

1 800 FLOWERS COM INC  
Form 10-Q  
February 09, 2018

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended **December 31, 2017**

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 (516) 237-6000**

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(Address of principal executive offices)(Zip code)

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

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

**Accelerated filer**

Smaller reporting  
company  
Emerging  
growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 as of February 2, 2018:

Class A common stock: 35,969,913

Class B common stock: 28,567,063



Table of Contents

**TABLE OF CONTENTS**

|                                                                                                                                                 | Page |
|-------------------------------------------------------------------------------------------------------------------------------------------------|------|
| <b>Part I. <u>Financial Information</u></b>                                                                                                     |      |
| Item 1. <u>Condensed Consolidated Financial Statements</u>                                                                                      | 1    |
| <u>Condensed Consolidated Balance Sheets – December 31, 2017 (Unaudited) and July 2, 2017</u>                                                   | 1    |
| <u>Condensed Consolidated Statements of Income (Unaudited) – Three and Six Months Ended December 31, 2017 and January 1, 2017</u>               | 2    |
| <u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) – Three and Six Months Ended December 31, 2017 and January 1, 2017</u> | 3    |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited) – Six Months Ended December 31, 2017 and January 1, 2017</u>                     | 4    |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>                                                                         | 5    |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                                            | 16   |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                                       | 31   |
| Item 4. <u>Controls and Procedures</u>                                                                                                          | 31   |
| <b>Part II. <u>Other Information</u></b>                                                                                                        |      |
| Item 1. <u>Legal Proceedings</u>                                                                                                                | 32   |
| Item 1A. <u>Risk Factors</u>                                                                                                                    | 32   |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                                                      | 33   |
| Item 3. <u>Defaults upon Senior Securities</u>                                                                                                  | 33   |
| Item 4. <u>Mine Safety Disclosures</u>                                                                                                          | 33   |
| Item 5. <u>Other Information</u>                                                                                                                | 33   |
| Item 6. <u>Exhibits</u>                                                                                                                         | 34   |
| <b><u>Signatures</u></b>                                                                                                                        | 35   |

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

|                                             | <b>December<br/>31, 2017</b> | <b>July 2,<br/>2017</b> |
|---------------------------------------------|------------------------------|-------------------------|
|                                             | <i>(unaudited)</i>           |                         |
| <b>Assets</b>                               |                              |                         |
| Current assets:                             |                              |                         |
| Cash and cash equivalents                   | \$ 232,589                   | \$ 149,732              |
| Trade receivables, net                      | 44,424                       | 14,073                  |
| Inventories                                 | 60,567                       | 75,862                  |
| Prepaid and other                           | 22,007                       | 17,735                  |
| Total current assets                        | 359,587                      | 257,402                 |
| Property, plant and equipment, net          | 154,606                      | 161,381                 |
| Goodwill                                    | 62,590                       | 62,590                  |
| Other intangibles, net                      | 60,460                       | 61,090                  |
| Other assets                                | 11,520                       | 10,007                  |
| Total assets                                | \$ 648,763                   | \$ 552,470              |
| <b>Liabilities and Stockholders' Equity</b> |                              |                         |
| Current liabilities:                        |                              |                         |
| Accounts payable                            | \$ 55,252                    | \$ 27,781               |
| Accrued expenses                            | 123,504                      | 90,206                  |
| Current maturities of long-term debt        | 8,625                        | 7,188                   |
| Total current liabilities                   | 187,381                      | 125,175                 |
| Long-term debt                              | 97,545                       | 101,377                 |
| Deferred tax liabilities                    | 21,530                       | 33,868                  |
| Other liabilities                           | 11,565                       | 9,811                   |
| Total liabilities                           | 318,021                      | 270,231                 |

Commitments and contingencies (Note 13)

## Stockholders' equity:

|                                                                                                                                                                                           |            |            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued                                                                                                              | -          | -          |
| Class A common stock, \$0.01 par value, 200,000,000 shares authorized, 51,879,967 and 51,227,779 shares issued at December 31, 2017 and July 2, 2017, respectively                        | 519        | 513        |
| Class B common stock, \$0.01 par value, 200,000,000 shares authorized, 33,847,063 and 33,901,603 shares issued at December 31, 2017 and July 2, 2017, respectively                        | 338        | 339        |
| Additional paid-in-capital                                                                                                                                                                | 339,805    | 337,726    |
| Retained earnings                                                                                                                                                                         | 90,115     | 32,638     |
| Accumulated other comprehensive loss                                                                                                                                                      | (160 )     | (187 )     |
| Treasury stock, at cost, 15,877,054 and 14,709,731 Class A shares at December 31, 2017 and July 2, 2017, respectively, and 5,280,000 Class B shares at December 31, 2017 and July 2, 2017 | (99,875 )  | (88,790 )  |
| Total stockholders' equity                                                                                                                                                                | 330,742    | 282,239    |
| Total liabilities and stockholders' equity                                                                                                                                                | \$ 648,763 | \$ 552,470 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

|                                                                                 | <b>Three Months Ended</b> |                        | <b>Six Months Ended</b>  |                        |
|---------------------------------------------------------------------------------|---------------------------|------------------------|--------------------------|------------------------|
|                                                                                 | <b>December 31, 2017</b>  | <b>January 1, 2017</b> | <b>December 31, 2017</b> | <b>January 1, 2017</b> |
| Net revenues                                                                    | \$526,093                 | \$554,553              | \$683,442                | \$720,382              |
| Cost of revenues                                                                | 290,834                   | 297,559                | 380,905                  | 392,001                |
| Gross profit                                                                    | 235,259                   | 256,994                | 302,537                  | 328,381                |
| Operating expenses:                                                             |                           |                        |                          |                        |
| Marketing and sales                                                             | 113,771                   | 119,876                | 163,493                  | 174,954                |
| Technology and development                                                      | 9,175                     | 9,849                  | 18,845                   | 19,337                 |
| General and administrative                                                      | 19,170                    | 21,551                 | 38,575                   | 43,484                 |
| Depreciation and amortization                                                   | 8,677                     | 9,167                  | 16,761                   | 17,164                 |
| Total operating expenses                                                        | 150,793                   | 160,443                | 237,674                  | 254,939                |
| Operating income                                                                | 84,466                    | 96,551                 | 64,863                   | 73,442                 |
| Interest expense, net                                                           | 1,226                     | 2,154                  | 2,257                    | 3,605                  |
| Other (income) expense, net                                                     | (86 )                     | 1                      | (346 )                   | (149 )                 |
| Income before income taxes                                                      | 83,326                    | 94,396                 | 62,952                   | 69,986                 |
| Income tax expense                                                              | 12,627                    | 31,467                 | 5,475                    | 22,828                 |
| Net income                                                                      | \$70,699                  | \$62,929               | \$57,477                 | \$47,158               |
| Basic net income per common share                                               | \$1.09                    | \$0.97                 | \$0.89                   | \$0.72                 |
| Diluted net income per common share                                             | \$1.06                    | \$0.93                 | \$0.86                   | \$0.70                 |
| Weighted average shares used in the calculation of net income per common share: |                           |                        |                          |                        |
| Basic                                                                           | 64,601                    | 65,172                 | 64,778                   | 65,112                 |
| Diluted                                                                         | 66,782                    | 67,754                 | 67,037                   | 67,778                 |

*See accompanying Notes to Condensed Consolidated Financial Statements.*





Table of Contents

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

**Condensed Consolidated Statements of Comprehensive Income**

*(in thousands)*

*(unaudited)*

|                                                                                         | <b>Three Months<br/>Ended<br/>December<br/>31,<br/>2017</b> |          | <b>Six Months<br/>Ended<br/>December<br/>31,<br/>2017</b> |          |
|-----------------------------------------------------------------------------------------|-------------------------------------------------------------|----------|-----------------------------------------------------------|----------|
|                                                                                         | <b>January<br/>1, 2017</b>                                  |          | <b>January<br/>1, 2017</b>                                |          |
| Net income                                                                              | \$70,699                                                    | \$62,929 | \$57,477                                                  | \$47,158 |
| Other comprehensive income/(loss) (currency translation & other<br>miscellaneous items) | 26                                                          | (14 )    | 27                                                        | 81       |
| Comprehensive income                                                                    | \$70,725                                                    | \$62,915 | \$57,504                                                  | \$47,239 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

|                                                                            | <b>Six months ended</b> |                |
|----------------------------------------------------------------------------|-------------------------|----------------|
|                                                                            | <b>December</b>         | <b>January</b> |
|                                                                            | <b>31, 2017</b>         | <b>1, 2017</b> |
| <b>Operating activities:</b>                                               |                         |                |
| Net income                                                                 | \$57,477                | \$47,158       |
| Reconciliation of net income to net cash provided by operating activities: |                         |                |
| Depreciation and amortization                                              | 16,761                  | 17,164         |
| Amortization of deferred financing costs                                   | 480                     | 1,050          |
| Deferred income taxes                                                      | (12,338 )               | (1,380 )       |
| Bad debt expense                                                           | 418                     | 656            |
| Stock-based compensation                                                   | 2,069                   | 3,498          |
| Other non-cash items                                                       | (103 )                  | (400 )         |
| Changes in operating items:                                                |                         |                |
| Trade receivables                                                          | (30,769 )               | (39,399 )      |
| Inventories                                                                | 15,295                  | 9,916          |
| Prepaid and other                                                          | (4,272 )                | (3,215 )       |
| Accounts payable and accrued expenses                                      | 69,269                  | 75,304         |
| Other assets                                                               | (97 )                   | (35 )          |
| Other liabilities                                                          | (24 )                   | (324 )         |
| Net cash provided by operating activities                                  | 114,166                 | 109,993        |
| <b>Investing activities:</b>                                               |                         |                |
| Working capital adjustment related to sale of business                     | (8,500 )                | -              |
| Capital expenditures, net of non-cash expenditures                         | (8,864 )                | (13,253 )      |
| Net cash used in investing activities                                      | (17,364 )               | (13,253 )      |
| <b>Financing activities:</b>                                               |                         |                |
| Acquisition of treasury stock                                              | (11,085 )               | (6,822 )       |
| Proceeds from exercise of employee stock options                           | 15                      | 267            |
| Proceeds from bank borrowings                                              | 30,000                  | 181,000        |
| Repayment of bank borrowings                                               | (32,875 )               | (183,563 )     |
| Debt issuance costs                                                        | -                       | (1,456 )       |
| Net cash used in financing activities                                      | (13,945 )               | (10,574 )      |

