

1 800 FLOWERS COM INC  
Form 10-Q  
November 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended September 28, 2014**

**or**

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

**For the transition period from \_\_\_ to \_\_\_**

Commission File No. 0-26841

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

(Exact name of registrant as specified in its charter)

DELAWARE

11-3117311

(State of  
incorporation)

(I.R.S. Employer  
Identification No.)

One Old Country Road, Carle Place, New York 11514

(Address of principal executive offices)(Zip code)

(516) 237-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes      No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes      No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

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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:

27,328,262

(Number of shares of Class A common stock outstanding as of October 31, 2014)

36,845,465

(Number of shares of Class B common stock outstanding as of October 31, 2014)

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

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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>September 28, 2014 <i>(unaudited)</i></b>	<b>June 29, 2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,158	\$5,203
Receivables, net	24,861	13,339
Inventories	95,957	58,520
Deferred tax assets	5,658	5,156
Prepaid and other	10,730	9,600
Total current assets	139,364	91,818
Property, plant and equipment, net	60,046	60,147
Goodwill	60,164	60,166
Other intangibles, net	44,178	44,616
Deferred tax assets	2,002	2,002
Other assets	8,692	8,820
Total assets	\$ 314,446	\$267,569
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 20,760	\$24,447
Accrued expenses	42,948	49,517
Short-term debt	62,290	343
Total current liabilities	125,998	74,307
Deferred tax liabilities	649	649
Other liabilities	6,072	6,495
Total liabilities	132,719	81,451
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	-	-
	381	381

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Class A common stock, \$.01 par value, 200,000,000 shares authorized; 38,138,734 and 38,119,398 shares issued at September 28, 2014 and June 29, 2014, respectively		
Class B common stock, \$.01 par value, 200,000,000 shares authorized; 42,058,594 shares issued at September 28, 2014 and June 29, 2014	420	420
Additional paid-in capital	306,777	305,510
Retained deficit	(72,815 )	(68,565 )
Accumulated other comprehensive loss	(14 )	(75 )
Treasury stock, at cost – 11,029,989 and 10,818,437 Class A shares at September 28, 2014 and June 29, 2014, respectively, and 5,280,000 Class B shares at September 28, 2014 and June 29, 2014	(55,613 )	(54,472 )
Total 1-800-FLOWERS.COM, Inc. stockholders' equity	179,136	183,199
Noncontrolling interest	2,591	2,919
Total equity	181,727	186,118
Total liabilities and equity	\$ 314,446	\$ 267,569

*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>September</b>	<b>September</b>
	<b>28,</b>	<b>29,</b>
	<b>2014</b>	<b>2013</b>
Net revenues	\$ 126,703	\$ 123,048
Cost of revenues	73,390	71,751
Gross profit	53,313	51,297
Operating expenses:		
Marketing and sales	35,572	34,479
Technology and development	5,600	5,398
General and administrative	13,668	13,812
Depreciation and amortization	5,101	4,689
Total operating expenses	59,941	58,378
Operating loss	(6,628 )	(7,081 )
Interest expense and other, net	(753 )	(292 )
Loss from continuing operations before income taxes	(7,381 )	(7,373 )
Income tax benefit from continuing operations	(2,803 )	(2,816 )
Loss from continuing operations	(4,578 )	(4,557 )
Loss from discontinued operations, net of tax	-	(82 )
Net loss	(4,578 )	(4,639 )
Less: Net loss attributable to noncontrolling interest	(328 )	-
Net loss attributable to 1-800-FLOWERS.COM, Inc.	\$(4,250 )	\$(4,639 )
Basic and diluted net loss per common share attributable to 1-800-FLOWERS.COM, Inc.:		
From continuing operations	\$(0.07 )	\$(0.07 )
From discontinued operations	\$0.00	\$(0.00 )
Basic and diluted net loss per common share	\$(0.07 )	\$(0.07 )
Basic and diluted weighted average shares used in the calculation of net loss per common share	63,948	63,799

*See accompanying Notes to Consolidated Financial Statements.*





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

**Consolidated Statements of Comprehensive Loss**

*(in thousands)*

*(unaudited)*

	<b>Three Months Ended</b>	
	<b>September 28,</b>	<b>September 29,</b>
	<b>2014</b>	<b>2013</b>
Net loss	\$(4,578)	\$ (4,639 )
Other comprehensive loss	(61 )	-
Comprehensive loss	(4,639)	(4,639 )
Add: Comprehensive net loss attributable to noncontrolling interest	(328 )	-
Comprehensive net loss attributable to 1-800-FLOWERS.COM, Inc.	\$(4,311)	\$ (4,639 )

*See accompanying Notes to Consolidated Financial Statements.*

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

	<b>Three months ended</b>	
	<b>September</b>	<b>September</b>
	<b>28,</b>	<b>29,</b>
	<b>2014</b>	<b>2013</b>
<b>Operating activities:</b>		
Net loss	\$(4,578 )	\$ (4,639 )
Reconciliation of net loss to net cash used in operating activities:		
Operating activities of discontinued operations	-	589
Depreciation and amortization	5,101	4,689
Amortization of deferred financing costs	77	76
Deferred income taxes	(502 )	(419 )
Bad debt expense	359	340
Stock-based compensation	1,267	1,066
Other non-cash items	70	148
Changes in operating items:		
Receivables	(11,881)	(15,455 )
Inventories	(37,437)	(35,792 )
Prepaid and other	(1,130 )	1,411
Accounts payable and accrued expenses	(10,256)	(13,921 )
Other assets	(197 )	(242 )
Other liabilities	(423 )	445
<b>Net cash used in operating activities</b>	<b>(59,530)</b>	<b>(61,704 )</b>
<b>Investing activities:</b>		
Capital expenditures	(4,473 )	(4,131 )
Other, net	152	8
<b>Net cash used in investing activities</b>	<b>(4,321 )</b>	<b>(4,123 )</b>
<b>Financing activities:</b>		
Acquisition of treasury stock	(1,141 )	(1,696 )
Proceeds from exercise of employee stock options	-	7
Proceeds from bank borrowings	62,000	74,000
Repayment of notes payable and bank borrowings	(53 )	(3,000 )
Debt issuance cost	-	4
<b>Net cash provided by financing activities</b>	<b>60,806</b>	<b>69,315</b>
Net change in cash and cash equivalents	(3,045 )	3,488
Cash and cash equivalents:		
Beginning of period	5,203	154

End of period	\$2,158	\$ 3,642
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*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 month period ended September 28, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending June 28, 2015. 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 29, 2014.

