

1 800 FLOWERS COM INC  
Form 10-Q  
February 07, 2014  
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 29, 2013**

**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)

DELAWARE 11-3117311  
(State of (I.R.S. Employer  
incorporation) 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:

27,416,849

(Number of shares of Class A common stock outstanding as of February 3, 2014)

36,778,594

(Number of shares of Class B common stock outstanding as of February 3, 2014)

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

**TABLE OF CONTENTS**

**INDEX**

|  | <u>Page</u> |
|--|-------------|
| <b>Part I. Financial Information</b>   |             |
| Item 1. Consolidated Financial Statements:   |             |
| Consolidated Balance Sheets – December 29, 2013 (Unaudited) and June 30, 2013  | 1           |
| Consolidated Statements of Operations (Unaudited) – Three and Six Months Ended December 29, 2013 and December 30, 2012           | 2           |
| Consolidated Statements of Comprehensive Income (Unaudited) – Three and Six Months Ended December 29, 2013 and December 30, 2012 | 3           |
| Consolidated Statements of Cash Flows (Unaudited) – Six Months Ended December 29, 2013 and December 30, 2012                     | 4           |
| Notes to Consolidated Financial Statements (Unaudited)   | 5           |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations                                    | 17          |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk   | 27          |
| Item 4. Controls and Procedures  | 27          |
| <b>Part II. Other Information</b>  |             |
| Item 1. Legal Proceedings  | 28          |
| Item 1A. Risk Factors  | 29          |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  | 29          |
| Item 3. Defaults upon Senior Securities  | 29          |

|                                 |           |
|---------------------------------|-----------|
| Item 4. Mine Safety Disclosures | 29        |
| Item 5. Other Information       | 29        |
| Item 6. Exhibits                | 30        |
| <b>Signatures</b>               | <b>31</b> |

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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)*

|  | <b>December<br/>29,<br/><br/>2013</b> | <b>June 30,<br/><br/>2013</b> |
|--|---------------------------------------|-------------------------------|
|  | <i>(unaudited)</i>                    |                               |
| <b>Assets</b>                                  |                                       |                               |
| Current assets:                                |                                       |                               |
| Cash and cash equivalents                      | \$ 3,260                              | \$ 154                        |
| Receivables, net                               | 38,043                                | 14,957                        |
| Inventories                                    | 57,913                                | 55,756                        |
| Deferred tax assets                            | 6,617                                 | 5,746                         |
| Prepaid and other                              | 7,133                                 | 9,941                         |
| Current assets of discontinued operations      | 4,275                                 | 6,095                         |
| Total current assets                           | 117,241                               | 92,649                        |
| Property, plant and equipment, net             | 55,747                                | 52,943                        |
| Goodwill                                       | 54,105                                | 47,943                        |
| Other intangibles, net                         | 45,585                                | 43,276                        |
| Deferred tax assets                            | 1,755                                 | 2,127                         |
| Other assets                                   | 8,257                                 | 10,086                        |
| Non-current assets of discontinued operations  | 1,023                                 | 1,049                         |
| Total assets                                   | \$ 283,713                            | \$ 250,073                    |
| <b>Liabilities and equity</b>                  |                                       |                               |
| Current liabilities:                           |                                       |                               |
| Accounts payable                               | \$ 17,887                             | \$ 26,235                     |
| Accrued expenses                               | 72,405                                | 45,044                        |
| Current maturities of long-term debt           | 388                                   | -                             |
| Current liabilities of discontinued operations | 2,081                                 | 4,484                         |
| Total current liabilities                      | 92,761                                | 75,763                        |
| Long term debt                                 | 3,000                                 | -                             |

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|   |            |            |
|---|------------|------------|
| Other liabilities   | 6,080      | 5,039      |
| Total liabilities   | 101,841    | 80,802     |
| 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; 37,940,040 and 36,280,425 shares issued at December 29, 2013 and June 30, 2013, respectively                          | 379        | 362        |
| Class B common stock, \$.01 par value, 200,000,000 shares authorized; 42,058,594 and 42,125,465 shares issued at December 29, 2013 and June 30, 2013, respectively                          | 421        | 421        |
| Additional paid-in capital  | 300,791    | 298,580    |
| Retained deficit  | (70,549 )  | (83,937 )  |
| Accumulated other comprehensive loss  | (12 )      | -          |
| Treasury stock, at cost – 10,489,646 and 9,257,231 Class A shares at December 29, 2013 and June 30, 2013, respectively, and 5,280,000 Class B shares at December 29, 2013 and June 30, 2013 | (52,685 )  | (46,155 )  |
| Total stockholders' equity  | 178,345    | 169,271    |
| Noncontrolling interest in subsidiary   | 3,527      | -          |
| Total equity  | 181,872    | 169,271    |
| Total liabilities and equity  | \$ 283,713 | \$ 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)*

|   | <b>Three Months Ended</b> |                     | <b>Six Months Ended</b> |                     |
|---|---------------------------|---------------------|-------------------------|---------------------|
|   | <b>December 29,</b>       | <b>December 30,</b> | <b>December 29,</b>     | <b>December 30,</b> |
|   | <b>2013</b>               | <b>2012</b>         | <b>2013</b>             | <b>2012</b>         |
| Net revenues  | \$266,337                 | \$251,360           | \$389,385               | \$370,952           |
| Cost of revenues  | 155,360                   | 146,879             | 227,111                 | 217,046             |
| Gross profit  | 110,977                   | 104,481             | 162,274                 | 153,906             |
| Operating expenses:   |                           |                     |                         |                     |
| Marketing and sales   | 57,656                    | 54,483              | 92,135                  | 87,206              |
| Technology and development  | 5,319                     | 5,363               | 10,717                  | 10,759              |
| General and administrative  | 14,267                    | 13,354              | 28,079                  | 26,415              |
| Depreciation and amortization                                     | 5,036                     | 4,521               | 9,725                   | 8,968               |
| Total operating expenses  | 82,278                    | 77,721              | 140,656                 | 133,348             |
| Operating income  | 28,699                    | 26,760              | 21,618                  | 20,558              |
| Interest expense and other, net                                   | 377                       | 538                 | 669                     | 824                 |
| Income from continuing operations before income taxes             | 28,322                    | 26,222              | 20,949                  | 19,734              |
| Income tax expense from continuing operations                     | 10,798                    | 9,715               | 7,982                   | 7,670               |
| Income from continuing operations                                 | 17,524                    | 16,507              | 12,967                  | 12,064              |
| Loss from discontinued operations, net of tax                     | (374 )                    | (496 )              | (456 )                  | (659 )              |
| Adjustment to loss on sale of discontinued operations, net of tax | 877                       | -                   | 877                     | -                   |
| Income (loss) from discontinued operations                        | 503                       | (496 )              | 421                     | (659 )              |
| Net income  | \$18,027                  | \$16,011            | \$13,388                | \$11,405            |
| Basic net income per common share:                                |                           |                     |                         |                     |
| From continuing operations  | \$0.27                    | \$0.25              | \$0.20                  | \$0.19              |
| From discontinued operations                                      | 0.01                      | (0.01 )             | 0.01                    | (0.01 )             |
| Basic net income per common share                                 | \$0.28                    | \$0.25              | \$0.21                  | \$0.18              |
| Diluted net income per common share:                              |                           |                     |                         |                     |
| From continuing operations  | \$0.27                    | \$0.25              | \$0.20                  | \$0.18              |
| From discontinued operations                                      | 0.01                      | (0.01 )             | 0.01                    | (0.01 )             |
| Diluted net income per common share                               | \$0.27                    | \$0.24              | \$0.20                  | \$0.17              |