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|                                         |           |           |
|-----------------------------------------|-----------|-----------|
| Net change in cash and cash equivalents | 82,857    | 86,166    |
| Cash and cash equivalents:              |           |           |
| Beginning of period                     | 149,732   | 27,826    |
| End of period                           | \$232,589 | \$113,992 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

**Notes to Condensed Consolidated Financial Statements**

*(unaudited)*

**Note 1 – Accounting Policies**

*Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared by 1-800-FLOWERS.COM, Inc. and subsidiaries (the “Company”) in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do *not* include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the *three* and *six* month periods ended *December 31, 2017* are *not* necessarily indicative of the results that *may* be expected for the fiscal year ending *July 1, 2018*. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended *July 2, 2017*.

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, 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 its 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. In fiscal 2017, Easter was on *April 16th*, which resulted in the shift of some revenue and EBITDA from the Company’s *third* quarter of fiscal 2016. In fiscal 2018, Easter falls on *April 1st*, which will result in the shift of all Easter-related revenue and EBITDA into the Company’s *third* quarter of fiscal 2018.

*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 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. As we continue to evaluate the impact of this ASU, we have determined that the new standard will impact the following areas: the costs of producing and distributing the Company's catalogs will be expensed upon mailing, instead of being capitalized and amortized in direct proportion to the actual sales; gift card breakage will be estimated based on the historical pattern of gift card redemption, rather than when redemption is considered remote; the Company will defer revenue at the time the Celebrations Reward loyalty points are earned using a relative fair value approach, rather than accruing a liability equal to the incremental cost of fulfilling its obligations. We have further identified the timing of revenue recognition for e-commerce orders (shipping point versus destination) as a potential issue in our analysis, which is *not* expected to change the total amount of revenue recognized, but could accelerate the timing of when revenue is recognized. We plan to adopt this guidance beginning with the *first* quarter in the fiscal year ending June 30, 2019, on a retrospective basis, with a cumulative adjustment to retained earnings. We are continuing to evaluate the impact that this ASU, and related amendments and interpretive guidance, will have on our consolidated financial statements, including the related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330)." The pronouncement was issued to simplify the measurement of inventory and changes the measurement from lower of cost or market to lower of cost and net realizable value. The Company adopted this standard effective July 3, 2017. The adoption of ASU 2015-11 did *not* have a significant impact on the Company's consolidated financial position or results of operations.

## Table of Contents

In *January 2016*, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The pronouncement requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. This guidance will become effective for the Company's fiscal year ending *June 30, 2019*. The adoption is *not* expected to have a significant impact on the Company's consolidated financial statements.

In *February 2016*, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Under this guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for the Company's fiscal year ending *June 28, 2020*. We are currently evaluating the impact and expect the ASU will have a material impact on our consolidated financial statements, primarily to the consolidated balance sheets and related disclosures.

In *March 2016*, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company elected to early adopt the amendments in ASU 2016-09, in fiscal 2017. As a result, stock-based compensation excess tax benefits are reflected in the Consolidated Statements of Income as a component of the provision for income taxes, whereas they were previously recognized in equity. This change resulted in the recognition of excess tax benefits against income tax expenses, rather than additional paid-in capital, of \$1.0 million for the year ended *July 2, 2017*. There was *no* impact on earnings per share since approximately 700,000 tax benefit shares for the year ended *July 2, 2017*, previously associated with the APIC pool calculation, are *no* longer considered in the diluted share computation. Additionally, our Consolidated Statements of Cash Flows now present excess tax benefits as an operating activity. This change has been applied prospectively in accordance with the ASU and prior periods have *not* been adjusted. Further, the Company has elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The cumulative effect of this change, which was recorded as compensation expense in fiscal 2017, was *not* material to the financial statements. In addition, this ASU allows entities to withhold an amount up to an employees' maximum individual statutory tax rate in the relevant jurisdiction, up from the minimum statutory requirement, without resulting in liability classification of the award. We adopted this change on a modified retrospective basis, with *no* impact to our consolidated financial statements. Finally, this ASU clarified that the cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. This change does *not* have an impact on the Company's consolidated financials as it conforms with its current practice.

In *June 2016*, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 introduces a new forward-looking "expected loss" approach, to estimate credit losses on most financial assets and certain other instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the entity's assumptions, models and methods for estimating expected credit losses. ASU 2016-13 is effective for the Company's fiscal year ending *July 4, 2021*, and the guidance is to be applied using the modified-retrospective approach. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In *June 2016*, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230), a consensus of the FASB's Emerging Issues Task Force." ASU 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The ASU is effective for the Company's fiscal year ending *June 30, 2019*, and interim periods within those fiscal years. Early adoption is permitted, including interim periods within those fiscal years. An entity that elects early adoption must adopt all of the amendments in the same period. The guidance requires application using a retrospective transition method. The adoption is *not* expected to have a significant impact on the Company's consolidated financial statements.

In *January 2017*, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU 2017-01)," which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. ASU 2017-01 is effective for the Company's fiscal year ending *June 30, 2019*, with early adoption permitted, and should be applied prospectively. We do *not* expect the standard to have a material impact on our consolidated financial statements.

## Table of Contents

In *January 2017*, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates step *two* from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. This guidance is effective for the Company's fiscal year ending *July 4, 2021*, with early adoption permitted, and should be applied prospectively. We do *not* expect the standard to have a material impact on our consolidated financial statements.

In *February 2017*, the FASB issued ASU No. 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets." This update clarifies the scope of accounting for the derecognition or partial sale of nonfinancial assets to exclude all businesses and nonprofit activities. ASU 2017-05 also provides a definition for in-substance nonfinancial assets and additional guidance on partial sales of nonfinancial assets. This guidance will be effective for the Company's fiscal year ending *June 30, 2019* and *may* be applied retrospectively. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In *May 2017*, the FASB issued ASU No 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." This ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. An entity would *not* apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for the Company's fiscal year ending *June 30, 2019*, with early adoption permitted, and should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

## *U.S. Tax Reform*

On *December 22, 2017*, the U.S. government enacted significant changes to the U.S. tax law following the passage and signing of the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act revises the future ongoing U.S. corporate income tax by, among other things, lowering U. S. corporate income tax rates from 35% to 21%. As the Company's fiscal year ends on *July 1, 2018*, the lower corporate income tax rate will be phased in, resulting in a U.S. statutory federal rate of approximately 28% for the current fiscal year and 21% for subsequent fiscal years. The Tax Act also eliminates the domestic production activities deduction and introduces limitations on certain business expenses and executive compensation deductions. See Note 11 – Income taxes for the impact of the Tax Act on the Company's financial statements.

On *December 22, 2017*, the SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") directing taxpayers to consider the impact of the Tax Act as



“provisional” when it does *not* have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. The changes in the Tax Act are broad and complex. The final impacts of the Tax Act *may* differ from the Company’s estimates due to, among other things, changes in interpretations of the Tax Act, further legislation related to the Tax Act, changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates to estimates the Company has utilized to calculate the impacts of the Tax Act. The Securities Exchange Commission has issued rules that would allow for a measurement period of up to *one* year after the enactment date of the Tax Act to finalize the related tax impacts.

Table of Contents**Note 2 – Net Income Per Common Share**

The following table sets forth the computation of basic and diluted net income per common share:

|                                                          | <b>Three Months<br/>Ended<br/>December<br/>31,<br/>2017</b> |          | <b>Six Months<br/>Ended<br/>December<br/>31,<br/>2017</b> |          |
|----------------------------------------------------------|-------------------------------------------------------------|----------|-----------------------------------------------------------|----------|
|                                                          | <b>January<br/>1, 2017</b>                                  |          | <b>January<br/>1, 2017</b>                                |          |
|                                                          | <i>(in thousands, except per share data)</i>                |          |                                                           |          |
| <b>Numerator:</b>                                        |                                                             |          |                                                           |          |
| Net income                                               | \$70,699                                                    | \$62,929 | \$57,477                                                  | \$47,158 |
| <b>Denominator:</b>                                      |                                                             |          |                                                           |          |
| Weighted average shares outstanding                      | 64,601                                                      | 65,172   | 64,778                                                    | 65,112   |
| Effect of dilutive securities:                           |                                                             |          |                                                           |          |
| Employee stock options                                   | 1,549                                                       | 1,526    | 1,528                                                     | 1,503    |
| Employee restricted stock awards                         | 632                                                         | 1,056    | 731                                                       | 1,163    |
|                                                          | 2,181                                                       | 2,582    | 2,259                                                     | 2,666    |
| Adjusted weighted-average shares and assumed conversions | 66,782                                                      | 67,754   | 67,037                                                    | 67,778   |
| <b>Net income per common share</b>                       |                                                             |          |                                                           |          |
| Basic                                                    | \$1.09                                                      | \$0.97   | \$0.89                                                    | \$0.72   |
| Diluted                                                  | \$1.06                                                      | \$0.93   | \$0.86                                                    | \$0.70   |