The Company’s quarterly results may experience seasonal fluctuations. Due to the seasonal nature of the Company’s business, and its continued expansion into non-floral products, including the acquisition of Harry & David Holdings, Inc. (Harry & David) on September 30, 2014, the Thanksgiving through Christmas holiday season, which falls within the Company’s second fiscal quarter, is expected to generate nearly 50% of the Company’s annual revenues, and all of our earnings. Additionally, due to the 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 in comparison to its fiscal first quarter. The Easter Holiday, which was on April 20th in fiscal 2014, falls on April 5th in fiscal 2015. As a result of the timing of Easter, during fiscal 2015, a portion of revenue and EBITDA associated with the Easter Holiday will shift into the Company’s fiscal third quarter, from its fiscal fourth quarter.

### *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.

### *Recent Accounting Pronouncements*

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)." ASU No. 2014-08 amends the requirements for reporting discontinued operations

and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. This new accounting guidance is effective for the Company's fiscal year ending July 3, 2016, and may be applied retrospectively. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This amended guidance will enhance the comparability of revenue recognition practices and will be applied to all contracts with customers. Expanded disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized are requirements under the amended guidance. This guidance will be effective for the Company's fiscal year ending July 1, 2018 and may be applied retrospectively. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

### *Reclassifications*

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

### **Note 2 – Net Loss Per Common Share from Continuing Operations**

Basic net loss per common share from continuing operations attributable to 1-800-FLOWERS.COM, Inc. is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per common share from continuing operations attributable to 1-800-FLOWERS.COM, Inc. is computed using the weighted-average number of common shares outstanding during the period, and excludes the dilutive potential common shares (consisting of employee stock options and unvested restricted stock awards), as their inclusion would be antidilutive. As a result of the net loss attributable to 1-800-FLOWERS.COM, Inc. for the three months ended September 28, 2014 and September 29, 2013, there is no dilutive impact to the net loss per share calculation for the respective periods.

**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 29, 2014, 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 Ended September</b>	
	<b>28,</b>	<b>29,</b>
	<b>2014</b>	<b>2013</b>
	<i>(in thousands)</i>	
Stock options	\$ 110	\$ 98
Restricted stock	1,157	968
Total	1,267	1,066
Deferred income tax benefit	481	420
Stock-based compensation expense, net	\$ 786	\$ 646

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

	<b>Three Months Ended September</b>	
	<b>28,</b>	<b>29,</b>
	<b>2014</b>	<b>2013</b>
	<i>(in thousands)</i>	
Marketing and sales	\$ 317	\$ 373
Technology and development	63	107

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General and administrative	887	586
Total	\$1,267	\$ 1,066

The following table summarizes stock option activity during the three months ended September 28, 2014:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value (000s)</b>
Outstanding at June 29, 2014	4,339,790	\$ 3.80		
Granted	0	\$ -		
Exercised	(0 )	\$ -		
Forfeited	(5,000 )	\$ 8.45		
Outstanding at September 28, 2014	4,334,790	\$ 3.79	4.0	\$ 15,227
Options vested or expected to vest at September 28, 2014	4,237,339	\$ 3.82	3.9	\$ 14,760
Exercisable at September 28, 2014	2,896,290	\$ 4.50	2.6	\$ 8,281

As of September 28, 2014, the total future compensation cost related to non-vested options, not yet recognized in the statement of income, was \$1.8 million and the weighted average period over which these awards are expected to be recognized was 4.6 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 three months ended September 28, 2014:

		<b>Weighted Average Grant Date</b>	<b>Fair Value</b>
	<b>Shares</b>		
Non-vested at June 29, 2014	2,686,685		\$ 3.90
Granted	0		-
Vested	(19,336 )		\$ 2.85
Forfeited	(0 )		-
Non-vested at September 28, 2014	2,667,349		\$ 3.91

The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of September 28, 2014, there was \$5.7 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.5 years.

#### **Note 4 – Acquisitions and Dispositions**

##### *Acquisition of Fannie May retail stores*

On June 27, 2014, the Company and GB Chocolates LLC (GB Chocolates) entered into a settlement agreement, resulting in the termination of the GB Chocolates franchise agreement, and its exclusive area development rights. As a result, the Company recognized the previously deferred non-refundable area development fees of \$0.7 million. In addition, per the terms of the non-performance Promissory Note, GB Chocolates paid \$1.2 million as a result of its failure to complete its development obligations under the 2011 Area Development Agreement (the 2011 ADA). As a result, during the fourth quarter of fiscal 2014, the Company recognized revenue of \$1.0 million (\$0.2 million had been previously recognized). The Company has no plans to market the territories covered in the 2011 ADA.

In conjunction with the settlement agreement, the Company and GB Chocolates entered into an asset purchase agreement whereby the Company repurchased 16 of the original 17 Fannie May retail stores sold to GB Chocolates in November 2011. The acquisition was accounted for using the purchase method of accounting in accordance with FASB guidance regarding business combinations. The purchase price of \$6.4 million was financed utilizing available cash balances.

The 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, and the determination of any residual amount that will be allocated to goodwill. The goodwill resulting from this acquisition amounted to \$5.8 million, which is expected to be deductible for tax purposes.

	<b>Preliminary Purchase Price Allocation</b> <i>(in thousands)</i>
Current assets	\$ 105
Property, plant and equipment	487
Goodwill	5,781
Net assets acquired	<b>\$ 6,373</b>

Operating results of the acquired stores are reflected in the Company's consolidated financial statements from the date of acquisition, within the Gourmet Food & Gift Baskets segment. Pro forma results of operations have not been presented, as the impact on the Company's consolidated financial results would not have been material.