Weighted average shares used in the calculation of net income per common share:



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|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 64,016 | 64,824 | 63,907 | 64,665 |
| Diluted | 66,095 | 66,557 | 66,383 | 66,695 |

*See accompanying Notes to Consolidated Financial Statements.*

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

**Consolidated Statements of Comprehensive Income**

*(in thousands)*

*(unaudited)*

|                                   | <b>Three Months Ended</b> |                     | <b>Six Months Ended</b> |                     |
|-----------------------------------|---------------------------|---------------------|-------------------------|---------------------|
|                                   | <b>December 29,</b>       | <b>December 30,</b> | <b>December 29,</b>     | <b>December 30,</b> |
|                                   | <b>2013</b>               | <b>2012</b>         | <b>2013</b>             | <b>2012</b>         |
|                                   | <i>(in thousands)</i>     |                     |                         |                     |
| Net income                        | \$18,027                  | \$ 16,011           | \$13,388                | \$ 11,405           |
| Other comprehensive income (loss) | (12 )                     | -                   | (12 )                   | 17                  |
| Comprehensive income              | \$18,015                  | \$ 16,011           | \$13,376                | \$ 11,422           |

*See accompanying Notes to Consolidated Financial Statements.*

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

|  | <b>Six Months Ended</b> |                  |
|--|-------------------------|------------------|
|  | <b>December</b>         | <b>December</b>  |
|  | <b>29, 2013</b>         | <b>30, 2012</b>  |
| <b>Operating activities</b>  |                         |                  |
| Net income   | \$ 13,388               | \$ 11,405        |
| Reconciliation of net income to net cash provided by operating activities: |                         |                  |
| Operating activities of discontinued operations                            | 320                     | (269 )           |
| Adjustment to loss on sale of discontinued operations                      | (877 )                  | -                |
| Depreciation and amortization  | 9,725                   | 8,968            |
| Amortization of deferred financing costs                                   | 153                     | 229              |
| Deferred income taxes  | (870 )                  | (909 )           |
| Noncontrolling interest  | (41 )                   | -                |
| Bad debt expense   | 643                     | 477              |
| Stock-based compensation   | 2,211                   | 2,304            |
| Other non-cash items   | 385                     | 213              |
| Changes in operating items, excluding the effects of acquisitions:         |                         |                  |
| Receivables  | (26,059)                | (22,431 )        |
| Inventories  | (2,057 )                | (2,083 )         |
| Prepaid and other  | 2,904                   | 3,834            |
| Accounts payable and accrued expenses                                      | 17,213                  | 19,915           |
| Other assets   | (155 )                  | (306 )           |
| Other liabilities  | 947                     | (208 )           |
| <b>Net cash provided by operating activities</b>                           | <b>17,830</b>           | <b>21,139</b>    |
| <b>Investing activities</b>  |                         |                  |
| Acquisitions, net of cash acquired   | (1,385 )                | -                |
| Capital expenditures   | (9,832 )                | (9,091 )         |
| Purchase of investments  | 8                       | (1,321 )         |
| Other, net   | 1                       | 34               |
| Investing activities of discontinued operations                            | -                       | (37 )            |
| <b>Net cash used in investing activities</b>                               | <b>(11,208)</b>         | <b>(10,415 )</b> |
| <b>Financing activities</b>  |                         |                  |
| Acquisition of treasury stock  | (6,530 )                | (5,149 )         |
| Proceeds from exercise of employee stock options                           | 17                      | 83               |
| Proceeds from bank borrowings  | 88,000                  | 47,000           |
| Repayment of bank borrowings   | (85,007)                | (54,500 )        |
| Other  | 4                       | (48 )            |
| <b>Net cash used in financing activities</b>                               | <b>(3,516 )</b>         | <b>(12,614 )</b> |

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|   |         |           |
|---|---------|-----------|
| Net change in cash and cash equivalents | 3,106   | (1,890 )  |
| Cash and cash equivalents:              |         |           |
| Beginning of period                     | 154     | 28,854    |
| End of period                           | \$3,260 | \$ 26,964 |

*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 six month period ended December 29, 2013 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.

5

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**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:

|   | <b>Three Months Ended</b>                    |                          | <b>Six Months Ended</b>  |                          |
|---|--|--------------------------|--------------------------|--------------------------|
|   | <b>December 29, 2013</b>                     | <b>December 30, 2012</b> | <b>December 29, 2013</b> | <b>December 30, 2012</b> |
|   | <i>(in thousands, except per share data)</i> |                          |                          |                          |
| <b>Numerator:</b>   |  |                          |                          |                          |
| Income from continuing operations                             | \$17,524                                     | \$16,507                 | \$12,967                 | \$12,064                 |
| <b>Denominator:</b>   |  |                          |                          |                          |
| Weighted average shares outstanding                           | 64,016                                       | 64,824                   | 63,907                   | 64,665                   |
| Effect of dilutive securities:                                |  |                          |                          |                          |
| Employee stock options (1)                                    | 990  | 481                      | 1,103                    | 532                      |
| Employee restricted stock awards                              | 1,089  | 1,252                    | 1,373                    | 1,498                    |
|   | 2,079  | 1,733                    | 2,476                    | 2,030                    |
| Adjusted weighted-average shares and assumed conversions      | 66,095                                       | 66,557                   | 66,383                   | 66,695                   |
| <b>Net income per common share from continuing operations</b> |  |                          |                          |                          |
| Basic   | \$0.27                                       | \$0.25                   | \$0.20                   | \$0.19                   |
| Diluted   | \$0.27                                       | \$0.25                   | \$0.20                   | \$0.18                   |

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.

The effect of options to purchase 1.2 million and 1.3 million shares during the three and six months ended December 29, 2013 and 3.1 million and 3.4 million shares during the three and six months ended December 30, 2012, respectively, were excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.

**Note 3 – Stock-Based Compensation**

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 12 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013, that provides for the grant to eligible employees, consultants and directors of stock options, restricted shares, and other stock-based awards.

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

|                                       | <b>Three Months<br/>Ended</b> |                         | <b>Six Months Ended</b> |                         |
|---------------------------------------|-------------------------------|-------------------------|-------------------------|-------------------------|
|                                       | <b>December<br/>29,</b>       | <b>December<br/>30,</b> | <b>December<br/>29,</b> | <b>December<br/>30,</b> |
|                                       | <b>2013</b>                   | <b>2012</b>             | <b>2013</b>             | <b>2012</b>             |
|                                       | <i>(in thousands)</i>         |                         |                         |                         |
| Stock options                         | \$113                         | \$131                   | \$211                   | \$ 237                  |
| Restricted stock                      | 1,032                         | 1,184                   | 2,000                   | 2,067                   |
| Total                                 | 1,145                         | 1,315                   | 2,211                   | 2,304                   |
| Deferred income tax benefit           | 431                           | 919                     | 831                     | 909                     |
| Stock-based compensation expense, net | \$714                         | \$396                   | \$1,380                 | \$ 1,395                |



