6 million, net of tax). The Company had originally estimated a loss of \$2.3 million (\$1.5 million, net of tax), which was provided for during the fourth quarter of fiscal 2013, but the loss was reduced to \$1.0 million, upon finalization of terms and closing on the sale. As a result, the Company reversed \$1.3 million (\$0.8 million, net of tax) of its accrual for the estimated loss during the nine months ended March 30, 2014. The Company has classified the results of its e-commerce and procurement business of Winetasting Network as a discontinued operation for all periods presented.

Results for discontinued operations are as follows:

	Three Months Ended		Nine Months Ended	
	March 30, 2014	March 31, 2013	March 30, 2014	March 31, 2013
	2014	2013	2014	2013
	<i>(in thousands)</i>			
Net revenues from discontinued operations	\$9	\$1,041	\$1,669	\$3,973
Income (loss) from discontinued operations, net of tax	\$13	\$(481)	\$434	\$(1,140)

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.

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 ("CUTPA") among other statutes, and for breach of contract and unjust enrichment in connection with certain post-transaction marketing practices in which certain of the Company's subsidiaries previously engaged in with certain third-party vendors. On December 23, 2011, plaintiff filed a notice of voluntary dismissal seeking to dismiss the entire action without prejudice. The court entered an Order on November 28, 2012, dismissing the case in its entirety. This case was subsequently refiled in the United States District Court for the District of Connecticut.

On March 6, 2012 and March 15, 2012, two additional purported class action complaints were filed in the United States District Court for the District of Connecticut naming the Company and numerous other parties as defendants in actions purporting to assert claims substantially similar to those asserted in the lawsuit filed on November 10, 2010. In each case, plaintiffs seek to have the respective case certified as a class action and seek restitution and other damages, each in an amount in excess of \$5.0 million. On April 26, 2012, the two Connecticut cases were consolidated with a third case previously pending in the United States District Court for the District of Connecticut in which the Company is not a party (the "Consolidated Action"). 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, which was subsequently refiled at the direction of the Court on January 16, 2013.

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 (the "Frank Action"). 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.

On January 31, 2013, the court issued an order to show cause directing plaintiffs' counsel in the Frank Action, also counsel for plaintiffs in the Consolidated Action, to show cause why the Frank Action is distinguishable from the

Consolidated Action such that it may be maintained despite the prior-pending action doctrine. On June 13, 2013, the court issued an order in the Frank Action suspending deadlines to answer or to otherwise respond to the complaint until 21 days after the court decides whether the Frank Action should be consolidated with the Consolidated Action. On July 24, 2013 the Frank Action was reassigned to Judge Vanessa Bryant, before whom the Consolidated Action is currently pending, for all further proceedings. On August 14, 2013, other defendants filed a motion for clarification in the Frank Action requesting that Judge Bryant clarify the order suspending deadlines.

On March 28, 2014, the Court issued a series of rulings disposing of all the pending motions in both the Consolidated Action and the Frank Action. Among other things, the Court dismissed several causes of action, leaving pending a claim for CUTPA violations stemming from Trilegiant's refund mitigation strategy and a claim for unjust enrichment. Thereafter, the Court consolidated the Frank case into the Consolidated Action. The time of the remaining defendants to answer what is left of the complaint has not yet expired and on April 28, 2014 Plaintiffs moved for leave to appeal the various rulings against them to the United States Court of Appeals for the Second Circuit and to have a partial final judgment entered dismissing those claims that the Court had ordered dismissed. The Court has not yet ruled on this new motion.

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 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 35 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 has been honored in Internet Retailer's "Hot 500 Guide" for 2013. 1-800-FLOWERS.COM mobile commerce site was recognized with a Gold Award in the Ecommerce/Shopping category of the 2012 Horizon Interactive Awards. 1-800-FLOWERS.COM was also rated number one vs. competitors for customer service 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 in 2011.

The Company's BloomNet® international floral wire service (www.mybloomnet.net) provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably. The Company's Gourmet Food and Gift Baskets offering includes 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 (www.fanniemay.com and www.harrylondon.com); gift baskets and towers from 1-800-Baskets.com® (www.1800baskets.com); carved fresh fruit arrangements from FruitBouquets.com (www.fruitbouquets.com); top quality steaks and chops from Stock Yards® (www.stockyards.com). The Company's Celebrations® brand (www.celebrations.com) is a leading online destination for party planning ideas and tips and its FineStationery.com® (www.finestationery.com) brand provides premium branded customizable invitations and personal stationery for all

occasions. 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.