**Note 3 – Stock-Based Compensation**

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 12 and Note 13 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 2017, 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<br/>Months<br/>Ended</b> |                                | <b>Six Months<br/>Ended</b>      |                            |
|---------------------------------------|-----------------------------------|--------------------------------|----------------------------------|----------------------------|
|                                       | <b>December<br/>31,<br/>2017</b>  | <b>January<br/>1,<br/>2017</b> | <b>December<br/>31,<br/>2017</b> | <b>January<br/>1, 2017</b> |
|                                       | <i>(in thousands)</i>             |                                |                                  |                            |
| Stock options                         | \$ 107                            | \$ 113                         | \$ 215                           | \$ 227                     |
| Restricted stock                      | 861                               | 1,611                          | 1,854                            | 3,271                      |
| Total                                 | 968                               | 1,724                          | 2,069                            | 3,498                      |
| Deferred income tax (expense) benefit | 206                               | 438                            | 592                              | 1,141                      |
| Stock-based compensation expense, net | \$ 762                            | \$ 1,286                       | \$ 1,477                         | \$ 2,357                   |

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

|                            | <b>Three<br/>Months<br/>Ended</b> |                                | <b>Six Months<br/>Ended</b>      |                            |
|----------------------------|-----------------------------------|--------------------------------|----------------------------------|----------------------------|
|                            | <b>December<br/>31,<br/>2017</b>  | <b>January<br/>1,<br/>2017</b> | <b>December<br/>31,<br/>2017</b> | <b>January<br/>1, 2017</b> |
|                            | <i>(in thousands)</i>             |                                |                                  |                            |
| Marketing and sales        | \$ 258                            | \$ 495                         | \$ 556                           | \$ 1,042                   |
| Technology and development | 51                                | 96                             | 111                              | 196                        |
| General and administrative | 659                               | 1,133                          | 1,402                            | 2,260                      |
| Total                      | \$ 968                            | \$ 1,724                       | \$ 2,069                         | \$ 3,498                   |

Table of Contents

Stock based compensation expense has *not* been allocated between business segments, but is reflected as part of Corporate overhead. (see Note 12 - Business Segments.)

*Stock Options*

The following table summarizes stock option activity during the *six* months ended *December 31, 2017*:

|                                                         | <b>Options</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term<br/>(years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>(000s)</b> |
|---------------------------------------------------------|----------------|----------------------------------------------------|--------------------------------------------------------------------------------|-----------------------------------------------------|
| Outstanding at July 2, 2017                             | 2,127,734      | \$ 2.42                                            |                                                                                |                                                     |
| Granted                                                 | -              | \$ -                                               |                                                                                |                                                     |
| Exercised                                               | (4,000 )       | \$ 3.71                                            |                                                                                |                                                     |
| Forfeited                                               | (17,500 )      | \$ 9.83                                            |                                                                                |                                                     |
| Outstanding at December 31, 2017                        | 2,106,234      | \$ 2.36                                            | 3.4                                                                            | \$ 17,573                                           |
| Options vested or expected to vest at December 31, 2017 | 2,106,234      | \$ 2.36                                            | 3.4                                                                            | \$ 17,573                                           |
| Exercisable at December 31, 2017                        | 1,707,234      | \$ 2.27                                            | 3.3                                                                            | \$ 14,389                                           |

As of *December 31, 2017*, the total future compensation cost related to non-vested options, *not* yet recognized in the statement of income, was \$0.6 million and the weighted average period over which these awards are expected to be recognized was 1.5 years.

*Restricted Stock*

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 and performance conditions and, in certain cases, holding periods (Restricted Stock). The following table summarizes the activity of non-vested restricted stock awards during the *six* months ended *December 31, 2017*:

|                                 | <b>Shares</b> | <b>Weighted<br/>Average<br/>Grant<br/>Date Fair<br/>Value</b> |
|---------------------------------|---------------|---------------------------------------------------------------|
| Non-vested at July 2, 2017      | 1,352,873     | \$ 7.44                                                       |
| Granted                         | 881,473       | \$ 9.47                                                       |
| Vested                          | (593,648 )    | \$ 7.76                                                       |
| Forfeited                       | (628,946 )    | \$ 9.50                                                       |
| Non-vested at December 31, 2017 | 1,011,752     | \$ 7.74                                                       |

The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of *December 31, 2017*, there was \$5.8 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.2 years.

Table of Contents**Note 4 – Disposition**

On *March 15, 2017*, the Company and Ferrero International S.A., a Luxembourg corporation (“Ferrero”), entered into a Stock Purchase Agreement (the “Purchase Agreement”) pursuant to which Ferrero agreed to purchase from the Company all of the outstanding equity of Fannie May Confections Brands, Inc., including its subsidiaries, Fannie May Confections, Inc. and Harry London Candies, Inc. (“Fannie May”) for a total consideration of *\$115.0* million in cash, subject to adjustment for seasonal working capital. The working capital adjustment was finalized in *August 2017*, resulting in an *\$11.4* million reduction to the purchase price. The resulting gain on sale of *\$14.6* million, is included within “Other (income) expense, net” in the Company’s consolidated statements of income in the *fourth* quarter of fiscal year *2017*.

The Company and Ferrero also entered into a transition services agreement whereby the Company will provide certain post-closing services to Ferrero and Fannie May for a period of approximately *18* months, related to the business of Fannie May, and a commercial agreement with respect to the distribution of certain Ferrero and Fannie May products.

Operating results of Fannie May are reflected in the Company’s consolidated financial statements through *May 30, 2017*, the date of its disposition, within its Gourmet Food & Gift Baskets segment. During fiscal *2017*, Fannie May contributed net revenues of *\$85.6* million. Operating and pre-tax income during such period were *not* 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 sale, packaging supplies, crops, raw material ingredients for manufactured products and associated manufacturing labor and is classified as follows:

|                 | <b>December<br/>31,<br/>2017</b> | <b>July 2,<br/>2017</b> |
|-----------------|----------------------------------|-------------------------|
|                 | <i>(in thousands)</i>            |                         |
| Finished goods  | \$26,853                         | \$34,476                |
| Work-in-process | 4,559                            | 11,933                  |
| Raw materials   | 29,155                           | 29,453                  |

Total inventory \$60,567 \$75,862

**Note 6 – Goodwill and Intangible Assets**

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

|                                               | <b>1-800-Flowers<br/>Consumer<br/>Floral</b> | <b>Blossom<br/>Wire<br/>Service</b> | <b>1-800-Flowers<br/>Gourmet<br/>Food &amp;<br/>Gift<br/>Baskets</b> | <b>Total</b> |
|-----------------------------------------------|----------------------------------------------|-------------------------------------|----------------------------------------------------------------------|--------------|
|                                               | <i>(in thousands)</i>                        |                                     |                                                                      |              |
| Balance at December 31, 2017 and July 2, 2017 | \$17,441                                     | \$ -                                | \$45,149                                                             | \$62,590     |

Table of Contents

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

|                                                 |                        | December 31, 2017           |                             |          | July 2, 2017                |                             |          |
|-------------------------------------------------|------------------------|-----------------------------|-----------------------------|----------|-----------------------------|-----------------------------|----------|
|                                                 | Amortization<br>Period | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net      | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net      |
|                                                 | (in years)             | (in thousands)              |                             |          |                             |                             |          |
| Intangible assets with determinable lives:      |                        |                             |                             |          |                             |                             |          |
| Investment in licenses                          | 14-16                  | \$7,420                     | \$ 5,990                    | \$1,430  | \$7,420                     | \$ 5,937                    | \$1,483  |
| Customer lists                                  | 3-10                   | 12,184                      | 8,840                       | 3,344    | 12,184                      | 8,227                       | 3,957    |
| Other                                           | 5-14                   | 2,946                       | 2,102                       | 844      | 2,946                       | 2,045                       | 901      |
| Total intangible assets with determinable lives |                        | 22,550                      | 16,932                      | 5,618    | 22,550                      | 16,209                      | 6,341    |
|                                                 |                        |                             |                             |          |                             |                             |          |
| Trademarks with indefinite lives                |                        | 54,842                      | -                           | 54,842   | 54,749                      | -                           | 54,749   |
|                                                 |                        |                             |                             |          |                             |                             |          |
| Total identifiable intangible assets            |                        | \$77,392                    | \$ 16,932                   | \$60,460 | \$77,299                    | \$ 16,209                   | \$61,090 |

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 2018 - \$0.6 million, fiscal 2019 - \$0.7 million, fiscal 2020 - \$0.6 million, fiscal 2021 - \$0.6 million, fiscal 2022 - \$0.5 million and thereafter - \$2.6million.

**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 investment is comprised of an interest in Flores Online, a Sao Paulo, Brazil based internet floral and gift retailer, that the Company originally acquired on *May 31, 2012*. The Company currently holds



24.9% of the outstanding shares of Flores Online. The book value of this investment was \$0.6 million as of *December 31, 2017* and \$1.0 million as of *July 2, 2017*, and is included in the “Other assets” line item within the Company’s consolidated balance sheets. The Company’s equity in the net loss of Flores Online for the *three* and *six* months ended *December 31, 2017* and *January 1, 2017* was less than \$0.1 million. During the quarter ended *December 31, 2017*, Flores Online entered into a share exchange agreement with Isabella Flores, whereby among other changes, the Company exchanged 5% of its interest in Flores Online for a 5% interest in Isabella Flores. This new investment of approximately \$0.1 million is currently being accounted as a cost method investment and is immaterial to the financial statements. In conjunction with this share exchange, the Company determined that the fair value of its investment in Flores Online was below its carrying value and that this decline was other-than-temporary. As a result, the Company recorded an impairment charge of \$0.2 million, which is included within the “Other (income) expense, net” line item in the Company’s consolidated statement of income during the quarter ended *December 31, 2017*.