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

|                            | <b>Three Months Ended</b> |                          | <b>Six Months Ended</b>  |                          |
|----------------------------|---------------------------|--------------------------|--------------------------|--------------------------|
|                            | <b>December 29, 2013</b>  | <b>December 30, 2012</b> | <b>December 29, 2013</b> | <b>December 30, 2012</b> |
|                            | <i>(in thousands)</i>     |                          |                          |                          |
| Marketing and sales        | \$275                     | \$460                    | \$648                    | \$ 806                   |
| Technology and development | 68                        | 132                      | 175                      | 231                      |
| General and administrative | 802                       | 723                      | 1,388                    | 1,267                    |
| Total                      | \$1,145                   | \$1,315                  | \$2,211                  | \$ 2,304                 |

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:

|  | <b>Three Months Ended</b> |                          | <b>Six Months Ended</b>  |                          |   |
|--|---------------------------|--------------------------|--------------------------|--------------------------|---|
|  | <b>December 29, 2013</b>  | <b>December 30, 2012</b> | <b>December 29, 2013</b> | <b>December 30, 2012</b> |   |
|  | <b>2013</b>               | <b>2012 (1)</b>          | <b>2013</b>              | <b>2012</b>              |   |
|  | <b>(1)</b>                | <b>(1)</b>               | <b>(1)</b>               | <b>(1)</b>               |   |
| Weighted average fair value of options granted | n/a                       | n/a                      | n/a                      | \$ 2.40                  |   |
| Expected volatility                            | n/a                       | n/a                      | n/a                      | 72.1                     | % |
| Expected life (years)                          | n/a                       | n/a                      | n/a                      | 6.4                      |   |
| Risk-free interest rate                        | n/a                       | n/a                      | n/a                      | 0.69                     | % |
| Expected dividend yield                        | n/a                       | n/a                      | n/a                      | 0.0                      | % |

(1) No options were granted during the three and six months ended December 29, 2013, nor for the three months ended December 30, 2012.

The following table summarizes stock option activity during the six months ended December 29, 2013:

| <b>Options</b> | <b>Weighted Average</b> |
|----------------|-------------------------|
|----------------|-------------------------|

|   |            | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Remaining<br/>Contractual<br/>Term<br/>(years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>(000s)</b> |
|---|------------|--|---|---|
| Outstanding at July 1, 2013                             | 4,723,240  | \$ 3.89  |   |   |
| Granted   | -          | \$ -   |   |   |
| Exercised   | (6,600 )   | \$ 2.57  |   |   |
| Forfeited   | (137,900 ) | \$ 4.54  |   |   |
| Outstanding at December 29, 2013                        | 4,578,740  | \$ 3.87  | 4.5   | \$ 8,951  |
| Options vested or expected to vest at December 29, 2013 | 4,453,090  | \$ 3.92  | 4.4   | \$ 8,553  |
| Exercisable at December 29, 2013                        | 3,129,840  | \$ 4.60  | 3.1   | \$ 3,924  |

As of December 29, 2013, the total future compensation cost related to non-vested options, not yet recognized in the statement of income, was \$2.0 million and the weighted average period over which these awards are expected to be recognized was 5.2 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 six months ended December 29, 2013:

|                                 | <b>Shares</b> | <b>Weighted<br/>Average<br/>Grant<br/>Date Fair<br/>Value</b> |
|---------------------------------|---------------|---|
| Non-vested at July 1, 2013      | 3,433,355     | \$ 2.80   |
| Granted                         | 1,714,802     | \$ 5.08   |
| Vested                          | (1,586,144)   | \$ 2.50   |
| Forfeited                       | (696,169 )    | \$ 4.63   |
| Non-vested at December 29, 2013 | 2,865,844     | \$ 3.88   |

The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of December 29, 2013, there was \$9.6 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 3.3 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:

|                           | <b>iFlorist</b>       |
|---------------------------|-----------------------|
|                           | <b>Fair Value of</b>  |
|                           | <b>Purchase Price</b> |
|                           | <b>Components</b>     |
|                           | <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:

|   | <b>iFlorist</b>       |
|---|-----------------------|
|   | <b>Preliminary</b>    |
|   | <b>Purchase Price</b> |
|   | <b>Allocation</b>     |
|   | <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              |

The Company's financial statements include the results of operations of its membership interest in iFlorist subsequent to the acquisition date. Pro forma results of operations have not been presented, as the impact on the Company's consolidated financial results would not have been material. The noncontrolling interest in subsidiary is included in the Company's income statement within Interest expense and other, net, and is not material for the three and six months ended December 29, 2013.

*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 \$1.7 million. Approximately \$0.5 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 "Other liabilities".

**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:

|                 | <b>December 29,</b>   | <b>June 30,</b>  |
|-----------------|-----------------------|------------------|
|                 | <b>2013</b>           | <b>2013</b>      |
|                 | <i>(in thousands)</i> |                  |
| Finished goods  | \$ 26,524             | \$ 30,906        |
| Work-in-process | 10,249                | 6,465            |
| Raw materials   | 21,140                | 18,385           |
|                 | <b>\$ 57,913</b>      | <b>\$ 55,756</b> |

**Note 6 – Goodwill and Intangible Assets**

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

|                              | <b>1-800-Flowers.com<br/>Consumer<br/>Floral</b> | <b>BloomNet<br/>Wire<br/>Service</b> | <b>Gourmet<br/>Food &amp;<br/>Gift<br/>Baskets<br/>(1)</b> | <b>Total</b> |
|------------------------------|--|--------------------------------------|--|--------------|
|                              | <i>(in thousands)</i>                            |                                      |  |              |
| Balance at June 30, 2013     | \$10,251   | \$ -                                 | \$ 37,692  | \$47,943     |
| Acquisition of iFlorist      | 6,162  | -                                    | -  | 6,162        |
| Balance at December 29, 2013 | \$16,413   | \$ -                                 | \$ 37,692  | \$54,105     |

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.

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

|   | December 29, 2013                 |                             |                                    | June 30, 2013               |                             |           |          |
|---|-----------------------------------|-----------------------------|------------------------------------|-----------------------------|-----------------------------|-----------|----------|
|   | Amortization<br>Period<br>(years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization<br>Net | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net       |          |
| <i>(in thousands)</i>                     |                                   |                             |                                    |                             |                             |           |          |
| Intangible assets with determinable lives |                                   |                             |                                    |                             |                             |           |          |
| Investment in licenses                    | 14 - 16                           | \$7,420                     | \$5,568                            | \$1,852                     | \$7,420                     | \$ 5,516  | \$1,904  |
| Customer lists                            | 3 - 10                            | 17,313                      | 11,947                             | 5,366                       | 15,989                      | 11,334    | 4,655    |
| Other                                     | 5 - 8                             | 2,538                       | 2,538                              | -                           | 2,538                       | 2,513     | 25       |
|   |                                   | 27,271                      | 20,053                             | 7,218                       | 25,947                      | 19,363    | 6,584    |
| Trademarks with indefinite lives          |                                   | 38,367                      | -                                  | 38,367                      | 36,692                      | -         | 36,692   |
| Total identifiable intangible assets      |                                   | \$65,638                    | \$20,053                           | \$45,585                    | \$62,639                    | \$ 19,363 | \$43,276 |

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Future estimated amortization expense is as follows: remainder of fiscal 2014 - \$0.9 million, fiscal 2015 - \$1.8 million, fiscal 2016 - \$1.6 million, fiscal 2017 - \$0.9 million, fiscal 2018 - \$0.6 million and thereafter - \$1.4 million.