*Acquisition of 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. The acquisition was achieved in stages and was accounted for using the acquisition 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 \$2.0 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 Fair Value  of Purchase Price  Components (in thousands)</b>
Cash	\$ 1,640
Converted debt	1,964
Initial equity investment	1,629
Noncontrolling interest	3,616
Total purchase price	\$ 8,849

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 \$6.5 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 Preliminary Purchase Price Allocation (in thousands)</b>
Current assets	\$ 856
Intangible assets	3,177
Goodwill	6,537
Property, plant and equipment	2,006
Other assets	30
Total assets acquired	12,606
Current liabilities, including current maturities of long-term debt	3,014
Deferred tax liabilities	648
Other liabilities assumed	95
Total liabilities assumed	3,757
Net assets acquired	\$ 8,849

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

#### **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>September</b>	<b>June</b>
<b>28,</b>	<b>29,</b>
<b>2014</b>	<b>2014</b>
<i>(in thousands)</i>	

Finished goods	\$ 58,574	\$ 30,859
Work-in-process	12,464	8,566
Raw materials	24,919	19,095
	\$95,957	\$58,520

**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- BloomNet Flowers.com ConsumerWire</b>		<b>Gourmet Food &amp; Gift      Total</b>	
	<b>Floral</b>	<b>Service</b>	<b>Baskets (1)</b>	
	<i>(in thousands)</i>			
Balance at June 29, 2014	\$ 16,691	\$ -	\$ 43,475	\$ 60,166
Acquisition related adjustment	-	-	(2 )	(2 )
Balance at September 28, 2014	\$ 16,691	\$ -	\$ 43,473	\$ 60,164

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:

	Amortization Period (Years)	September 28, 2014			June 29, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
<i>(in thousands)</i>							
Intangible assets with determinable lives							
Investment in licenses	14 - 16	\$7,419	\$5,647	\$1,772	\$7,420	\$ 5,621	\$1,799
Customer lists	3 - 10	17,313	13,235	4,078	17,313	12,818	4,495
Other	5 - 8	2,538	2,538	-	2,538	2,538	-
		27,270	21,420	5,850	27,271	20,977	6,294
Trademarks with indefinite lives		38,328	-	38,328	38,322	-	38,322
Total identifiable intangible assets		\$65,598	\$21,420	\$44,178	\$65,593	\$ 20,977	\$44,616

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 2015 - \$1.3 million, fiscal 2016 - \$1.7 million, fiscal 2017 - \$0.9 million, fiscal 2018 - \$0.6 million, fiscal 2019 - \$0.1 million and thereafter - \$1.3 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. 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 \$3.1 million as of September 28, 2014 and \$3.2 million as of June 29, 2014, and is included in Other assets within the consolidated balance sheets. The Company's equity in the net loss of Flores Online for the quarters ended September 28, 2014 and September 29, 2013 was less than \$0.1 million.

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 September 28, 2014 and \$0.8 million as of June 29, 2014. In addition, the Company had notes receivable from a company it maintains an investment in of \$0.3 million as of September 28, 2014 and \$0.5 million as of June 29, 2014.

The Company also holds certain trading securities 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>September 28,</b>	<b>June 29,</b>
		<b>2014</b>	<b>2014</b>
		<i>(in thousands)</i>	
Revolving line of credit (1)	\$	62,000	\$-
Bank loan (2)		290	343
Total debt		62,290	343
Less short-term debt		62,290	343
Long-term debt	\$	-	\$-

On April 10, 2013, the Company repaid all amounts outstanding under its 2010 Credit Facility, and entered into a Third Amended and Restated Credit Agreement (the “2013 Credit Facility”). The 2013 Credit Facility consists of a revolving line of credit with a seasonally adjusted limit ranging from \$150.0 to \$200.0 million and a working capital sublimit ranging from \$25.0 to \$75.0 million. The 2013 Credit Facility also revised certain financial and non-financial covenants, including the maintenance of certain financial ratios. The Company was in compliance (1) with these covenants as of September 28, 2014 and June 29, 2014. 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. 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 definite lived 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 tested for impairment annually, or more frequently if events occur or circumstances

change such that it is more likely than not that an impairment may exist, 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 September 28, 2014:

	<b>Fair Value Measurements</b>			
	<b>Carrying Value</b>	<b>Assets (Liabilities)</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
		<i>(in thousands)</i>		
Assets (liabilities):				
Trading securities held in a “rabbi trust” (1)	\$ 2,329	\$ 2,329	\$ -	\$ -
	\$ 2,329	\$ 2,329	\$ -	\$ -

Trading securities held in a rabbi trust are measured using quoted market prices at the reporting date and are included in Other assets, with the corresponding liability included in Other liabilities, in the consolidated balance sheet. 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 29, 2014:

	<b>Fair Value Measurements</b>			
	<b>Carrying Value</b>	<b>Assets (Liabilities)</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
		<i>(in thousands)</i>		
Assets (liabilities):				
Trading securities held in a “rabbi trust” (1)	\$ 2,146	\$ 2,146	\$ -	\$ -
	\$ 2,146	\$ 2,146	\$ -	\$ -

Trading securities held in a rabbi trust are measured using quoted market prices at the reporting date and are included in Other assets, with the corresponding liability included in Other liabilities, in the consolidated balance sheet. 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 months ended September 28, 2014 was 38.0%, compared to 38.2% in the same period of the prior year. The effective rate for fiscal 2015 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, which were partially offset by various permanent differences and tax credits. 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 Company files income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign countries. The Company concluded its federal examination for fiscal 2011 during the quarter ended December 29, 2013, however, fiscal years 2012 and 2013 remain subject to federal examination. Due to ongoing state examinations and non-conformity with the federal statute of limitations for assessment, certain states remain open from fiscal 2008. The Company commenced operations in foreign jurisdictions in 2012. The Company's foreign income tax filings are open for examination by its respective foreign tax authorities, mainly Canada and the United Kingdom.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. At September 28, 2014 the Company has remaining unrecognized tax positions of approximately \$0.6 million, including accrued interest and penalties of \$0.1 million. The Company believes that none 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 and Harry & David transaction costs, both of which are included within corporate overhead. Assets and liabilities are reviewed at the consolidated level by management and not accounted for by segment.

	<b>Three Months Ended</b>	
	<b>September</b>	<b>September</b>
<b>Net revenues from continuing operations:</b>	<b>28,</b>	<b>29,</b>
	<b>2014</b>	<b>2013</b>
	<i>(in thousands)</i>	
Segment Net Revenues:		
1-800-Flowers.com Consumer Floral	\$74,398	\$ 71,549
BloomNet Wire Service	20,011	20,346
Gourmet Food & Gift Baskets	32,359	31,239
Corporate	200	195
Intercompany eliminations	(265 )	(281 )
<b>Total net revenues from continuing operations</b>	<b>\$ 126,703</b>	<b>\$ 123,048</b>

	<b>Three Months Ended</b>	
	<b>September</b>	<b>September</b>
<b>Operating Loss from Continuing Operations</b>	<b>28,</b>	<b>29,</b>
	<b>2014</b>	<b>2013</b>
	<i>(in thousands)</i>	
Segment Contribution Margin:		
1-800-Flowers.com Consumer Floral	\$7,250	\$ 6,429

BloomNet Wire Service	6,497	6,439
Gourmet Food & Gift Baskets	(2,435 )	(2,046 )
Segment Contribution Margin Subtotal	11,312	10,822
Corporate (*)	(12,839)	(13,214 )
Depreciation and amortization	(5,101 )	(4,689 )
Operating Loss	(6,628 )	(7,081 )

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, and in the first quarter of fiscal 2015, transaction costs related to the acquisition of Harry & David, in the amount of \$0.7 million. 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 e-commerce and procurement businesses on December 31, 2013. The Company has classified the results the e-commerce and procurement business of Winetasting Network as a discontinued operation for fiscal 2014.