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 \$1.8 million as of *December 31, 2017* and \$1.7 million as of *July 2, 2017*.

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 within the “Other assets” line item in the consolidated balance sheets (see Note 10 - Fair Value Measurements).

Table of Contents**Note 8 –Debt**

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

**December July 2,  
31, 2017 2017**  
(in thousands)

|                          |          |           |
|--------------------------|----------|-----------|
| Revolver (1)             | \$-      | \$-       |
| Term Loan (1)            | 109,250  | 112,125   |
| Deferred financing costs | (3,080 ) | (3,560 )  |
| Total debt               | 106,170  | 108,565   |
| Less: current debt       | 8,625    | 7,188     |
| Long-term debt           | \$97,545 | \$101,377 |

(1) On *December 23, 2016*, the Company entered into an Amended and Restated Credit Agreement (the "2016 Amended Credit Agreement") with JPMorgan Chase Bank as administrative agent, and a group of lenders. The 2016 Amended Credit Agreement amended and restated the Company's credit agreement dated as of *September 30, 2014* (the "2014 Agreement") to, among other things, extend the maturity date of its \$115.0 million outstanding term loan ("Term Loan") and revolving credit facility (the "Revolver") to *December 23, 2021*. The Term Loan is payable in 19 quarterly installments of principal and interest beginning on *April 2, 2017*, with escalating principal payments, at the rate of 5% in year one, 7.5% in year two, 10% in year three, 12.5% in year four, and 15% in year five, with the remaining balance of \$61.8 million due upon maturity. The Revolver, in the aggregate amount of \$200 million, subject to seasonal reduction to an aggregate amount of \$100 million for the period from *January 1* through *August 1*, may be used for working capital and general corporate purposes, subject to certain restrictions.

For each borrowing under the 2016 Amended Credit Agreement, the Company may elect that such borrowing bear interest at an annual rate equal to either (1) a base rate plus an applicable margin varying from 0.75% to 1.5%, based on the Company's consolidated leverage ratio, where the base rate is the highest of (a) the prime rate, (b) the highest of the federal funds rate and the overnight bank funding rate as published by the New York Fed, plus 0.5% and (c) an adjusted LIBO rate, plus 1% or (2) an adjusted LIBO rate plus an applicable margin varying from 1.75% to 2.5%, based on the Company's consolidated leverage ratio. The 2016 Amended Credit Agreement requires that while any borrowings are outstanding the Company comply with certain financial covenants and affirmative covenants as well as certain negative covenants, that subject to certain exceptions, limit the Company's ability to, among other things, incur additional indebtedness, make certain investments and make certain restricted payments. The Company was in compliance with these covenants as of *December 31, 2017*. The 2016 Amended Credit Agreement is secured by substantially all of the assets of the Company and the Subsidiary Guarantors.

Future principal payments under the term loan are as follows: \$4.4 million – remainder of fiscal 2018, \$10.1 million – fiscal 2019, \$12.9 million – fiscal 2020, \$15.8 million - fiscal 2021, and \$66.1 – fiscal 2022.

Table of Contents**Note 9 - Property, Plant and Equipment**

The Company's property, plant and equipment consists of the following:

|                                                 | <b>December<br/>31, 2017</b> | <b>July 2,<br/>2017</b> |
|-------------------------------------------------|------------------------------|-------------------------|
|                                                 | <i>(in thousands)</i>        |                         |
| Land                                            | \$30,789                     | \$30,789                |
| Orchards in production and land improvements    | 10,773                       | 9,703                   |
| Building and building improvements              | 57,803                       | 56,791                  |
| Leasehold improvements                          | 12,305                       | 11,950                  |
| Production equipment and furniture and fixtures | 48,889                       | 47,293                  |
| Computer and telecommunication equipment        | 46,890                       | 45,026                  |
| Software                                        | 123,001                      | 119,177                 |
| Capital projects in progress - orchards         | 9,114                        | 9,971                   |
| Property, plant and equipment, gross            | 339,564                      | 330,700                 |
| Accumulated depreciation and amortization       | (184,958)                    | (169,319)               |
| Property, plant and equipment, net              | \$154,606                    | \$161,381               |

**Note 10 - Fair Value Measurements**

Cash and cash equivalents, trade and other receivables, prepaids, accounts payable and accrued expenses are reflected in the consolidated balance sheets at carrying value, which approximates fair value due to the short-term nature of these instruments. Although *no* trading market exists, the Company believes that the carrying amount of its debt approximates fair value due to its variable nature. The Company's investments in non-marketable equity instruments of private companies are carried at cost and are periodically assessed for other-than-temporary impairment, when an event or circumstances indicate that an other-than-temporary decline in value *may* have occurred. The Company's remaining financial assets and liabilities are measured and recorded at fair value (see table below). The Company's non-financial assets, such as 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.

Table of Contents

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

|                                                | Fair Value Measurements |         |                      |      |
|------------------------------------------------|-------------------------|---------|----------------------|------|
|                                                | Carrying Value          |         | Measurements         |      |
|                                                | Value                   |         | Assets (Liabilities) |      |
|                                                | Level 1                 | Level 2 | Level 3              |      |
|                                                | 1                       | 2       | 3                    |      |
|                                                | <i>(in thousands)</i>   |         |                      |      |
| Assets (liabilities) as of December 31, 2017:  |                         |         |                      |      |
| Trading securities held in a “rabbi trust” (1) | \$8,693                 | \$8,693 | \$ -                 | \$ - |
|                                                | \$8,693                 | \$8,693 | \$ -                 | \$ - |
| Assets (liabilities) as of July 2, 2017:       |                         |         |                      |      |
| Trading securities held in a “rabbi trust” (1) | \$6,916                 | \$6,916 | \$ -                 | \$ - |
|                                                | \$6,916                 | \$6,916 | \$ -                 | \$ - |

The Company has established a Non-qualified Deferred Compensation Plan for certain members of senior management. Deferred compensation plan assets are invested in mutual funds held in a “rabbi trust” which is (1) restricted for payment to participants of the NQDC Plan. Trading securities held in a rabbi trust are measured using quoted market prices at the reporting date and are included in the “Other assets” line item, with the corresponding liability included in the “Other liabilities” line item in the consolidated balance sheets.

**Note 11 – 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 operations for the *three* and *six* months ended *December 31, 2017* was 15.2% and 8.7% respectively, compared to 33.3% and 32.6% in the same periods of the prior year. The effective rates for fiscal 2018 were impacted by changes associated with the Tax Act (see Note 1 - Accounting Policies above). During the quarter ended *December 31, 2017*, the Company recognized a benefit of \$15.9 million, or \$0.24 per diluted share related to the impact of the Tax Act, consisting of a discrete tax benefit of \$12.2 million, or \$0.18 per diluted share, reflecting a revaluation of deferred tax liabilities at the lower U.S. federal statutory rate of 21%, and a benefit of \$3.7 million, or \$0.06 per diluted share, reflecting the Company’s lower transitional federal tax rate in fiscal 2018 of 28.0 percent. In addition, fiscal 2018 effective rates were impacted by state income taxes, which were partially offset by various permanent differences and tax credits. The effective rates for fiscal 2017 differed from the U.S. federal statutory rate due to state income taxes, which were more than offset by various permanent differences and tax credits, including excess tax benefits on stock based compensation as a result of

the Company's adoption of ASU 2016-09.

The Company files income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign countries. The Company completed its audit by the Internal Revenue Service for fiscal year 2014, however, fiscal years 2015 and 2016 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 2012. 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.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. At *December 31, 2017*, the Company has an unrecognized tax benefit, including an immaterial amount of accrued interest and penalties, of approximately \$0.4 million. The Company believes that *no* significant unrecognized tax positions will be resolved over the next *twelve* months.

Table of Contents**Note 12 – 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 (a) below), nor does it include depreciation and amortization, other (income) expense, net and income taxes, or stock-based compensation, 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>Six Months Ended</b>  |                        |
|-----------------------------------|---------------------------|------------------------|--------------------------|------------------------|
|                                   | <b>December 31, 2017</b>  | <b>January 1, 2017</b> | <b>December 31, 2017</b> | <b>January 1, 2017</b> |
| <b>Net Revenues:</b>              |                           |                        |                          |                        |
|                                   | <i>(in thousands)</i>     |                        |                          |                        |
| Segment Net Revenues:             |                           |                        |                          |                        |
| 1-800-Flowers.com Consumer Floral | \$100,064                 | \$97,808               | \$176,674                | \$173,023              |
| BloomNet Wire Service             | 20,375                    | 20,502                 | 40,139                   | 41,466                 |
| Gourmet Food & Gift Baskets       | 405,964                   | 436,870                | 466,950                  | 506,684                |
| Corporate                         | 317                       | 316                    | 587                      | 579                    |
| Intercompany eliminations         | (627 )                    | (943 )                 | (908 )                   | (1,370 )               |
| Total net revenues                | \$526,093                 | \$554,553              | \$683,442                | \$720,382              |

**Six Months Ended**



|                                      | <b>Three Months Ended</b> |                        |                          |                        |
|--------------------------------------|---------------------------|------------------------|--------------------------|------------------------|
|                                      | <b>December 31, 2017</b>  | <b>January 1, 2017</b> | <b>December 31, 2017</b> | <b>January 1, 2017</b> |
| <b>Operating Income:</b>             |                           |                        |                          |                        |
|                                      | <i>(in thousands)</i>     |                        |                          |                        |
| Segment Contribution Margin:         |                           |                        |                          |                        |
| 1-800-Flowers.com Consumer Floral    | \$10,791                  | \$13,128               | \$17,762                 | \$21,309               |
| BloomNet Wire Service                | 7,692                     | 8,189                  | 14,393                   | 15,468                 |
| Gourmet Food & Gift Baskets          | 93,496                    | 104,624                | 88,509                   | 95,320                 |
| Segment Contribution Margin Subtotal | 111,979                   | 125,941                | 120,664                  | 132,097                |
| Corporate (a)                        | (18,836 )                 | (20,223 )              | (39,040 )                | (41,491 )              |
| Depreciation and amortization        | (8,677 )                  | (9,167 )               | (16,761 )                | (17,164 )              |
| Operating income                     | \$84,466                  | \$96,551               | \$64,863                 | \$73,442               |

(a) 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.