## 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 \$3.6 million as of December 29, 2013 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 six months ended December 29, 2013 was less than \$0.1 million and \$0.2 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 \$0.7 million as of December 29, 2013 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 December 29, 2013 and \$2.3 million as of June 30, 2013. As described in Note 4 "Acquisitions and Dispositions" above, on December 2, 2013, the Company increased its investment in iFlorist, resulting in a majority ownership interest (56%) and consolidation of iFlorist's operations, 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 December 29, 2013.

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:

|   | <b>December 29,</b>   | <b>June 30,</b> |
|---|-----------------------|-----------------|
|   | <b>2013</b>           | <b>2013</b>     |
|   | <i>(in thousands)</i> |                 |
| Revolving line of credit (1)              | \$ 3,000              | \$ -            |
| Bank loan (2)                             | 388                   | -               |
| Total debt                                | \$ 3,388              | \$ -            |
| Less current maturities of long-term debt | 388                   | -               |
| Long-term debt                            | \$ 3,000              | \$ -            |

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 December 29, 2013 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 December 29, 2013:

|                 |                                    |
|-----------------|------------------------------------|
|                 | <b>Fair Value<br/>Measurements</b> |
| <b>Carrying</b> |                                    |
|                 | <b>Assets (Liabilities)</b>        |
| <b>Value</b>    |                                    |

|  | <b>Level<br/>1</b>    | <b>Level<br/>2</b> | <b>Level<br/>3</b> |
|--|-----------------------|--------------------|--------------------|
|  | <i>(in thousands)</i> |                    |                    |
| Assets (liabilities):                          |                       |                    |                    |
| Trading securities held in a “rabbi trust” (1) | \$ 1,994              | \$ -               | \$ -               |
| Non-performance promissory note                | 205                   | -                  | 205                |
|  | \$ 2,199              | \$ 1,994           | \$ - \$ 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:

|  | Carrying<br>Value | Fair Value<br>Measurements         |            |            |
|--|-------------------|------------------------------------|------------|------------|
|  |                   | Assets (Liabilities)<br>Level<br>1 | Level<br>2 | Level<br>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 six months ended December 29, 2013 was 38.2% and 38.1% respectively, compared to 37.1% and 39.0% 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. The effective rate for fiscal 2013 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, and other permanent differences, including the impact of expiring non-qualified stock options, offset by tax credits and incentives.

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 2010 and 2012 remain 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 29, 2013, the Company has an unrecognized tax position of approximately \$0.8 million, including accrued interest and penalties of \$0.1 million. The Company believes that \$0.4 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.

| Net Revenues from Continuing Operations | Three Months Ended    |              | Six Months Ended |              |
|---|-----------------------|--------------|------------------|--------------|
|   | December 29,          | December 30, | December 29,     | December 30, |
|   | 2013                  | 2012         | 2013             | 2012         |
|   | <i>(in thousands)</i> |              |                  |              |
| Segment Net Revenues:                   |                       |              |                  |              |
| 1-800-Flowers.com Consumer Floral       | \$97,133              | \$91,825     | \$168,682        | \$164,602    |
| BloomNet Wire Service                   | 19,912                | 18,734       | 40,258           | 38,501       |
| Gourmet Food & Gift Baskets             | 149,624               | 141,081      | 180,863          | 168,211      |
| Corporate (1)                           | 203                   | 200          | 398              | 394          |
| Intercompany eliminations               | (535 )                | (480 )       | (816 )           | (756 )       |
| Total net revenues                      | \$266,337             | \$251,360    | \$389,385        | \$370,952    |

| Operating Income from Continuing Operations | Three Months Ended    |              | Six Months Ended |              |
|---|-----------------------|--------------|------------------|--------------|
|   | December 29,          | December 30, | December 29,     | December 30, |
|   | 2013                  | 2012         | 2013             | 2012         |
|   | <i>(in thousands)</i> |              |                  |              |
| Segment Contribution Margin:                |                       |              |                  |              |
| 1-800-Flowers.com Consumer Floral           | \$8,680               | \$10,286     | \$15,109         | \$17,172     |
| Bloomnet Wire Service                       | 6,525                 | 6,049        | 12,964           | 11,845       |
| Gourmet Food & Gift Baskets                 | 31,044                | 27,599       | 28,997           | 25,321       |
| Segment Contribution Margin Subtotal        | 46,249                | 43,934       | 57,070           | 54,338       |
| Corporate (1)                               | (12,514)              | (12,653)     | (25,727)         | (24,812 )    |
| Depreciation and amortization               | (5,036 )              | (4,521 )     | (9,725 )         | (8,968 )     |
| Operating income                            | \$28,699              | \$26,760     | \$21,618         | \$20,558     |

(1) 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, 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 \$1.4 million (\$0.9 million, net of tax) of its accrual for the estimated loss during the quarter ended December 29, 2013. 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:

|   | <b>Three Months Ended</b> |                     | <b>Six Months Ended</b> |                     |
|---|---------------------------|---------------------|-------------------------|---------------------|
|   | <b>December 29,</b>       | <b>December 30,</b> | <b>December 29,</b>     | <b>December 30,</b> |
|   | <b>2013</b>               | <b>2012</b>         | <b>2013</b>             | <b>2012</b>         |
|   | <i>(in thousands)</i>     |                     |                         |                     |
| Net revenues from discontinued operations                         | \$755                     | \$ 1,654            | \$1,661                 | \$ 2,930            |
| Loss from discontinued operations, net of tax                     | \$(374)                   | \$ (496 )           | \$(456 )                | \$ (659 )           |
| Adjustment to loss on sale of discontinued operations, net of tax | \$877                     | \$ -                | \$877                   | \$ -                |
| Income (loss) from discontinued operations, net of tax            | 503                       | (496 )              | \$421                   | \$ (659 )           |

### **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 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.

There has been no ruling on (1) plaintiff's motion to consolidate, (2) the order to show cause, (3) the motion for clarification, or (4) the Company's motion seeking to dismiss the plaintiffs' amended consolidated complaint. Oral argument thereon was held on September 25, 2013, but no ruling has yet been issued.

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](http://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 was recognized for our mobile site 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](http://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](http://www.thepopcornfactory.com)); cookies and baked gifts from Cheryl's® (1-800-443-8124 or [www.cheryls.com](http://www.cheryls.com)); premium chocolates and confections from Fannie May® confections ([www.fanniemay.com](http://www.fanniemay.com) and [www.harrylondon.com](http://www.harrylondon.com)); gift baskets and towers from 1-800-Baskets.com® ([www.1800baskets.com](http://www.1800baskets.com)); carved fresh fruit arrangements from FruitBouquets.com ([www.fruitbouquets.com](http://www.fruitbouquets.com)); top quality steaks and chops from Stock Yards® ([www.stockyards.com](http://www.stockyards.com)); as well as premium branded customizable invitations and personal stationery from FineStationery.com® ([www.finestationery.com](http://www.finestationery.com)). The Company's Celebrations® brand ([www.celebrations.com](http://www.celebrations.com)) is a source for creative party ideas, must-read articles, online invitations