Results for discontinued operations are as follows:

	<del>September</del> <b>September</b> <b>28, 29,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands)</i>	
Net revenues from discontinued operations	\$ -	\$ 906
Loss from discontinued operations, net of tax	\$ -	\$ (82 )

**Note 13 – Commitments and Contingencies***Legal Proceedings*

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

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

On March 6, 2012 and March 15, 2012, two additional purported class action complaints were filed in the United States District Court for the District of Connecticut naming the Company and numerous other parties as defendants in actions purporting to assert claims substantially similar to those asserted in the lawsuit filed on November 10, 2010. In each case, plaintiffs seek to have the respective case certified as a class action and seek restitution and other damages, each in an amount in excess of \$5.0 million. On April 26, 2012, the two Connecticut cases were consolidated with a third case previously pending in the United States District Court for the District of Connecticut in which the Company is not a party (the "Consolidated Action"). A consolidated amended complaint was filed by plaintiffs on September 7, 2012, purporting to assert claims substantially similar to those originally asserted. The Company moved to dismiss the consolidated amended complaint on December 7, 2012, which was subsequently refiled at the direction of the Court on January 16, 2013.

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

On January 31, 2013, the court issued an order to show cause directing plaintiffs' counsel in the Frank Action, also counsel for plaintiffs in the Consolidated Action, to show cause why the Frank Action is distinguishable from the Consolidated Action such that it may be maintained despite the prior-pending action doctrine. On June 13, 2013, the court issued an order in the Frank Action suspending deadlines to answer or to otherwise respond to the complaint until 21 days after the court decides whether the Frank Action should be consolidated with the Consolidated Action. On July 24, 2013 the Frank Action was reassigned to Judge Vanessa Bryant, before whom the Consolidated Action is currently pending, for all further proceedings. On August 14, 2013, other defendants filed a motion for clarification in the Frank Action requesting that Judge Bryant clarify the order suspending deadlines.



On March 28, 2014, the Court issued a series of rulings disposing of all the pending motions in both the Consolidated Action and the Frank Action. Among other things, the Court dismissed several causes of action, leaving pending a claim for CUTPA violations stemming from Trilegiant's refund mitigation strategy and a claim for unjust enrichment. Thereafter, the Court consolidated the Frank case into the Consolidated Action. On April 28, 2014 Plaintiffs moved for leave to appeal the various rulings against them to the United States Court of Appeals for the Second Circuit and to have a partial final judgment entered dismissing those claims that the Court had ordered dismissed. The Court has not yet ruled on this new motion. The Company has filed its answer to the complaint on May 12, 2014.

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.

#### **Note 14. Subsequent Event –Acquisition of Harry & David**

On September 30, 2014, the Company completed its acquisition of Harry & David Holdings, Inc (Harry & David), a leading multi-channel specialty retailer and producer of branded premium gift-quality fruit, gourmet food products and other gifts marketed under the Harry & David®, Wolferman's® and Cushman's® brands. The transaction, at a purchase price of \$142.5 million, includes the Harry & David's brands and websites as well as its headquarters, manufacturing and distribution facilities and orchards in Medford, Oregon, a warehouse and distribution facility in Hebron, Ohio and 48 Harry & David retail stores located throughout the country. Harry & David's revenues were approximately \$386 million in its fiscal 2014.

In order to finance the acquisition, on September 30, 2014, the Company entered into a Credit Agreement with JPMorgan Chase Bank as administrative agent, and a group of lenders (the "2014 Credit Facility"), consisting of a \$142.5 million five-year term loan with maturity date of September 30, 2019, and a co-terminus revolving credit facility (the "Revolver"), with a seasonally adjusted limit ranging from \$100.0 to \$200.0 million, which may be used for working capital (subject to applicable sublimits) and general corporate purposes. The term loan is payable in 20 quarterly installments of principal and interest beginning in December 2014, with escalating principal payments at the rate of 10% in years one and two, 15% in years three and four, and 20% in year five, with the remaining balance of \$42.75 million due upon maturity. Upon closing of the acquisition, the Company borrowed \$136.7 million under the Revolver to re-pay amounts outstanding under the Company's and Harry & David's previous credit agreements, as well as to pay acquisition-related transaction costs.

The 2014 Credit Facility requires that while any borrowings are outstanding the Company comply with certain financial and non-financial covenants, including the maintenance of certain financial ratios. Outstanding amounts under the 2014 Credit Facility will bear interest at the Company's option at either: (i) LIBOR, plus a spread of 175 to 250 basis points, as determined by the Company's leverage ratio, or (ii) ABR, plus a spread of 75 to 150 basis points. The 2014 Credit Agreement is secured by substantially all of the assets of the Company and the Subsidiary Guarantors.

## 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 was awarded the 2014 Silver Stevie Award, recognizing the organization's outstanding Customer Service and commitment to our 100% Smile Guarantee. 1-800-FLOWERS.COM received a Gold Award for Best User Experience on a Mobile Optimized Site for the 2013 Horizon Interactive Awards.

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 brands ([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)); incredible, 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 ecards, all created to help people celebrate holidays and the everyday.

On September 30, 2014, the Company completed its acquisition of Harry & David Holdings, Inc (Harry & David), a leading multi-channel specialty retailer and producer of branded premium gift-quality fruit, gourmet food products and other gifts marketed under the Harry & David®, Wolferman's® and Cushman's® brands. The transaction, at a purchase price of \$142.5 million, includes the Harry & David's brands and websites as well as its headquarters, manufacturing and distribution facilities and orchards in Medford, Oregon, a warehouse and distribution facility in Hebron, Ohio and 48 Harry & David retail stores located throughout the country. Harry & David's revenues were approximately \$386 million in its fiscal 2014, with adjusted EBITDA of approximately \$28 million.