### **Note 13 – Commitments and Contingencies**

#### *Litigation*

There are various claims, lawsuits, and pending actions against the Company and its subsidiaries incident to the operations of its businesses. It is the opinion of management, after consultation with counsel, that the ultimate resolution of such claims, lawsuits and pending actions will *not* have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity

Table of Contents

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

**Forward Looking Statements**

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

**Overview**

1-800-FLOWERS.COM, Inc. and its subsidiaries (collectively, the "Company") is a leading provider of gifts for all celebratory occasions. For the past 40 years, 1-800-Flowers.com® has been helping deliver smiles to customers with a 100% Smile Guarantee® backing every gift. In addition to the 1-800-Flowers.com brand, which offers fresh flowers, plants, fruit and gift baskets, as well as balloons, plush and keepsake gifts, the Company's BloomNet® international floral wire service ([www.mybloomnet.net](http://www.mybloomnet.net)) and Napco brands provide a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably. The 1-800-FLOWERS.COM, Inc. family of brands also offers everyday gifting and entertaining products such as premium, gift-quality fruits and other gourmet items from Harry & David® (1-877-322-1200 or [www.harryanddavid.com](http://www.harryanddavid.com)), 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)); gift baskets and towers from 1-800-Baskets.com® ([www.1800baskets.com](http://www.1800baskets.com)) and DesignPac; premium English muffins and other breakfast treats from Wolferman's (1-800-999-1910 or [www.wolfermans.com](http://www.wolfermans.com)); artisanal and specialty chocolates from Simply Chocolate<sup>SM</sup> ([www.simplychocolate.com](http://www.simplychocolate.com)), carved fresh fruit arrangements from FruitBouquets.com ([www.fruitbouquets.com](http://www.fruitbouquets.com)); top quality steaks and chops from Stock Yards® ([www.stockyards.com](http://www.stockyards.com)), and personalized gifts from Personalization Universe® ([www.personalizationuniverse.com](http://www.personalizationuniverse.com)).

Service offerings such as Celebrations Passport®, Celebrations Rewards® and Celebrations Reminders® are designed to deepen relationships with customers across all brands. 1-800-FLOWERS.COM, Inc. was named to the Stores® 2017 Hot 100 Retailers List by the National Retail Federation and received the Gold award in the “Best Artificial Intelligence” category at the Data & Marketing Association’s 2017 International ECHO Awards for the Company’s groundbreaking implementation of an artificial intelligence-powered online gift concierge, GWYN.

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

On May 30, 2017, the Company completed the sale of the outstanding equity of Fannie May Confections Brands, Inc., including its subsidiaries, Fannie May Confections, Inc. and Harry London Candies, Inc. (“Fannie May”) to Ferrero International S.A., a Luxembourg corporation (“Ferrero”), for a total consideration of \$115.0 million in cash, subject to adjustment for seasonal working capital. The working capital adjustment was finalized in August 2017, resulting in an \$11.4 million reduction to the purchase price. The resulting gain on sale of \$14.6 million, is included within “Other (income) expense, net” in the Company’s consolidated statements of income in the fourth quarter of fiscal year 2017.

The Company and Ferrero also entered into a transition services agreement whereby the Company will provide certain post-closing services to Ferrero and Fannie May for a period of approximately 18 months, related to the business of Fannie May, and a commercial agreement with respect to the distribution of certain Ferrero and Fannie May products.

Operating results of Fannie May are reflected in the Company’s consolidated financial statements through May 30, 2017, the date of its disposition, within its Gourmet Food & Gift Baskets segment. See Segment Information and Results of Operations below for a comparison of fiscal 2018 results to fiscal 2017, adjusted to exclude the operations of Fannie May.

Table of Contents

**Definitions of non-GAAP Financial Measures:**

We sometimes use financial measures derived from consolidated financial information, but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Certain of these are considered "non-GAAP financial measures" under the U.S. Securities and Exchange Commission rules. See below for definitions and the reasons why we use these non-GAAP financial measures. Where applicable, see the Segment Information and Results of Operations sections below for reconciliations of these non-GAAP measures to their most directly comparable GAAP financial measures. These non-GAAP financial measures are referred to as "adjusted" or "on a comparable basis" below, as these terms are used interchangeably.

***Adjusted revenues***

Adjusted revenues measure GAAP revenues adjusted for the effects of acquisitions, dispositions, and other items affecting period to period comparability. See Segment Information for details on how adjusted revenues were calculated for each period presented.

We believe that this measure provides management and investors with a more complete understanding of underlying revenue trends of established, ongoing operations by excluding the effect of activities which are subject to volatility and can obscure underlying trends.

Management recognizes that the term "adjusted revenues" may be interpreted differently by other companies and under different circumstances. Although this may influence comparability of absolute percentage growth from company to company, we believe that these measures are useful in assessing trends of the Company and its segments, and may therefore be a useful tool in assessing period-to-period performance trends.

***Adjusted gross profit and adjusted gross profit percentage***

Adjusted gross profit measures GAAP revenues less cost of revenues, adjusted for the effects of acquisitions, dispositions, and other items affecting period to period comparability. Adjusted gross profit percentage measures adjusted gross profit divided by adjusted revenues. See Segment Information for details on how adjusted gross profit and adjusted gross profit percentage were calculated for each period presented.

We believe that this measure provides management and investors with a more complete understanding of underlying gross profit trends of established, ongoing operations by excluding the effect of activities which are subject to

volatility and can obscure underlying trends.

Management recognizes that the term "adjusted gross profit" or "adjusted gross profit percentage" may be interpreted differently by other companies and under different circumstances. Although this interpretation may vary from company to company, we believe that these consistently applied measures are useful in assessing trends of the Company and its segments, and may therefore be a useful tool in assessing period-to-period performance trends.

### ***EBITDA and adjusted EBITDA***

We define EBITDA as net income (loss) before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA adjusted for the impact of stock based compensation, Non-Qualified Plan Investment appreciation/depreciation, and certain items affecting period to period comparability. See [Segment Information](#) or details on how EBITDA and adjusted EBITDA were calculated for each period presented.

The Company presents EBITDA because it considers such information meaningful supplemental measures of its performance and believes such information is frequently used by the investment community in the evaluation of similarly situated companies. The Company uses EBITDA and adjusted EBITDA as factors used to determine the total amount of incentive compensation available to be awarded to executive officers and other employees. The Company's credit agreement uses EBITDA and adjusted EBITDA to measure compliance with covenants such as interest coverage and debt incurrence. EBITDA and adjusted EBITDA are also used by the Company to evaluate and price potential acquisition candidates.

EBITDA and adjusted EBITDA have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. Some of the limitations are: (a) EBITDA and adjusted EBITDA do not reflect changes in, or cash requirements for, the Company's working capital needs; (b) EBITDA and adjusted EBITDA do 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. EBITDA should only be used on a supplemental basis combined with GAAP results when evaluating the Company's performance.

Table of Contents

***Segment contribution margin and adjusted segment contribution margin***

We define segment contribution margin as earnings before interest, taxes, depreciation and amortization, before the allocation of corporate overhead expenses. Adjusted segment contribution margin is defined as segment contribution margin adjusted for certain items affecting period to period comparability. See Segment Information for details on how segment contribution margin and comparable segment contribution margin were calculated for each period presented.

When viewed together with our GAAP results, we believe segment contribution margin and comparable segment contribution margin provide management and users of the financial statements information about the performance of our business segments.

Segment contribution margin and comparable segment contribution margin are used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. The material limitation associated with the use of the segment contribution margin and adjusted segment contribution margin is that it is an incomplete measure of profitability as it does not include all operating expenses or non-operating income and expenses. Management compensates for these limitations when using this measure by looking at other GAAP measures, such as operating income and net income.

***Adjusted net income and adjusted net income per common share***

We define adjusted net income and adjusted net income per common share as net income and net income per common share adjusted for certain items affecting period to period comparability. See Segment Information below for details on how adjusted net income and adjusted net income per common share were calculated for each period presented.

We believe that adjusted net income and adjusted net income per common share are meaningful measures because they increase the comparability of period to period results.

Since these are not measures of performance calculated in accordance with GAAP, they should not be considered in isolation of, or as a substitute for, GAAP net income and net income per common share, as indicators of operating performance and they may not be comparable to similarly titled measures employed by other companies.