and e-cards, all created to help people celebrate holidays and the everyday. 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 \$1.4 million (\$0.9 million, net of tax) of its accrual for the estimated loss during the quarter ended December 29, 2013. 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 Adjusted EBITDA. 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            |                  |              | Six Months Ended              |                  |              |  |  |
|--|-------------------------------|------------------|--------------|-------------------------------|------------------|--------------|--|--|
|  | December                      | December         | %<br>Change  | December                      | December         | %<br>Change  |  |  |
|  | 29,                           | 30,              |              | 29,                           | 30,              |              |  |  |
|  | 2013                          | 2012             |              | 2013                          | 2012             |              |  |  |
|  | <i>(dollars in thousands)</i> |                  |              | <i>(dollars in thousands)</i> |                  |              |  |  |
| <b>Net revenues from continuing operations:</b>      |                               |                  |              |                               |                  |              |  |  |
| 1-800-Flowers.com Consumer Floral                    | \$97,133                      | \$91,825         | 5.8 %        | \$168,682                     | \$164,602        | 2.5 %        |  |  |
| BloomNet Wire Service                                | 19,912                        | 18,734           | 6.3 %        | 40,258                        | 38,501           | 4.6 %        |  |  |
| Gourmet Food & Gift Baskets                          | 149,624                       | 141,081          | 6.1 %        | 180,863                       | 168,211          | 7.5 %        |  |  |
| Corporate (*)  | 203                           | 200              | -1.5 %       | 398                           | 394              | 1.0 %        |  |  |
| Intercompany eliminations                            | (535 )                        | (480 )           | -11.5 %      | (816 )                        | (756 )           | -7.9 %       |  |  |
| <b>Total net revenues from continuing operations</b> | <b>\$266,337</b>              | <b>\$251,360</b> | <b>6.0 %</b> | <b>\$389,385</b>              | <b>\$370,952</b> | <b>5.0 %</b> |  |  |

|  | Three Months Ended |                  |              | Six Months Ended |                  |              |  |  |
|--|--------------------|------------------|--------------|------------------|------------------|--------------|--|--|
|  | December           | December         | %<br>Change  | December         | December         | %<br>Change  |  |  |
|  | 29,                | 30,              |              | 29,              | 30,              |              |  |  |
|  | 2013               | 2012             |              | 2013             | 2012             |              |  |  |
| <b>Gross profit from continuing operations:</b>      |                    |                  |              |                  |                  |              |  |  |
| 1-800-Flowers.com Consumer Floral                    | \$37,643           | \$35,954         | 4.7 %        | \$65,601         | \$64,246         | 2.1 %        |  |  |
|  | 38.8 %             | 39.2 %           |              | 38.9 %           | 39.0 %           |              |  |  |
| BloomNet Wire Service                                | 10,764             | 9,792            | 9.9 %        | 21,547           | 19,592           | 10.0 %       |  |  |
|  | 54.1 %             | 52.3 %           |              | 53.5 %           | 50.9 %           |              |  |  |
| Gourmet Food & Gift Baskets                          | 62,403             | 58,574           | 6.5 %        | 74,642           | 69,567           | 7.3 %        |  |  |
|  | 41.7 %             | 41.5 %           |              | 41.3 %           | 41.4 %           |              |  |  |
| Corporate (*)  | 167                | 161              | 3.7 %        | 484              | 501              | -3.4 %       |  |  |
|  | 82.3 %             | 80.5 %           |              | 121.6 %          | 127.2 %          |              |  |  |
| <b>Total gross profit from continuing operations</b> | <b>\$110,977</b>   | <b>\$104,481</b> | <b>6.2 %</b> | <b>\$162,274</b> | <b>\$153,906</b> | <b>5.4 %</b> |  |  |
|  | 41.7 %             | 41.6 %           |              | 41.7 %           | 41.5 %           |              |  |  |

|   | Three Months Ended |                   |              | Six Months Ended  |                   |              |
|---|--------------------|-------------------|--------------|-------------------|-------------------|--------------|
|   | December 29, 2013  | December 30, 2012 | % Change     | December 29, 2013 | December 30, 2012 | % Change     |
| <b>EBITDA from continuing operations, excluding stock-based compensation:</b> |                    |                   |              |                   |                   |              |
| <b>Segment Contribution Margin (**)</b>                                       |                    |                   |              |                   |                   |              |
| 1-800-Flowers.com Consumer Floral   | \$8,680            | \$10,286          | -15.6 %      | \$15,109          | \$17,172          | -12.0 %      |
| BloomNet Wire Service   | 6,525              | 6,049             | 7.9 %        | 12,964            | 11,845            | 9.4 %        |
| Gourmet Food & Gift Baskets   | 31,044             | 27,599            | 12.5 %       | 28,997            | 25,321            | 14.5 %       |
| Segment Contribution Margin Subtotal  | 46,249             | 43,934            | 5.3 %        | 57,070            | 54,338            | 5.0 %        |
| Corporate (*)   | (12,514)           | (12,653)          | 1.1 %        | (25,727)          | (24,812)          | -3.7 %       |
| <b>EBITDA from continuing operations</b>                                      | <b>33,735</b>      | <b>31,281</b>     | <b>7.8 %</b> | <b>31,343</b>     | <b>29,526</b>     | <b>6.2 %</b> |
| Add: Stock-based compensation   | 1,145              | 1,315             | -12.9 %      | 2,211             | 2,304             | -4.0 %       |
| <b>EBITDA from continuing operations, excluding stock-based compensation</b>  | <b>\$34,880</b>    | <b>\$32,596</b>   | <b>7.0 %</b> | <b>\$33,554</b>   | <b>\$31,830</b>   | <b>5.4 %</b> |

|   | <b>Three Months Ended</b> |                     | <b>Six Months Ended</b> |                     |
|---|---------------------------|---------------------|-------------------------|---------------------|
|   | <b>December 29,</b>       | <b>December 30,</b> | <b>December 29,</b>     | <b>December 30,</b> |
|   | <b>2013</b>               | <b>2012</b>         | <b>2013</b>             | <b>2012</b>         |
|   | <i>(in thousands)</i>     |                     |                         |                     |
| <b>Reconciliation of Net Income from continuing operations to EBITDA from continuing operations, excluding stock-based compensation (**):</b> |                           |                     |                         |                     |
| Net income from continuing operations   | \$ 17,524                 | \$ 16,507           | \$ 12,967               | \$ 12,064           |
| Add:  |                           |                     |                         |                     |
| Interest expense, net   | 377                       | 538                 | 669                     | 824                 |
| Depreciation and amortization   | 5,036                     | 4,521               | 9,725                   | 8,968               |
| Income tax expense  | 10,798                    | 9,715               | 7,982                   | 7,670               |
| EBITDA from continuing operations   | 33,735                    | 31,281              | 31,343                  | 29,526              |
| Add: Stock-based compensation   | 1,145                     | 1,315               | 2,211                   | 2,304               |
| <b>EBITDA from continuing operations, excluding stock-based compensation</b>  | <b>\$ 34,880</b>          | <b>\$ 32,596</b>    | <b>\$ 33,554</b>        | <b>\$ 31,830</b>    |

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, (\*) 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.

(\*\*) 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.