Including the anticipated contribution of Harry & David from the date of acquisition, the Company anticipates generating total annual net revenues in excess of \$1.1 billion and Adjusted EBITDA, excluding stock-based compensation of approximately \$90.0 million (excluding Harry & David transaction costs and purchase accounting adjustments) during Fiscal 2015. It should be noted that the revenue and Adjusted EBITDA projections for Fiscal 2015 does not include the results of Harry & David for the fiscal first quarter of the year, which is typically its lowest in terms of revenues and includes significant losses due to the seasonality of its business. The Company intends to file Form 8-K/A, including the historical results of Harry & David, as well as pro-forma results, during the second quarter of fiscal 2015.

In order to finance the acquisition, on September 30, 2014, the Company entered into a Credit Agreement with JPMorgan Chase Bank as administrative agent, and a group of lenders (the "2014 Credit Facility"), consisting of a \$142.5 million five-year term loan with maturity date of September 30, 2019, and a co-terminus revolving credit facility (the "Revolver"), with a seasonally adjusted limit ranging from \$100.0 to \$200.0 million, which may be used for working capital (subject to the applicable sublimit) and general corporate purposes.

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. The Company has classified for fiscal 2014 and prior, the results of the e-commerce and procurement business of Winetasting Network as a discontinued operation.

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

### Category Information

The following table presents the contribution of net revenues, gross profit and category contribution margin from each of the Company's business segments, as well as consolidated EBITDA and Adjusted EBITDA. As noted previously, the Company's wine fulfillment services business, as well as its 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 are therefore excluded from category information below.

	<b>Three Months Ended</b>			
	<b>September</b>	<b>September</b>		
	<b>28,</b>	<b>29,</b>	<b>%</b>	
	<b>2014</b>	<b>2013</b>	<b>Change</b>	
<b>Net revenues from continuing operations:</b>				
1-800-Flowers.com Consumer Floral	\$74,398	\$ 71,549	4.0	%
BloomNet Wire Service	20,011	20,346	-1.6	%
Gourmet Food & Gift Baskets	32,359	31,239	3.6	%
Corporate	200	195	2.6	%
Intercompany eliminations	(265 )	(281 )	5.7	%
<b>Total net revenues from continuing operations</b>	<b>\$ 126,703</b>	<b>\$ 123,048</b>	<b>3.0</b>	<b>%</b>

	<b>Three Months Ended</b>			
	<b>September</b>	<b>September</b>		
	<b>28,</b>	<b>29,</b>	<b>%</b>	
	<b>2014</b>	<b>2013</b>	<b>Change</b>	
<b>Gross profit from continuing operations:</b>				
1-800-Flowers.com Consumer Floral	\$28,734	\$ 27,958	2.8	%
	38.6 %	39.1 %		

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BloomNet Wire Service	11,076 55.3 %	10,783 53.0 %	2.7 %
Gourmet Food & Gift Baskets	13,222 40.9 %	12,239 39.2 %	8.0 %
Corporate (*)	281 140.5 %	317 162.6 %	-11.4 %
<b>Total gross profit from continuing operations</b>	<b>\$53,313 42.1 %</b>	<b>\$ 51,297 41.7 %</b>	<b>3.9 %</b>

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	<b>Three Months Ended</b>			
	<b>September</b>	<b>September</b>		
	<b>28,</b>	<b>29,</b>		
	<b>2014</b>	<b>2013</b>	<b>%</b>	<b>Change</b>
<b>EBITDA and Adjusted EBITDA from continuing operations, excluding stock- based compensation</b>				
<b>Category contribution margin from continuing operations:</b>				
1-800-Flowers.com Consumer Floral	\$7,250	\$ 6,429	12.8	%
BloomNet Wire Service	6,497	6,439	0.9	%
Gourmet Food & Gift Baskets	(2,435 )	(2,046 )	-19.0	%
Category Contribution Margin Subtotal	11,312	10,822	4.5	%
Corporate (*)	(12,839)	(13,214 )	2.8	%
<b>EBITDA from continuing operations</b>	(1,527 )	(2,392 )	36.2	%
Add: Stock-based compensation	1,267	1,066	18.9	%
<b>EBITDA from continuing operations, excluding stock-based compensation</b>	(260 )	(1,326 )	80.4	%
Add: Harry & David transaction costs	713	-		
<b>Adjusted EBITDA from continuing operations, excluding stock-based compensation</b>	\$453	\$ (1,326 )	134.2	%

The following Non-GAAP measures are utilized by the Company to measure its performance. As such, the following Non-GAAP reconciliation tables have been included within MD&A:

	<b>Three Months</b>			
	<b>Ended</b>	<b>September</b>		
	<b>September</b>	<b>September</b>		
	<b>28,</b>	<b>29,</b>		
	<b>2014</b>	<b>2013</b>		
<b>Reconciliation of loss from continuing operations to adjusted loss from continuing operations attributable to 1-800-FLOWERS.COM, Inc.:</b>				
Loss from continuing operations	\$(4,578 )	\$ (4,557 )		
Less: Net loss attributable to noncontrolling interest	(328 )	-		
<b>Net loss from continuing operations attributable to 1-800-FLOWERS.COM, Inc.</b>	(4,250 )	(4,557 )		
Add: Harry & David transaction costs, net of tax	442	-		
<b>Adjusted net loss from continuing operations attributable to 1-800-FLOWERS.COM, Inc.</b>	\$(3,808 )	\$ (4,557 )		
<b>Net loss per common share from continuing operations attributable to 1-800-FLOWERS.COM, Inc. - basic and diluted</b>	\$(0.07 )	\$ (0.07 )		
<b>Adjusted net loss per common share from continuing operations attributable to 1-800-FLOWERS.COM, Inc. - basic and diluted</b>	\$(0.06 )	\$ (0.07 )		

**Weighted average shares used in the calculation of net loss and adjusted net loss per common share from continuing operations attributable to 1-800-FLOWERS.COM, Inc. - 63,948 63,799 basic and diluted**