During the fourth quarter of fiscal 2013, the Company made the strategic decision to divest the e-commerce and procurement businesses of The Winetasting Network in order to focus on growth opportunities in its Gourmet Foods and Gift Baskets business segment. The Company closed on the sale of its Winetasting Network business on December 31, 2013, at an estimated loss of \$1.0 million (\$0.6 million, net of tax). The Company had originally estimated a loss of \$2.3 million (\$1.5 million, net of tax), which was provided for during the fourth quarter of fiscal 2013, but the loss was reduced to \$1.0 million, upon finalization of terms and closing on the sale. As a result, the Company reversed \$1.3 million (\$0.8 million, net of tax) of its accrual for the estimated loss during the nine months ended March 30, 2014. The Company has classified the results of its e-commerce and procurement business of Winetasting Network as a discontinued operation for all periods presented.

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

Segment Information

The following table presents the contribution of net revenues, gross profit and contribution margin from each of the Company's business segments, as well as consolidated EBITDA and EBITDA, excluding stock-based compensation. As noted previously, the Company's e-commerce and procurement businesses of The Winetasting Network, which had previously been included within its Gourmet Foods & Gift Baskets category, have been classified as discontinued operations and therefore excluded from segment information below.

	Three Months Ended			Nine Months Ended				
	March	March	% Change	March	March	% Change		
	30,	31,		30,	31,			
	2014	2013		2014	2013			
	<i>(dollars in thousands)</i>			<i>(dollars in thousands)</i>				
Net revenues from continuing operations:								
1-800-Flowers.com Consumer Floral	\$122,256	\$121,006	1.0 %	\$290,938	\$285,608	1.9 %		
BloomNet Wire Service	22,571	22,819	-1.1 %	62,829	61,320	2.5 %		
Gourmet Food & Gift Baskets	35,330	48,298	-26.8 %	216,193	216,509	-0.1 %		
Corporate (*)	202	200	1.0 %	600	594	1.0 %		
Intercompany eliminations	(768)	(741)	-3.6 %	(1,584)	(1,497)	-5.8 %		
Total net revenues from continuing operations	\$179,591	\$191,582	-6.3 %	\$568,976	\$562,534	1.1 %		

	Three Months Ended			Nine Months Ended				
	March	March	% Change	March	March	% Change		
	30,	31,		30,	31,			
	2014	2013		2014	2013			
Gross profit from continuing operations:								
1-800-Flowers.com Consumer Floral	\$47,565	\$48,455	-1.8 %	\$113,166	\$112,701	0.4 %		
	38.9 %	40.0 %		38.9 %	39.5 %			
BloomNet Wire Service	12,019	11,382	5.6 %	33,566	30,974	8.4 %		
	53.2 %	49.9 %		53.4 %	50.5 %			
Gourmet Food & Gift Baskets	13,686	20,472	-33.1 %	88,328	90,039	-1.9 %		
	38.7 %	42.4 %		40.9 %	41.6 %			
Corporate (*)	273	148	84.5 %	757	649	16.6 %		
	135.1 %	74.0 %		126.2 %	109.3 %			
Total gross profit from continuing operations	\$73,543	\$80,457	-8.6 %	\$235,817	\$234,363	0.6 %		
	41.0 %	42.0 %		41.4 %	41.7 %			

	Three Months Ended			Nine Months Ended		
	March 30, 2014	March 31, 2013	% Change	March 30, 2014	March 31, 2013	% Change
EBITDA from continuing operations, excluding stock-based compensation:						
Segment Contribution Margin (**)						
1-800-Flowers.com Consumer Floral	\$11,165	\$13,902	-19.7 %	\$26,274	\$31,074	-15.4 %
BloomNet Wire Service	7,079	6,952	1.8 %	20,043	18,797	6.6 %
Gourmet Food & Gift Baskets	(3,180)	1,605	-298.1 %	25,817	26,926	-4.1 %
Category Contribution Margin Subtotal	15,064	22,459	-32.9 %	72,134	76,797	-6.1 %
Corporate (*)	(13,012)	(12,811)	-1.6 %	(38,739)	(37,623)	-3.0 %
EBITDA from continuing operations	\$2,052	\$9,648	-78.7 %	\$33,395	\$39,174	-14.8 %
Add: Stock-based compensation	1,279	1,093	17.1 %	3,491	3,397	2.8 %
EBITDA from continuing operations, excluding stock-based compensation	\$3,331	\$10,741	-69.0 %	\$36,886	\$42,571	-13.4 %

Three Months Ended	Nine Months Ended
March 30, 2014	March 31, 2013