## Results of Operations

### Net Revenues

|                    | Three Months Ended            |                   |          | Six Months Ended  |                   |          |  |  |
|--------------------|-------------------------------|-------------------|----------|-------------------|-------------------|----------|--|--|
|                    | December 29, 2013             | December 30, 2012 | % Change | December 29, 2013 | December 30, 2012 | % Change |  |  |
|                    | <i>(dollars in thousands)</i> |                   |          |                   |                   |          |  |  |
| Net revenues:      |                               |                   |          |                   |                   |          |  |  |
| E-Commerce         | \$ 180,095                    | \$ 171,774        | 4.8 %    | \$ 260,975        | \$ 252,886        | 3.2 %    |  |  |
| Other              | 86,242                        | 79,586            | 8.4 %    | 128,410           | 118,066           | 8.8 %    |  |  |
| Total net revenues | \$ 266,337                    | \$ 251,360        | 6.0 %    | \$ 389,385        | \$ 370,952        | 5.0 %    |  |  |

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

During the three and six months ended December 29, 2013, revenues increased by 6.0% and 5.0%, respectively, in comparison to the same periods of the prior year as a result of growth across all business segments. This improvement was lead by the growth in the Gourmet Food & Gift Baskets segment, driven by the continued rebound of DesignPac's wholesale gift basket business, as well as solid ecommerce growth in the Company's Cheryl's bakery gifts business. Further contributing to the growth during the three and six months ended December 29, 2013 were continued improvements within the BloomNet segment, as a result of additional market penetration, as well as growth within the Consumer Floral segment, driven primarily through the acquisition of a majority interest in iFlorist. Year-over-year growth during the periods was the result of a combination of new product initiatives, focused holiday advertising, and "everyday" campaigns such as the "Just Because" marketing efforts, as well as favorable comparisons during November due to the impact of Hurricane Sandy in the prior year. This growth was achieved despite the continuation of a difficult economy, compounded by the headwinds caused by the impact of the government shutdown in October and the impact of the calendar shift that resulted in six fewer shopping days between Thanksgiving and Christmas.

E-Commerce revenues increased 4.8% and 3.2% during the three and six months ended December 29, 2013, in comparison to the same periods of the prior year, as a result of: (i) increases in the of 1-800-Flowers brand revenue, which is the primary driver of the 1-800-Flowers.com Consumer Floral segment, (ii) growth at Cheryl's and Fannie May, and (iii) the incremental revenues from the acquisition of iFlorist. Excluding iFlorist revenues, e-commerce revenues increased by 3.4% and 1.8% during the three and six months ended December 29, 2013. The Company fulfilled approximately 3,258,000 and 4,523,000 orders through its e-commerce sales channels (online and telephonic sales) during the three and six months ended December 29, 2013, representing an increase of 3.5% and 3.3% over the same period of the prior year. The average order value increased 1.0% to \$55.11 during the three months ended December 29, 2013, and decreased 0.4% to \$57.52 during the six months ended December 29, 2013 as a result of the change in brand volume mix.

Other revenues are comprised of the Company's BloomNet Wire Service segment, as well as the wholesale and retail channels of its 1-800-Flowers.com Consumer Floral and Gourmet Food and Gift Baskets segments. Other revenues increased 8.4% and 8.8%, respectively, during the three and six months ended December 29, 2013 in comparison to the same periods of the prior year, primarily as a result of the aforementioned growth of DesignPac's wholesale gift basket business, which is included within the Gourmet Food and Gift Baskets' segment, coupled with increased revenue within the BloomNet Wire Service segment.

The 1-800-Flowers.com 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 increased 5.8% and 2.5% during the three and six months ended December 29, 2013 over the same period of the prior year, as a result of both increased order volume and a higher average order value. The increase in revenues during the three and six months ended December 29, 2013 includes approximately \$3.5 million of revenues from iFlorist, a UK direct-to-consumer marketer of floral and gift-related products sold and delivered throughout Europe, in which the Company acquired a majority ownership interest on December 3, 2013.

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 29, 2013 increased by 6.3% and 4.6%, respectively, over the same period of the prior year, reflecting continued gains in market penetration for the Company's expanded suite of products and services for its member florists.

The Gourmet Food & Gift Baskets segment includes the operations of 1-800-Baskets, Cheryl's (which includes Mrs. Beasley's), Fannie May Confections, The Popcorn Factory, Stockyards.com and DesignPac. Revenue is derived from the sale of gift baskets, cookies, baked gifts, premium chocolates and confections, gourmet popcorn, 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 December 29, 2013 increased by 6.1% and 7.5%, respectively, over the same period of the prior year, driven primarily by the continued rebound in

DesignPac gift basket sales into the mass market channel, as well as ecommerce growth in the Company's Cheryl's bakery gifts business.

The Company expects to achieve annual revenue growth in Fiscal 2014 across all of its business segments, with consolidated revenue growth in the mid-single-digit range.

**Gross Profit**

|                | Three Months Ended            |                   |          | Six Months Ended  |                   |          |
|----------------|-------------------------------|-------------------|----------|-------------------|-------------------|----------|
|                | December 29, 2013             | December 30, 2012 | % Change | December 29, 2013 | December 30, 2012 | % Change |
|                | <i>(dollars in thousands)</i> |                   |          |                   |                   |          |
| Gross profit   | \$ 110,977                    | \$ 104,481        | 6.2 %    | \$ 162,274        | \$ 153,906        | 5.4 %    |
| Gross margin % | 41.7 %                        | 41.6 %            |          | 41.7 %            | 41.5 %            |          |

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

Gross profit during the three and six months ended December 29, 2013 increased by 6.2% and 5.4%, respectively, in comparison to the same periods of the prior year, primarily as a result of the aforementioned revenue growth across all segments, combined with improved gross margin percentages within the Gourmet Food & Gift Basket and BloomNet segments. As a result, overall gross margin percentage increased 10 and 20 basis points, to 41.7%, during the respective three and six months ended December 29, 2013, in comparison to the same periods of the prior year.

The 1-800-Flowers.com Consumer Floral segment gross profit increased by 4.7% and 2.1%, respectively, during the three and six months ended December 29, 2013, in comparison to the same periods of the prior year, due to the aforementioned increase in revenue. Gross margin percentage declined slightly due to the lower margins associated with the newly acquired iFlorist business.

The BloomNet Wire Service segment gross profit increased by 9.9% and 10.0%, respectively, during the three and six months ended December 29, 2013, in comparison to the same periods of the prior year, primarily due to increased service offerings and pricing initiatives.

The Gourmet Food & Gift Baskets segment gross profit increased by 6.5% and 7.3%, respectively, during the three and six months ended December 29, 2013, in comparison to the same periods of the prior year, due to the aforementioned revenue growth as well as operational improvements in the Fannie May business.

The Company expects its gross margin percentage will improve in comparison to fiscal 2013 as a result of continued improvements in product sourcing, supply chain and manufacturing efficiencies.

***Marketing and Sales Expense***

|                            | <b>Three Months Ended</b>     |                          |                 | <b>Six Months Ended</b>  |                          |                 |
|----------------------------|-------------------------------|--------------------------|-----------------|--------------------------|--------------------------|-----------------|
|                            | <b>December 29, 2013</b>      | <b>December 30, 2012</b> | <b>% Change</b> | <b>December 29, 2013</b> | <b>December 30, 2012</b> | <b>% Change</b> |
|                            | <i>(dollars in thousands)</i> |                          |                 |                          |                          |                 |
| Marketing and sales        | \$57,656                      | \$ 54,483                | 5.8             | \$92,135                 | \$ 87,206                | 5.7             |
| Percentage of net revenues | 21.6 %                        | 21.7 %                   |                 | 23.7 %                   | 23.5 %                   |                 |

Marketing and sales expense consists primarily of advertising and promotional expenditures, catalog costs, online portal and search costs, retail store and fulfillment operations (other than costs included in cost of revenues) and customer service center expenses, as well as the operating expenses of the Company's departments engaged in marketing, selling and merchandising activities.

Marketing and sales expense increased by 5.8% and 5.7%, respectively, during the three and six months ended December 29, 2013 in comparison to the same periods of the prior year, as a result of a higher marketing expense ratio within the Consumer Floral segment, reflecting additional investments in social and mobile programs designed to engage directly with customers and help drive demand for the upcoming spring floral holiday season, including the Valentine's, Easter and Mother's Day holidays, partially offset by operating leverage within the Gourmet Food & Gift Baskets segment, driven by year over year fulfillment efficiency improvements by the Fannie May brand.