	<b>Three Months Ended</b>	
	<b>September 28, 2014</b>	<b>September 29, 2013</b>
<b>Reconciliation of loss from continuing operations attributable to 1-800-Flowers.com, Inc. to EBITDA and Adjusted EBITDA from Continuing Operations, excluding stock-based compensation(**):</b>		
Net loss from continuing operations attributable to 1-800-FLOWERS.COM, Inc.	\$(4,250)	\$ (4,557 )
Add:		
Interest expense and other, net	753	292
Depreciation and amortization	5,101	4,689
Less:		
Net loss attributable to noncontrolling interest	328	-
Income tax benefit	2,803	2,816
<b>EBITDA from continuing operations</b>	<b>(1,527)</b>	<b>(2,392 )</b>
Add: Stock-based compensation	1,267	1,066
<b>EBITDA from continuing operations, excluding stock-based compensation</b>	<b>(260 )</b>	<b>(1,326 )</b>
Add: Harry & David transaction costs	713	-
<b>Adjusted EBITDA from continuing operations, excluding stock-based compensation</b>	<b>\$453</b>	<b>\$ (1,326 )</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 categories 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 segment. 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 gains or 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

	<b>Three Months Ended</b>			
	<b>September</b>	<b>September</b>		
	<b>28,</b>	<b>29,</b>	<b>%</b>	
	<b>2014</b>	<b>2013</b>	<b>Change</b>	
	<i>(dollars in thousands)</i>			
Net revenues:				
E-Commerce	\$84,038	\$ 80,880	3.9	%
Other	42,665	42,168	1.2	%
Total net revenues	\$126,703	\$ 123,048	3.0	%

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

During the three months ended September 28, 2014, revenues increased by 3.0%, in comparison to the same period of the prior year as a result of: i) growth within the 1-800-FLOWERS Consumer Floral segment, driven by a combination of new product initiatives, re-targeted, cost effective marketing efforts, and the incremental revenues generated by the Company's acquisition of a majority interest in iFlorist on December 3, 2013, ii) improvements within the Gourmet Food & Gift Baskets segment as a result of increases within the Fannie May brand, and strong e-commerce growth within Cheryl's bakery gifts product line. These increases were partially offset by lower revenues within the BloomNet Wire Service segment revenues which were slightly below prior year due to delays in receiving products caused by the west coast dock strikes. The Company anticipates recouping some of the revenues associated with these delays during the fiscal second quarter and the remainder of the fiscal year. Adjusting for the impact of the revenue associated with the acquisition of a majority interest of iFlorist, pro-forma revenue increased approximately 2.0% during the period ended September 28, 2014.

E-commerce revenues (combined online and telephonic) increased by 3.9% during the three months ended September 28, 2014 as a result of: i) improved merchandising programs (including the development of innovative and original products such as the expanded line of a-DOG-ables, Fruit Bouquets and Cheryl's cookie cards), designed to "wow" our customers' gift recipients, ii) our "Just Because" and "Everyday" marketing campaigns, and iii) the impact of the acquisition of iFlorist in December 2013. The Company fulfilled approximately 1,315,000 orders through its e-commerce sales channels (online and telephonic sales) during the three months ended September 28, 2014, vs. 1,265,000 orders during the same period of the prior year, while the average order value was \$63.92 during the three months ended September 28, 2014 vs. \$63.70 during the same period of the prior year.

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 1.2% during the three months ended September 28, 2014 in comparison to the same period of the prior year, primarily as a result of growth in Fannie May's wholesale and retail volume, partially offset by a slight decrease in BloomNet sales.

The 1-800-Flowers.com Consumer Floral segment includes the operations of the 1-800-Flowers and iFlorist brands, which derive revenue from the sale of consumer floral products through their 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 4.0% during the three months ended September 28, 2014 over the same period of the prior year, as a result of increased order volume, driven by enhanced marketing and merchandising programs that encouraged "everyday" and "just because" purchases, and the incremental volume provided by iFlorist, which was acquired in December 2013. Excluding the impact of the acquisition of iFlorist, revenue growth within the 1-800-Flowers.com Consumer Floral segment was 2.4%.

The BloomNet Wire Service segment includes revenues from membership fees as well as other product and service offerings to florists. Net revenues decreased 1.6% during the three months ended September 28, 2014 compared to the same period of the prior year as a result of lower wholesale volume, primarily due to product sourcing delays caused by the west coast dock strike. This decrease was offset by volume related increases in Bloomlink transaction fee

revenue, and BloomNet membership fees increases due to pricing initiatives and shop count growth.

The Gourmet Food & Gift Baskets segment includes the operations of Cheryl's, Fannie May Confections, The Popcorn Factory, 1-800-Baskets/DesignPac, and Stockyards.com businesses. Revenue is derived from the sale of cookies, baked gifts, premium chocolates and confections, gourmet popcorn, gift baskets, and prime steaks and chops through the Company's 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 months ended September 28, 2014 increased by 3.6%, in comparison to the same period of the prior year, driven primarily by strong consumer demand in the Fannie May wholesale and retail channels (which includes incremental sales associated with the 16 Fannie May stores purchased from GB Chocolates in June 2014), and strong Cheryl's e-commerce consumer growth, partially offset by reduced wholesale volume due to delays in receiving components required to complete wholesale customer orders, caused by the west coast dock strike.

**Gross Profit**

	<b>Three Months Ended</b>			
	<b>September</b>	<b>September</b>		
	<b>28,</b>	<b>29,</b>	<b>%</b>	
	<b>2014</b>	<b>2013</b>	<b>Change</b>	
	<i>(dollars in thousands)</i>			
Gross profit	\$53,313	\$ 51,297	3.9	%
Gross margin %	42.1 %	41.7 %		

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 months ended September 28, 2014 increased by 3.9%, in comparison to the same period of the prior year, primarily as a result of the aforementioned revenue increase during the period, including the acquisition of a majority interest in iFlorist. Gross margin percentage increased 40 basis points to 42.1% during the three months ended September 28, 2014, in comparison to the same period of the prior year, primarily attributable to improvements within the Gourmet Food & Gift Basket and BloomNet WireService segments, partially offset by a decrease within the Consumer Floral segment.

The 1-800-Flowers.com Consumer Floral segment gross profit increased by 2.8%, during the three months ended September 28, 2014, in comparison to the same period of the prior year, due to the aforementioned increase in revenues (including the incremental acquisition of iFlorist), while gross margin percentage declined 50 basis points due to the lower margins associated with the newly acquired iFlorist business, as well as the impact of certain third-party marketing promotions that ran during the summer months.

The BloomNet Wire Service segment gross profit increased by 2.7%, and gross margin percentage increased to 55.3% from 53.0% during the three months ended September 28, 2014, in comparison to the same period of the prior year, primarily due to revenue mix, which included growth of higher margin BloomNet membership and other fees, offset by a reduction in lower margin wholesale product revenues.

The Gourmet Food & Gift Baskets segment gross profit increased by 8.0%, and gross margin percentage increased to 40.9% from 39.2% during the three months ended September 28, 2014, in comparison to the same period of the prior

year, due to the aforementioned revenue increases, product mix, and operational improvements implemented at Fannie May.