Table of Contents**Segment Information**

The following table presents the net revenues, gross profit and segment contribution margin from each of the Company's business segments, as well as consolidated EBITDA, Adjusted EBITDA and adjusted net income.

|                                                | <b>Three Months Ended</b>     |                        | <b>Exclude Operating Results of Fannie May</b> |  | <b>Severance Costs</b> | <b>Adjusted (non-GAAP) December 31, 2017</b> | <b>Adjusted (non-GAAP) % Change</b> |   |
|------------------------------------------------|-------------------------------|------------------------|------------------------------------------------|--|------------------------|----------------------------------------------|-------------------------------------|---|
|                                                | <b>December 31, 2017</b>      | <b>January 1, 2017</b> |                                                |  |                        |                                              |                                     |   |
|                                                | <i>(dollars in thousands)</i> |                        |                                                |  |                        |                                              |                                     |   |
| <b>Net revenues:</b>                           |                               |                        |                                                |  |                        |                                              |                                     |   |
| 1-800-Flowers.com Consumer Floral              | \$ 100,064                    | \$ 97,808              | \$ -                                           |  | \$ -                   | \$ 97,808                                    | 2.3                                 | % |
| BloomNet Wire Service                          | 20,375                        | 20,502                 |                                                |  |                        | 20,502                                       | -0.6                                | % |
| Gourmet Food & Gift Baskets                    | 405,964                       | 436,870                | (41,199 )                                      |  | -                      | 395,671                                      | 2.6                                 | % |
| Corporate                                      | 317                           | 316                    |                                                |  |                        | 316                                          | 0.3                                 | % |
| Intercompany eliminations                      | (627 )                        | (943 )                 | 344                                            |  | -                      | (599 )                                       | -4.7                                | % |
| Total net revenues                             | \$ 526,093                    | \$ 554,553             | \$ (40,855 )                                   |  | \$ -                   | \$ 513,698                                   | 2.4                                 | % |
| <b>Gross profit:</b>                           |                               |                        |                                                |  |                        |                                              |                                     |   |
| 1-800-Flowers.com Consumer Floral              | \$ 38,844                     | \$ 40,300              | -                                              |  | -                      | \$ 40,300                                    | -3.6                                | % |
|                                                | 38.8 %                        | 41.2 %                 |                                                |  |                        | 41.2 %                                       |                                     |   |
| BloomNet Wire Service                          | 11,693                        | 12,310                 | -                                              |  | -                      | 12,310                                       | -5.0                                | % |
|                                                | 57.4 %                        | 60.0 %                 | -                                              |  | -                      | 60.0 %                                       |                                     |   |
| Gourmet Food & Gift Baskets                    | 184,468                       | 204,185                | (15,939 )                                      |  | -                      | 188,246                                      | -2.0                                | % |
|                                                | 45.4 %                        | 46.7 %                 |                                                |  |                        | 47.6 %                                       |                                     |   |
| Corporate (a)                                  | 254                           | 199                    | -                                              |  | -                      | 199                                          | 27.6                                | % |
|                                                | 80.1 %                        | 63.0 %                 |                                                |  |                        | 63.0 %                                       |                                     |   |
| Total gross profit                             | \$ 235,259                    | \$ 256,994             | \$ (15,939 )                                   |  | \$ -                   | \$ 241,055                                   | -2.4                                | % |
|                                                | 44.7 %                        | 46.3 %                 |                                                |  |                        | 46.9 %                                       |                                     |   |
| <b>EBITDA (non-GAAP):</b>                      |                               |                        |                                                |  |                        |                                              |                                     |   |
| <b>Segment Contribution Margin (non-GAAP):</b> |                               |                        |                                                |  |                        |                                              |                                     |   |
| 1-800-Flowers.com Consumer Floral              | \$ 10,791                     | \$ 13,128              | \$ -                                           |  | \$ -                   | \$ 13,128                                    | -17.8                               | % |



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|                                |           |           |             |       |            |        |   |
|--------------------------------|-----------|-----------|-------------|-------|------------|--------|---|
| BloomNet Wire Service          | 7,692     | 8,189     | -           | -     | 8,189      | -6.1   | % |
| Gourmet Food & Gift Baskets    | 93,496    | 104,624   | (6,219 )    | 79    | 98,484     | -5.1   | % |
| Segment Contribution Margin    | 111,979   | 125,941   | (6,219 )    | 79    | 119,801    | -6.5   | % |
| Subtotal                       |           |           |             |       |            |        |   |
| Corporate (a)                  | (18,836 ) | (20,223 ) | 356         | -     | (19,867 )  | 5.2    | % |
| EBITDA (non-GAAP)              | 93,143    | 105,718   | (5,863 )    | 79    | 99,934     | -6.8   | % |
| Add: Stock-based compensation  | 968       | 1,724     | -           | -     | 1,724      | -43.9  | % |
| Add: Comp charge related to NQ | 364       | 20        | -           | -     | 20         | 1720.0 | % |
| Plan Investment Appreciation   |           |           |             |       |            |        |   |
| Adjusted EBITDA (non-GAAP)     | \$94,475  | \$107,462 | \$ (5,863 ) | \$ 79 | \$ 101,678 | -7.1   | % |

Table of Contents

|                                                | Six Months Ended              |           | Exclude      |           | Adjusted   | Adjusted   |   |
|------------------------------------------------|-------------------------------|-----------|--------------|-----------|------------|------------|---|
|                                                | December                      | January   | Operating    | Severance | (non-GAAP) | (non-GAAP) |   |
|                                                | 31, 2017                      | 1, 2017   | Results of   | Costs     | December   | % Change   |   |
|                                                |                               |           | Fannie       |           | 31, 2017   |            |   |
|                                                |                               |           | May          |           |            |            |   |
|                                                | <i>(dollars in thousands)</i> |           |              |           |            |            |   |
| <b>Net revenues:</b>                           |                               |           |              |           |            |            |   |
| 1-800-Flowers.com Consumer Floral              | \$176,674                     | \$173,023 | \$ -         | \$ -      | \$ 173,023 | 2.1        | % |
| BloomNet Wire Service                          | 40,139                        | 41,466    | -            | -         | 41,466     | -3.2       | % |
| Gourmet Food & Gift Baskets                    | 466,950                       | 506,684   | (52,573 )    | -         | 454,111    | 2.8        | % |
| Corporate                                      | 587                           | 579       | -            | -         | 579        | 1.4        | % |
| Intercompany eliminations                      | (908 )                        | (1,370 )  | 514          | -         | (856 )     | -6.0       | % |
| Total net revenues                             | \$683,442                     | \$720,382 | \$ (52,059 ) | \$ -      | \$ 668,323 | 2.3        | % |
| <b>Gross profit:</b>                           |                               |           |              |           |            |            |   |
| 1-800-Flowers.com Consumer Floral              | \$69,578                      | \$70,799  | \$ -         | \$ -      | \$ 70,799  | -1.7       | % |
|                                                | 39.4 %                        | 40.9 %    |              |           | 40.9 %     |            |   |
| BloomNet Wire Service                          | 22,751                        | 24,104    | -            | -         | 24,104     | -5.6       | % |
|                                                | 56.7 %                        | 58.1 %    |              |           | 58.1 %     |            |   |
| Gourmet Food & Gift Baskets                    | 209,620                       | 232,936   | (20,425 )    | -         | 212,511    | -1.4       | % |
|                                                | 44.9 %                        | 46.0 %    |              |           | 46.8 %     |            |   |
| Corporate (a)                                  | 588                           | 542       | -            | -         | 542        | 8.5        | % |
|                                                | 100.2 %                       | 93.6 %    |              |           | 93.6 %     |            |   |
| Total gross profit                             | \$302,537                     | \$328,381 | \$ (20,425 ) | \$ -      | \$ 307,956 | -1.8       | % |
|                                                | 44.3 %                        | 45.6 %    |              |           | 46.1 %     |            |   |
| <b>EBITDA (non-GAAP):</b>                      |                               |           |              |           |            |            |   |
| <b>Segment Contribution Margin (non-GAAP):</b> |                               |           |              |           |            |            |   |
| 1-800-Flowers.com Consumer Floral              | \$17,762                      | \$21,309  | \$ -         | \$ -      | \$ 21,309  | -16.6      | % |
| BloomNet Wire Service                          | 14,393                        | 15,468    | -            | -         | 15,468     | -6.9       | % |
| Gourmet Food & Gift Baskets                    | 88,509                        | 95,320    | (3,018 )     | 103       | 92,405     | -4.2       | % |
| Segment Contribution Margin Subtotal           | 120,664                       | 132,097   | (3,018 )     | 103       | 129,182    | -6.6       | % |
| Corporate (a)                                  | (39,040 )                     | (41,491 ) | 763          | -         | (40,728 )  | 4.1        | % |
| EBITDA (non-GAAP)                              | 81,624                        | 90,606    | (2,255 )     | 103       | 88,454     | -7.7       | % |
| Add: Stock-based compensation                  | 2,069                         | 3,498     | -            | -         | 3,498      | -40.9      | % |
|                                                | 639                           | 282       | -            | -         | 282        | -126.6     | % |

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Add: Comp charge related to NQ Plan

Investment Appreciation

|                            |          |          |             |        |           |      |   |
|----------------------------|----------|----------|-------------|--------|-----------|------|---|
| Adjusted EBITDA (non-GAAP) | \$84,332 | \$94,386 | \$ (2,255 ) | \$ 103 | \$ 92,234 | -8.6 | % |
|----------------------------|----------|----------|-------------|--------|-----------|------|---|