During the three and six months ended December 29, 2013 the Company added approximately 637,000 and 1,003,000 new e-commerce customers, respectively. Of the 1,637,000 and 2,434,000 total customers who placed e-commerce orders during the three and six months ended December 29, 2013, approximately 61% and 59%, respectively, represented repeat customers. This reflects the Company's effective marketing programs, including initiatives in social and mobile communication channels to engage with its customers and deepen its relationships as their trusted Florist and Gift Shop for all of their celebratory occasions.

### *Technology and Development Expense*

|                            | <b>Three Months Ended</b>     |                 |               | <b>Six Months Ended</b> |                 |               |
|----------------------------|-------------------------------|-----------------|---------------|-------------------------|-----------------|---------------|
|                            | <b>December</b>               | <b>December</b> |               | <b>December</b>         | <b>December</b> |               |
|                            | <b>29,</b>                    | <b>30,</b>      | <b>%</b>      | <b>29,</b>              | <b>30,</b>      | <b>%</b>      |
|                            | <b>2013</b>                   | <b>2012</b>     | <b>Change</b> | <b>2013</b>             | <b>2012</b>     | <b>Change</b> |
|                            | <i>(dollars in thousands)</i> |                 |               |                         |                 |               |
| Technology and development | \$5,319                       | \$ 5,363        | (0.8% )       | \$10,717                | \$ 10,759       | (0.4% )       |
| Percentage of net revenues | 2.0 %                         | 2.1 %           |               | 2.8 %                   | 2.9 %           |               |

Technology and development expense consists primarily of payroll and operating expenses of the Company's information technology group, costs associated with its web sites, including hosting, design, content development and maintenance and support costs related to the Company's order entry, customer service, fulfillment and database systems. During the three and six months ended December 29, 2013, technology and development expense was consistent with the same period of the prior year, as a result of the Company's efforts to leverage its existing IT infrastructure.

During the three and six months ended December 29, 2013, the Company expended \$9.5 million and \$17.9 million on technology and development, respectively, of which \$4.2 and \$7.1 million has been capitalized.

### *General and Administrative Expense*

|  | <b>Three Months Ended</b>     |                 |               | <b>Six Months Ended</b> |                 |               |
|--|-------------------------------|-----------------|---------------|-------------------------|-----------------|---------------|
|  | <b>December</b>               | <b>December</b> |               | <b>December</b>         | <b>December</b> |               |
|  | <b>29,</b>                    | <b>30,</b>      | <b>%</b>      | <b>29,</b>              | <b>30,</b>      | <b>%</b>      |
|  | <b>2013</b>                   | <b>2012</b>     | <b>Change</b> | <b>2013</b>             | <b>2012</b>     | <b>Change</b> |
|  | <i>(dollars in thousands)</i> |                 |               |                         |                 |               |

|                            |           |           |     |   |           |           |     |   |
|----------------------------|-----------|-----------|-----|---|-----------|-----------|-----|---|
| General and administrative | \$ 14,267 | \$ 13,354 | 6.8 | % | \$ 28,079 | \$ 26,415 | 6.3 | % |
| Percentage of net revenues | 5.4       | %         | 5.3 | % | 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 6.8% and 6.3%, respectively, during the three and six months ended December 29, 2013, compared to the same periods of the prior year, as a result of annual wage increases, hiring additional personnel to support the Company's growth objectives, as well as costs associated with the acquisition of iflorist.

*Depreciation and Amortization Expense*

|                               | Three Months Ended |                   |          | Six Months Ended  |                   |          |     |   |
|-------------------------------|--------------------|-------------------|----------|-------------------|-------------------|----------|-----|---|
|                               | December 29, 2013  | December 30, 2012 | % Change | December 29, 2013 | December 30, 2012 | % Change |     |   |
| Depreciation and amortization | \$ 5,036           | \$ 4,521          | 11.4     | %                 | \$ 9,725          | \$ 8,968 | 8.4 | % |
| Percentage of net revenues    | 1.9                | %                 | 1.8      | %                 | 2.5               | %        | 2.4 | % |

*(dollars in thousands)*

Depreciation and amortization expense increased by 11.4% and 8.4%, respectively, during the three and six months ended December 29, 2013 in comparison to the same periods of the prior year, as a result of capital expenditures, primarily related to website design/technology upgrades.

### *Interest Expense, net*

|                                 | <b>Three Months Ended</b>     |             |               | <b>Six Months Ended</b> |             |               |
|---------------------------------|-------------------------------|-------------|---------------|-------------------------|-------------|---------------|
|                                 | <b>December</b>               |             | <b>%</b>      | <b>December</b>         |             | <b>%</b>      |
|                                 | <b>29,</b>                    | <b>30,</b>  | <b>Change</b> | <b>29,</b>              | <b>30,</b>  | <b>Change</b> |
|                                 | <b>2013</b>                   | <b>2012</b> |               | <b>2013</b>             | <b>2012</b> |               |
|                                 | <i>(dollars in thousands)</i> |             |               |                         |             |               |
| Interest expense and other, net | \$377                         | \$ 538      | (29.9% )      | \$669                   | \$ 824      | (18.8% )      |

Interest expense, net consists primarily of interest expense and amortization of deferred financing costs attributable to the Company's credit facility, net of income earned on the Company's available cash balances, earnings/losses from the Company's noncontrolling interest in iFlorist and equity interest in Flores Online, and investment income in the Company's Non-Qualified Deferred Compensation Plan. Net interest expense during the three and six months ended December 29, 2013, decreased 29.9% and 18.8%, respectively, in comparison to the same periods of the prior year, due to lower interest expense as a result of the net reduction in borrowings outstanding during the respective periods.

### *Income Taxes*

The Company recorded income tax expense from continuing operations of \$10.8 million and \$8.0 million, respectively, during the three and six months ended December 29, 2013, compared to an income tax expense of \$9.7 million and \$7.7 million, respectively, for the same periods of the prior year. The Company's effective tax rate from continuing operations for the three and six months ended December 29, 2013 was 38.2% and 38.1% respectively, compared to 37.1% and 39.0% in the same periods of the prior year. The effective tax 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. The effective rate for fiscal 2013 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, and other permanent differences, including the impact of expiring non-qualified stock options, offset by tax credits and incentives.

### *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 \$1.4 million (\$0.9 million, net of tax) of its accrual for the estimated loss during the quarter ended December 29, 2013. 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:

|   | <b>Three Months Ended</b> |                          | <b>Six Months Ended</b>  |                          |
|---|---------------------------|--------------------------|--------------------------|--------------------------|
|   | <b>December 29, 2013</b>  | <b>December 30, 2012</b> | <b>December 29, 2013</b> | <b>December 30, 2012</b> |
|   | <b>2013</b>               | <b>2012</b>              | <b>2013</b>              | <b>2012</b>              |
|   | <i>(in thousands)</i>     |                          |                          |                          |
| Net revenues from discontinued operations                         | \$755                     | \$ 1,654                 | \$1,661                  | \$ 2,930                 |
| Loss from discontinued operations, net of tax                     | \$(374)                   | \$ (496 )                | \$(456 )                 | \$ (659 )                |
| Adjustment to loss on sale of discontinued operations, net of tax | \$877                     | \$ -                     | \$877                    | \$ -                     |
| Income (loss) from discontinued operations, net of tax            | 503                       | (496 )                   | \$421                    | \$ (659 )                |

## Liquidity and Capital Resources

### *Cash Flows*

At December 29, 2013, the Company had working capital of \$24.5 million, including cash and cash equivalents of \$3.3 million, compared to working capital of \$16.9 million, including cash and cash equivalents of \$0.2 million, at June 30, 2013.