### *Marketing and Sales Expense*

	<b>Three Months Ended</b>			
	<b>September</b>	<b>September</b>		
	<b>28,</b>	<b>29,</b>	<b>%</b>	
	<b>2014</b>	<b>2013</b>	<b>Change</b>	
	<i>(dollars in thousands)</i>			
Marketing and sales	\$35,572	\$ 34,479	3.2	%
Percentage of net revenues	28.1	% 28.0	%	

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

Marketing and sales expense increased by 3.2% during the three months ended September 28, 2014, in comparison to the same period of the prior year, as a result of: i) higher labor due to the incremental costs associated with the 16 Fannie May stores acquired from GB Chocolates during June 2014, and recent hires at Fannie May in order to reposition the brand and continue its turnaround, as well as incremental BloomNet labor to support growth initiatives, and (ii) the incremental spend due to the impact of the acquisition of iFlorist, which also resulted in the slight increase in marketing and sales expense as a percentage of net revenues.

***Technology and Development Expense***

	<b>Three Months Ended</b>		
	<b>September</b>	<b>September</b>	<b>%</b>
	<b>28,</b>	<b>29,</b>	<b>Change</b>
	<b>2014</b>	<b>2013</b>	
	<i>(dollars in thousands)</i>		
Technology and development	\$5,600	\$ 5,398	3.7 %
Percentage of net revenues	4.4 %	4.4 %	

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 months ended September 28, 2014, technology and development expenses increased 3.7% compared to the same period of the prior year, due to maintenance and hosting projects.

***General and Administrative Expense***

	<b>Three Months Ended</b>		
	<b>September</b>	<b>September</b>	<b>%</b>
	<b>28,</b>	<b>29,</b>	<b>Change</b>
	<b>2014</b>	<b>2013</b>	
	<i>(dollars in thousands)</i>		
General and administrative	\$13,668	\$ 13,812	(1.0% )
Percentage of net revenues	10.8 %	11.2 %	

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 decreased by 1.0%, during the three months ended September 28, 2014, compared to the same period of the prior year, as a result of reductions in facility costs, and professional fees, offset by transaction costs related to the Harry & David acquisition.

***Depreciation and Amortization Expense***

**Three Months Ended**  
**September**  
**28, 29,**                    **%**  
**2014 2013**                    **Change**  
*(dollars in thousands)*

Depreciation and amortization	\$5,101	\$ 4,689	8.8	%
Percentage of net revenues	4.0	% 3.8	%	

Depreciation and amortization expense increased by 8.8%, during the three months ended September 28, 2014 in comparison to the same period of the prior year, as a result of the amortization of intangibles associated with the acquisition of iFlorist as well as increased capital spending, including technology upgrades.

*Interest Expense and other, net*

**Three Months Ended**  
**September**  
**28, 29,**                    **%**  
**2014 2013**                    **Change**  
*(dollars in thousands)*

Interest expense and other, net	\$(753)	\$ (292 )	157.9	%
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Interest expense and other, 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, as well as investment income by the Company's Non-Qualified Deferred Compensation Plan, its equity interest in Flores Online, and foreign currency transaction gains and losses for the Company's iFlorist subsidiary.

Interest expense and other, net increased 157.9% during the three months ended September 28, 2014 in comparison to the same period of the prior year, as a result of foreign currency transaction losses at iFlorist, and lower returns on the NQ deferred compensation investments.

### ***Income Taxes***

During both the three months ended September 28, 2014 and September 29, 2013, the Company recorded income tax benefit of \$2.8 million, resulting in an effective tax rate of 38.0% and 38.2%, respectively. The effective rate for fiscal 2015 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, which were partially offset by various permanent differences and tax credits. 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. At September 28, 2014 the Company has remaining unrecognized tax positions of approximately \$0.6 million, including accrued interest and penalties of \$0.1 million. The Company believes that none of its unrecognized tax positions will be resolved over the next twelve months.

### ***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 e-commerce and procurement businesses on December 31, 2013. The Company has classified the results the e-commerce and procurement business of Winetasting Network as a discontinued operation.

Results for discontinued operations are as follows:

	<b>September 28, 2014</b>	<b>September 29, 2013</b>
	<i>(in thousands)</i>	
Net revenues from discontinued operations	\$ -	\$ 906
Loss from discontinued operations, net of tax	\$ -	\$ (82 )

## Liquidity and Capital Resources

### *Cash Flows*

At September 28, 2014, the Company had working capital of \$13.4 million, including cash and cash equivalents of \$2.2 million, compared to working capital of \$17.5 million, including cash and cash equivalents of \$5.2 million, at June 29, 2014.

Net cash used in operating activities of \$59.5 million for the three months ended September 28, 2014, was primarily due to the Company's net loss for the quarter, as well as seasonal changes in working capital, including increases in inventory and accounts receivable related to the upcoming holiday season, and timing of accounts payable and accrued expense payments, partially offset by non-cash charges for depreciation and amortization and stock based compensation.

Net cash used in investing activities of \$4.3 million for the three months ended September 28, 2014, was primarily attributable to capital expenditures related to the Company's technology infrastructure, and the completion of the first phase of the building expansion of Cheryl's bakery business, doubling the size of the facility in Ohio to accommodate growth of the Company's cookie and brownie product line.

Net cash provided by financing activities of \$60.8 million for the three months ended September 28, 2014 was primarily from net revolving credit facility borrowings of \$62.0 million required to fund working capital needs, partially offset by the acquisition of \$1.1 million of treasury stock. The Company expects that all borrowings under its revolving credit facility will be repaid by the end of the fiscal second quarter.

### *Credit Facility*

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 28, 2014. 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.

On September 30, 2014, the Company completed its acquisition of Harry & David Holdings, Inc (Harry & David), a leading multi-channel specialty retailer and producer of branded premium gift-quality fruit, gourmet food products and other gifts marketed under the Harry & David®, Wolferman’s® and Cushman’s® brands for a purchase price of \$142.5 million. In order to finance the acquisition, on September 30, 2014, the Company entered into a Credit Agreement with JPMorgan Chase Bank as administrative agent, and a group of lenders (the “2014 Credit Facility”), consisting of a \$142.5 million five-year term loan with maturity date of September 30, 2019, and a co-terminus revolving credit facility (the “Revolver”), with a seasonally adjusted limit ranging from \$100.0 to \$200.0 million, which may be used for working capital and general corporate purposes. The term loan is payable in 20 quarterly installments of principal and interest beginning in December 2014, with escalating principal payments at the rate of 10% in years one and two, 15% in years three and four, and 20% in year five, with a \$42.5 million payment due upon maturity. Upon closing of the acquisition, the Company borrowed \$136.7 million under the Revolver to re-pay amounts outstanding under the Company’s and Harry & David’s previous credit agreements, as well as to finance acquisition-related transaction costs.