20

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Table of Contents**Reconciliation of net income to adjusted net income (non-GAAP):**

|                                                                                                                   | <b>Three Months Ended</b>                    |                        | <b>Years Ended</b>       |                        |
|-------------------------------------------------------------------------------------------------------------------|----------------------------------------------|------------------------|--------------------------|------------------------|
|                                                                                                                   | <b>December 31, 2017</b>                     | <b>January 1, 2017</b> | <b>December 31, 2017</b> | <b>January 1, 2017</b> |
|                                                                                                                   | <i>(in thousands, except per share data)</i> |                        |                          |                        |
| Net income                                                                                                        | \$70,699                                     | \$62,929               | \$57,477                 | \$47,158               |
| Adjustments to reconcile net income to adjusted net income (non-GAAP)                                             |                                              |                        |                          |                        |
| Deduct: Fannie May operating results                                                                              | -                                            | 5,047                  | -                        | 629                    |
| Deduct: U.S. tax reform impact on deferred taxes (b)                                                              | 12,158                                       | -                      | 12,158                   | -                      |
| Add back: Severance costs                                                                                         | -                                            | 79                     | -                        | 103                    |
| Add back: Income tax expense impact on Fannie May operating results and severance adjustments                     | -                                            | 1,656                  | -                        | 171                    |
| Adjusted net income (non-GAAP)                                                                                    | \$58,541                                     | \$59,617               | \$45,319                 | \$46,803               |
| Basic and diluted net income per common share                                                                     |                                              |                        |                          |                        |
| Basic                                                                                                             | \$1.09                                       | \$0.97                 | \$0.89                   | \$0.72                 |
| Diluted                                                                                                           | \$1.06                                       | \$0.93                 | \$0.86                   | \$0.70                 |
| Basic and diluted adjusted net income per common share (non-GAAP)                                                 |                                              |                        |                          |                        |
| Basic                                                                                                             | \$0.91                                       | \$0.91                 | \$0.70                   | \$0.72                 |
| Diluted                                                                                                           | \$0.88                                       | \$0.88                 | \$0.68                   | \$0.69                 |
| Weighted average shares used in the calculation of net income and adjusted net income (non-GAAP) per common share |                                              |                        |                          |                        |
| Basic                                                                                                             | 64,601                                       | 65,172                 | 64,778                   | 65,112                 |
| Diluted                                                                                                           | 66,782                                       | 67,754                 | 67,037                   | 67,778                 |

**Reconciliation of net income to adjusted EBITDA (non-GAAP) (c):**

|            | <b>Three Months Ended</b> |                        | <b>Years Ended</b>       |                        |
|------------|---------------------------|------------------------|--------------------------|------------------------|
|            | <b>December 31, 2017</b>  | <b>January 1, 2017</b> | <b>December 31, 2017</b> | <b>January 1, 2017</b> |
|            | <i>(in thousands)</i>     |                        |                          |                        |
| Net income | \$70,699                  | \$62,929               | \$57,477                 | \$47,158               |

|                                                                |          |           |          |          |
|----------------------------------------------------------------|----------|-----------|----------|----------|
| Add:                                                           |          |           |          |          |
| Interest expense, net                                          | 1,140    | 2,155     | 1,911    | 3,456    |
| Depreciation and amortization                                  | 8,677    | 9,167     | 16,761   | 17,164   |
| Income tax expense                                             | 12,627   | 31,467    | 5,475    | 22,828   |
| EBITDA (non-GAAP)                                              | 93,143   | 105,718   | 81,624   | 90,606   |
| Add:                                                           |          |           |          |          |
| Severance costs                                                | -        | 79        | -        | 103      |
| Compensation charge related to NQ plan investment appreciation | 364      | 20        | 639      | 282      |
| Stock-based compensation                                       | 968      | 1,724     | 2,069    | 3,498    |
| Less:                                                          |          |           |          |          |
| Fannie May EBITDA                                              | -        | 5,863     | -        | 2,255    |
| Adjusted EBITDA (non-GAAP)                                     | \$94,475 | \$101,678 | \$84,332 | \$92,234 |

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.

The adjustment to deduct the impact of U.S. tax reform from Net Income includes the impact of the re-valuation of the Company's deferred tax liability of \$12.2 million, or \$0.18 per diluted share, and does not include the ongoing impact of the lower federal corporate tax rate of \$3.7 million, or \$0.06 per diluted share.

Segment performance is measured based on segment contribution margin or segment adjusted EBITDA, reflecting only the direct controllable revenue and operating expenses of the segments, both of which are non-GAAP measurements. 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), and other items that we do not consider indicative of our core operating performance.

Table of Contents**Results of Operations*****Net Revenues***

|                    | <b>Three Months Ended</b>     |                |               |   | <b>Six Months Ended</b> |                |               |   |
|--------------------|-------------------------------|----------------|---------------|---|-------------------------|----------------|---------------|---|
|                    | <b>December</b>               | <b>January</b> | <b>%</b>      |   | <b>December</b>         | <b>January</b> | <b>%</b>      |   |
|                    | <b>31, 2017</b>               | <b>1, 2017</b> | <b>Change</b> |   | <b>31, 2017</b>         | <b>1, 2017</b> | <b>Change</b> |   |
|                    | <i>(dollars in thousands)</i> |                |               |   |                         |                |               |   |
| Net revenues:      |                               |                |               |   |                         |                |               |   |
| E-Commerce         | \$424,132                     | \$420,594      | 0.8           | % | \$532,903               | \$527,678      | 1.0           | % |
| Other              | 101,961                       | 133,959        | -23.9         | % | 150,539                 | 192,704        | -21.9         | % |
| Total net revenues | \$526,093                     | \$554,553      | -5.1          | % | \$683,442               | \$720,382      | -5.1          | % |

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

Net revenues decreased 5.1% during both the three and six months ended December 31, 2017, compared to the same periods of the prior year, due to the disposition of Fannie May on May 30, 2017. On a comparable basis, adjusting fiscal 2017 net revenues to exclude the revenues of Fannie May, net revenues increased 2.4% and 2.3% during the three and six months ended December 31, 2017, respectively, compared to the same periods of the prior year. This increase was due to growth within the Consumer Floral and Gourmet Foods & Gift Baskets segment, attributable to the Harry & David and 1-800-Baskets/DesignPac brands, partially offset by slightly lower revenues in the Company's BloomNet segment. Comparable revenue growth was negatively impacted by a temporary disruption in operations at our Cheryl's brand, related to the recent implementation of a new production and warehouse management system, which, in turn, led to the brand's decision to stop taking orders eight days prior to the Christmas holiday. As a result, the Company estimates that it had to forego approximately \$4.0 million in holiday revenues during the three and six months ended December 31, 2017. In addition, revenues during the six months ended December 31, 2017 were negatively impacted, by approximately \$1.1 million, due to hurricanes Harvey and Irma.

E-commerce revenues (combined online and telephonic) increased by 0.8% and 1.0% during the three and six months ended December 31, 2017, respectively, compared to the same periods of the prior year, as a result of growth within the Consumer Floral and Gourmet Foods & Gift Baskets segments. On a comparable basis, adjusting fiscal 2017 e-commerce revenues to exclude the revenues of Fannie May, e-commerce revenues increased 3.1% and 2.9% during the three and six months ended December 31, 2017, respectively, compared to the same periods of the prior year. During the three months ended December 31, 2017, the Company fulfilled approximately 5,205,000 orders through its e-commerce sales channels (online and telephonic sales), compared to approximately 5,263,000 (5,020,000 adjusted to exclude Fannie May orders in fiscal 2017) during the same period of the prior year, while average order value

increased to \$81.44 during the three months ended December 31, 2017, from \$79.92 (\$81.92 adjusted to exclude Fannie May average order value in fiscal 2017) during the same period of the prior year. During the six months ended December 31, 2017, the Company fulfilled approximately 6,725,000 orders through its e-commerce sales channels (online and telephonic sales), compared to approximately 6,780,000 (6,526,000 adjusted to exclude Fannie May orders in fiscal 2017) during the same period of the prior year, while average order value increased to \$79.20 during the six months ended December 31, 2017, from \$77.83 (\$79.36 adjusted to exclude Fannie May average order value in fiscal 2017) 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 decreased by 23.9% and 21.9% during the three and six months ended December 31, 2017, respectively, compared to the same periods of the prior year, primarily as a result of the Fannie May disposition during May 2017. On a comparable basis, adjusting fiscal 2017 other revenues to exclude the revenues of Fannie May, other revenues decreased 0.5% during the three months ended December 31, 2017, and increased 0.1% during the six months ended December 31, 2017, compared to the respective prior year periods.

The 1-800-Flowers.com Consumer Floral segment includes the operations of the 1-800-Flowers.com brand, which derives revenue from the sale of consumer floral products through its e-commerce sales channels (telephonic and online sales), retail stores, and royalties from its franchise operations. Net revenues increased 2.3% and 2.1%, during the three and six months ended December 31, 2017, in comparison to the same periods of the prior year, due to increased demand driven by merchandising and marketing efforts, as well as an increase in promotional activity in order to expand market share. Revenues during the six months ended December 31, 2017 were negatively impacted, by approximately \$0.8 million, due to hurricanes Harvey and Irma.

The BloomNet Wire Service segment includes revenues from membership fees as well as other product and service offerings to florists. Net revenues decreased 0.6% and 3.2% during the three and six months ended December 31, 2017, respectively, compared to the same periods of the prior year, primarily due to lower membership, transaction fees and ancillary revenues resulting from a decline in network shop count, partially offset by higher wholesale product revenues. During the six months ended December 31, 2017, these decreases were exacerbated by the impact of hurricanes Harvey and Irma, as BloomNet provided financial aid to florists in the affected areas, and waived approximately \$0.2 million of membership fees.