Net cash provided by operating activities of \$17.8 million for the six months ended December 29, 2013, was primarily due to the Company's net income for the period, adjusted for non-cash charges related to depreciation and amortization and stock-based compensation, offset by seasonal changes in working capital, which included seasonal increases in accounts receivable related to the December holiday selling season, offset by associated seasonal increases in accounts payable and accrued expenses.

Net cash used in investing activities of \$11.2 million for the six months ended December 29, 2013, was primarily attributable to capital expenditures related to the Company's technology infrastructure, as well as the increased investment to a majority ownership interest in iFlorist, a UK based online floral gift provider.

Net cash used in financing activities of \$3.5 million for the six months ended December 29, 2013 was primarily from the acquisition of \$6.5 million of treasury stock, partially offset by net non-working capital borrowings of \$3.0 million

under the Company's credit facility. All working capital borrowings under the Company's revolving credit facility were repaid by the end of the fiscal second quarter.

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 with these covenants as of September 29, 2013. Outstanding amounts under the 2013 Credit Facility, which matures on April 10, 2018, will bear interest at the Company's option at either: (i) LIBOR, plus a spread of between 150 and 225 basis points, as determined by the Company's leverage ratio, or (ii) the agent bank's prime rate plus a margin. The amounts outstanding under the 2013 Credit Facility amounted to \$3 million, as of December 29, 2013, and \$0 as of June 30, 2013.

The Company believes that cash flows from operations along with available borrowings from its 2013 Credit Facility will be a sufficient source of liquidity. The Company typically borrows against the facility to fund working capital requirements related to pre-holiday manufacturing and inventory purchases which peak during its fiscal second quarter before being repaid prior to the end of that quarter. It is anticipated that any borrowings required subsequent to the end of the fiscal second quarter will be for non-working capital purposes, such as capital additions, including the expansion of Cheryl's production facility, as well as stock repurchases and acquisitions.

#### *Stock Repurchase Program*

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. In March 2013, the Company's Board of Directors authorized an increase of \$20 million to its stock repurchase plan. During the six months ended December 29, 2013, the Company repurchased \$6.5 million of its Class A Common Stock. As of December 29, 2013, \$12.4 million remains authorized but unused.

### *Contractual Obligations*

There have been no material changes outside the ordinary course of business, related to the Company's contractual obligations as discussed in the Annual Report on Form 10-K for the year ended June 30, 2013.

### **Critical Accounting Policies and Estimates**

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013, the discussion and analysis of the Company's financial condition and results of operations are based upon the consolidated financial statements of 1-800-FLOWERS.COM, Inc., which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Management bases its estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances, and management evaluates its estimates and assumptions on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions. The Company's most critical accounting policies relate to revenue recognition, accounts receivable, inventory, goodwill, other intangible assets and long-lived assets and income taxes. There have been no significant changes to the assumptions and estimates related to the Company's critical accounting policies, since June 30, 2013.

### *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.

### **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," "will," "goal," "target" or similar 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 June 30, 2013 listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them in Part I, Item 1A, of that filing under the heading "Cautionary Statements Under the Private Securities Litigation Reform Act of 1995". We incorporate that section of that Form 10-K in this filing and investors should refer to it.

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

The Company is exposed to market risk from the effect of interest rate changes and changes in the market values of its investments.

#### *Interest Rate Risk*

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment of available cash balances and its long-term debt. The Company generally invests its cash and cash equivalents in investment grade corporate and U.S. government securities. Due to the currently low rates of return the Company is receiving on its cash equivalents, the potential for a significant decrease in short-term interest rates is low and, therefore, a further decrease would not have a material impact on the Company's interest income. Borrowings under the Company's credit facility bear interest at a variable rate, plus an applicable margin, and therefore exposes the Company to market risk for changes in interest rates. The effect of a 50 basis point increase in current interest rates on its interest expense would be approximately \$0.1 million and \$0.2 million during the three and six months ended December 29, 2013.

#### *Investment Risk*

The Company has certain investments in non-marketable equity instruments of private companies. The Company accounts for these investments using either the equity or the cost method. The Company reviews its investments for impairment when events and circumstances indicate that the decline in fair value of such assets below the carrying value is other-than-temporary. The Company's analysis includes review of recent operating results and trends, recent sales/acquisitions of the investee securities, and other publicly available data. The current global economic climate provides additional uncertainty. Valuations of private companies are inherently more difficult due to the lack of readily available market data. As such, the Company believes that providing information regarding market sensitivities is not practicable.

### **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 29, 2013. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 29, 2013.

*Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting identified in connection with the Company's evaluation required by Rules 13a-15(d) or 15d-15(d) of the Securities Exchange Act of 1934 during the quarter ended December 29, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## **PART II. – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

#### *Legal Proceedings*

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

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

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

There has been no ruling on (1) plaintiff's motion to consolidate, (2) the order to show cause, (3) the motion for clarification, or (4) the Company's motion seeking to dismiss the plaintiffs' amended consolidated complaint. Oral argument thereon was held on September 25, 2013, but no ruling has yet been issued.

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 June 30, 2013.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. In March 2013, the Company's Board of Directors authorized an increase of \$20 million to its stock repurchase plan. As of December 29, 2013, \$12.4 million remains authorized under the plan.

The following table sets forth, for the months indicated, the Company's purchase of common stock during the first six months of fiscal 2014, which includes the period July 1, 2013 through December 29, 2013:

| Period           | Total<br>Number<br>of<br>Shares<br>Purchased | Average<br>Price Paid<br>Per Share<br>(1) | Total  | Dollar  |
|------------------|--|---|--|---|
|                  |  |   | Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans<br>or<br>Programs | Value of<br>Shares<br>that May<br>Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs<br>(in<br>thousands) |
| 7/1/13 – 7/28/13 | 10.0   | \$ 5.97                                   | 10.0   | \$ 18,889   |

*(in thousands, except average price paid per share)*

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|                     |         |         |         |           |
|---------------------|---------|---------|---------|-----------|
| 7/29/13 – 8/25/13   | 0.5     | \$ 5.99 | 0.5     | \$ 18,886 |
| 8/26/13 – 9/29/13   | 301.4   | \$ 5.38 | 301.4   | \$ 17,253 |
| 9/30/13 – 10/27/13  | 393.6   | \$ 5.43 | 393.6   | \$ 15,111 |
| 10/28/13 – 11/24/13 | 420.7   | \$ 5.11 | 420.6   | \$ 12,959 |
| 11/25/13 – 12/29/13 | 106.2   | \$ 5.04 | 106.2   | \$ 12,419 |
| Total               | 1,232.4 | \$ 5.28 | 1,232.4 |           |

(1) Average price per share excludes commissions and other transaction fees.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**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.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Label Document

101.PREXBRL Taxonomy Definition Presentation Document

\* Filed herewith.

**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 7, 2014 /s/ James F. McCann  
James F. McCann  
Chief Executive Officer and  
Chairman of the Board of Directors

Date: February 7, 2014 /s/ William E. Shea  
William E. Shea  
Senior Vice President and Chief Financial Officer