The 2014 Credit Facility requires that while any borrowings are outstanding the Company comply with certain financial and non-financial covenants, including the maintenance of certain financial ratios. Outstanding amounts under the 2014 Credit Facility will bear interest at the Company’s option at either: (i) LIBOR, plus a spread of 175 to 250 basis points, as determined by the Company’s leverage ratio, or (ii) the agent bank’s prime rate plus a margin. The 2014 Credit Agreement is secured by substantially all of the assets of the Company and the Subsidiary Guarantors.

Despite the current challenging economic environment, the Company believes that cash flows from operations along with available borrowings from its 2014 Credit Facility will be a sufficient source of liquidity. The Company expects to borrow against the Revolver to fund working capital requirements related to pre-holiday manufacturing and inventory purchases which peak during its fiscal second quarter before the Revolver is repaid prior to the end of that quarter.

*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. As of September 28, 2014, \$9.5 million remains authorized under the plan.

*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 29, 2014.

## **Critical Accounting Policies and Estimates**

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2014, 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 29, 2014.

### *Recent Accounting Pronouncements*

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)." ASU No. 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. This new accounting guidance is effective for the Company's fiscal year ending July 3, 2016, and may be applied retrospectively. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This amended guidance will enhance the comparability of revenue recognition practices and will be applied to all contracts with customers. Expanded disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized are requirements under the amended guidance. This guidance will be effective for the Company's fiscal year ending July 1, 2018 and may be applied retrospectively. We are currently evaluating the potential impact of adopting this guidance on our 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 manage the increased seasonality of its business;

to cost effectively acquire and retain customers;

to effectively integrate and grow acquired companies, including the recent acquisition of Harry & David;

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 29, 2014 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 during the three months ended September 28, 2014.

*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 September 28, 2014. 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 September 28, 2014.

##### *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 September 28, 2014, 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 ("CUTPA") among other statutes, and for breach of contract and unjust enrichment in connection with certain post-transaction marketing practices in which certain of the Company's subsidiaries previously engaged in with certain third-party vendors. On December 23, 2011, plaintiff filed a notice of voluntary dismissal seeking to dismiss the entire action without prejudice. The court entered an Order on November 28, 2012, dismissing the case in its entirety. This case was subsequently refiled in the United States District Court for the District of Connecticut.

On March 6, 2012 and March 15, 2012, two additional purported class action complaints were filed in the United States District Court for the District of Connecticut naming the Company and numerous other parties as defendants in actions purporting to assert claims substantially similar to those asserted in the lawsuit filed on November 10, 2010. In each case, plaintiffs seek to have the respective case certified as a class action and seek restitution and other damages, each in an amount in excess of \$5.0 million. On April 26, 2012, the two Connecticut cases were consolidated with a third case previously pending in the United States District Court for the District of Connecticut in which the Company is not a party (the "Consolidated Action"). A consolidated amended complaint was filed by plaintiffs on September 7, 2012, purporting to assert claims substantially similar to those originally asserted. The Company moved to dismiss the consolidated amended complaint on December 7, 2012, which was subsequently refiled at the direction of the Court on January 16, 2013.

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

On January 31, 2013, the court issued an order to show cause directing plaintiffs' counsel in the Frank Action, also counsel for plaintiffs in the Consolidated Action, to show cause why the Frank Action is distinguishable from the Consolidated Action such that it may be maintained despite the prior-pending action doctrine. On June 13, 2013, the court issued an order in the Frank Action suspending deadlines to answer or to otherwise respond to the complaint until 21 days after the court decides whether the Frank Action should be consolidated with the Consolidated Action. On July 24, 2013 the Frank Action was reassigned to Judge Vanessa Bryant, before whom the Consolidated Action is currently pending, for all further proceedings. On August 14, 2013, other defendants filed a motion for clarification in the Frank Action requesting that Judge Bryant clarify the order suspending deadlines.

On March 28, 2014, the Court issued a series of rulings disposing of all the pending motions in both the Consolidated Action and the Frank Action. Among other things, the Court dismissed several causes of action, leaving pending a claim for CUTPA violations stemming from Trilegiant's refund mitigation strategy and a claim for unjust enrichment. Thereafter, the Court consolidated the Frank case into the Consolidated Action. On April 28, 2014 Plaintiffs moved for leave to appeal the various rulings against them to the United States Court of Appeals for the Second Circuit and to have a partial final judgment entered dismissing those claims that the Court had ordered dismissed. The Court has not yet ruled on this new motion. The Company has filed its answer to the complaint on May 12, 2014.

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 29, 2014.

**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 September 28, 2014, \$9.5 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 three months of fiscal 2015, which includes the period June 30, 2014 through September 28, 2014:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share (1)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)</b>
<i>(in thousands, except average price paid per share)</i>				
6/30/14 – 7/27/14	86.9	\$ 5.58	86.9	\$ 10,145
7/28/13 – 8/31/14	114.0	\$ 5.14	114.0	\$ 9,956
9/1/14 – 9/28/14	10.7	\$ 5.97	10.7	\$ 9,492
<b>Total</b>	<b>211.6</b>	<b>\$ 5.36</b>	<b>211.6</b>	

(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. \*

Credit Agreement dated as of September 30, 2014 among 1-800-Flowers.com, Inc., The Subsidiary Borrowers Party thereto, The Guarantors Party thereto, The Lenders Party thereto and J.P. Morgan Chase Bank, N.A., as Administrative Agent.\*

Transaction Agreement dated as of August 30, 2014, by and among 1-800-Flowers.com, Inc., Golden Pear Acquisitions Co. and Harry & David Holdings, Inc. (incorporate by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2014)

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.LAB XBRL 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)

/s/ James F. McCann  
James F. McCann

Chief Executive Officer

Date: November 7, 2014

Chairman of the Board of Directors

(Principal Executive Officer)

Date: November 7, 2014

/s/ William E. Shea  
William E. Shea

Senior Vice President, Treasurer  
and

Chief Financial Officer (Principal

Financial and Accounting Officer)