The Gourmet Food & Gift Baskets segment includes the operations of Harry & David, Wolferman's, Stockyards, Cheryl's, Fannie May (through the date of its disposition on May 30, 2017), The Popcorn Factory, and 1-800-Baskets/DesignPac. Revenue is derived from the sale of gourmet fruits, 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 Harry & David, Cheryl's and Fannie May (through the date of its disposition) brand names, as well as wholesale operations. Net revenues decreased 7.1% and 7.8% during the three and six months ended December 31, 2017, respectively, compared to the same periods of the prior year, due to the disposition of Fannie May on May 30, 2017. On a comparable basis, adjusting fiscal year 2017 revenues to exclude Fannie May, net revenues increased 2.6% and 2.8% during the three and six months ended December 31, 2017, respectively, compared to the same periods of the prior year due to growth by the Harry & David and 1-800-Baskets.com consumer and wholesale channel brands.

Comparable segment growth was attributable to several initiatives implemented during the second half of fiscal 2017, including: (i) the Company's successful efforts to grow the "everyday" volume of its Gourmet Foods & Gift Baskets brands through expanded birthday and sympathy merchandise, (ii) the modernization of the Harry & David brand, which focused on developing merchandising assortments and digital marketing programs that helped to broaden the demographic reach of the brand, and, (ii) the launch of the Simply Chocolates product line, which is managed by 1-800-Baskets. As noted above, Cheryl's revenue decrease, in comparison to the prior year, was due to the Company's decision to suspend order taking as a result of operational issues experienced during the weeks leading up to the Christmas holiday. As a result, the Company estimates that it had to forego approximately \$4.0 million in holiday revenues during the three and six months ended December 31, 2017. In addition, revenues during the six months ended December 31, 2017 were negatively impacted, by approximately \$0.2 million, due to hurricanes Harvey and Irma. The operational issues at Cheryl's have been addressed, and business has returned to its normal pace.



Table of Contents**Gross Profit**

|                | Three Months Ended     |           |        |   | Six Months Ended |           |        |   |
|----------------|------------------------|-----------|--------|---|------------------|-----------|--------|---|
|                | December               | January   | %      |   | December         | January   | %      |   |
|                | 31, 2017               | 1, 2017   | Change |   | 31, 2017         | 1, 2017   | Change |   |
|                | (dollars in thousands) |           |        |   |                  |           |        |   |
| Gross profit   | \$235,259              | \$256,994 | -8.5   | % | \$302,537        | \$328,381 | -7.9   | % |
| Gross profit % | 44.7                   | % 46.3    | %      |   | 44.3             | % 45.6    | %      |   |

Gross profit consists of net revenues less cost of revenues, which is comprised primarily of florist fulfillment costs (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 decreased 8.5% and 7.9% during the three and six months ended December 31, 2017, respectively, in comparison to the same periods of the prior year, while gross profit percentage decreased 160 and 130 basis points, during the three and six months ended December 31, 2017, respectively, in comparison to the same periods of the prior year. On a comparable basis, adjusting prior year gross profit to exclude Fannie May, which was disposed of on May 30, 2017, gross profit decreased 2.4% and 1.8% during the three and six months ended December 31, 2017, respectively, in comparison to the same periods of the prior year, while gross profit percentage decreased 220 and 180 basis points, during the same periods. The lower comparable gross profit, and gross profit percentage, primarily reflects the impact of the operational issue at the Company's Cheryl's Cookies brand, as well as increased transportation costs in the Gourmet Food and Gift Baskets segment, and increased promotional activity within the Consumer Floral segment in order to increase market share.

The 1-800-Flowers.com Consumer Floral segment gross profit decreased by 3.6% and 1.7% during the three and six months ended December 31, 2017, respectively, in comparison to the same period of the prior year, due to a decrease in gross profit percentage of 240 and 150 basis points to 38.8% and 39.4%, respectively, partially offset by the aforementioned revenue growth. The lower gross profit percentages reflect an increase in promotional activity initiated to extend the market share of the 1-800-Flowers brand, as well as an increase in Passport free shipping participation, which has improved customer loyalty and purchase frequency.

BloomNet Wire Service segment's gross profit decreased by 5.0% and 5.6% during the three and six months ended December 31, 2017, respectively, in comparison to the same period of the prior year, due to the decrease in revenues noted above, as well as decreases in gross profit percentage of 260 and 140 basis points, to 57.4% and 56.7%, respectively. The lower gross profit percentages are due to sales mix, with a decline in higher margin membership and

related services, offset by an increase in lower margin wholesale product sales.

The Gourmet Food & Gift Baskets segment gross profit decreased by 9.7% and 10.0% during the three and six months ended December 31, 2017, respectively, in comparison to the same periods of the prior year, while gross profit percentage decreased 130 and 110 basis points to 45.4% and 44.9%, over the same respective periods. On a comparable basis, adjusting prior year gross profit to exclude Fannie May, which was disposed of on May 30, 2017, gross profit decreased 2.0% and 1.4% during the three and six months ended December 31, 2017, respectively, in comparison to the same periods of the prior year, while gross profit percentage decreased 220 and 190 basis points to 45.4% and 44.9%, over the same respective periods. The lower comparable gross profit and gross profit percentage primarily reflects the impact of the operational issue at the Company's Cheryl's Cookies brand, which negatively impacted gross profit by approximately \$4.0 million as a result of increased labor, expedited shipping, expiring product and higher customer credits. In addition, although revenue growth provided for improved gross profit at Harry & David, higher transportation costs at Harry & David and our wholesale baskets brands negatively impacted gross profit percentage.

Table of Contents***Marketing and Sales Expense***

|                            | <b>Three Months Ended</b>     |                |               |   | <b>Six Months Ended</b> |                |               |   |
|----------------------------|-------------------------------|----------------|---------------|---|-------------------------|----------------|---------------|---|
|                            | <b>December</b>               | <b>January</b> | <b>%</b>      |   | <b>December</b>         | <b>January</b> | <b>%</b>      |   |
|                            | <b>31, 2017</b>               | <b>1, 2017</b> | <b>Change</b> |   | <b>31, 2017</b>         | <b>1, 2017</b> | <b>Change</b> |   |
|                            | <i>(dollars in thousands)</i> |                |               |   |                         |                |               |   |
| Marketing and sales        | \$113,771                     | \$119,876      | -5.1          | % | \$163,493               | \$174,954      | -6.6          | % |
| Percentage of net revenues | 21.6                          | % 21.6         | %             |   | 23.9                    | % 24.3         | %             |   |

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 decreased 5.1% and 6.6% during the three and six months ended December 31, 2017, compared to the same periods of the prior year, due to the disposition of Fannie May on May 30, 2017. On a comparable basis, adjusting prior year marketing and sales expense to exclude Fannie May's expenditures, marketing and sales expense increased 1.8% during both the three and six months ended December 31, 2017, in comparison to the same periods of the prior year, due to increased marketing spend within the Consumer Floral and Gourmet Foods & Gift Baskets segments, commensurate with revenue growth, including the Company's efforts to test digital marketing strategies during the holiday season for applications throughout the remainder of the fiscal year. These increases were partially offset by a reduction in performance based bonuses.

***Technology and Development Expense***

|                            | <b>Three Months Ended</b>     |                |               |   | <b>Six Months Ended</b> |                |               |   |
|----------------------------|-------------------------------|----------------|---------------|---|-------------------------|----------------|---------------|---|
|                            | <b>December</b>               | <b>January</b> | <b>%</b>      |   | <b>January</b>          | <b>January</b> | <b>%</b>      |   |
|                            | <b>31, 2017</b>               | <b>1, 2017</b> | <b>Change</b> |   | <b>1, 2017</b>          | <b>1, 2017</b> | <b>Change</b> |   |
|                            | <i>(dollars in thousands)</i> |                |               |   |                         |                |               |   |
| Technology and development | \$9,175                       | \$9,849        | -6.8          | % | \$18,845                | \$19,337       | -2.5          | % |
| Percentage of net revenues | 1.7                           | % 1.8          | %             |   | 2.8                     | % 2.7          | %             |   |

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

Technology and development expenses decreased 6.8% and 2.5% during the three and six months ended December 31, 2017, compared to the same period of the prior year, primarily due to favorable hosting costs and labor expenses resulting from a reduction in performance based bonuses, partially offset by increased license and maintenance costs related to security and order processing platforms.

Table of Contents***General and Administrative Expense***

|                            | <b>Three Months Ended</b>     |                |               |   | <b>Six Months Ended</b> |                |               |   |
|----------------------------|-------------------------------|----------------|---------------|---|-------------------------|----------------|---------------|---|
|                            | <b>December</b>               | <b>January</b> | <b>%</b>      |   | <b>December</b>         | <b>January</b> | <b>%</b>      |   |
|                            | <b>31,</b>                    | <b>1, 2017</b> | <b>Change</b> |   | <b>31,</b>              | <b>1, 2017</b> | <b>Change</b> |   |
|                            | <b>2017</b>                   |                |               |   | <b>2017</b>             |                |               |   |
|                            | <i>(dollars in thousands)</i> |                |               |   |                         |                |               |   |
| General and administrative | \$19,170                      | \$21,551       | -11.0         | % | \$38,575                | \$43,484       | -11.3         | % |
| Percentage of net revenues | 3.6                           | %              | 3.9           | % | 5.6                     | %              | 6.0           | % |

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 11.0% and 11.3% during the three and six months ended December 31, 2017, compared to the same period of the prior year, primarily due to the disposition of Fannie May on May 30, 2017. On a comparable basis, adjusting prior year general and administrative expense to exclude Fannie May's expenditures, general and administrative expense decreased 3.9% and 3.7% during the respective three and six months ended December 31, 2017, in comparison to the same periods of the prior year, due to reductions in travel, and labor resulting from a reduction in performance based bonuses, partially offset by an increase in the value of Non-Qualified Deferred Compensation Plan investments (increase offset in *Other (income) expense net* line item on the financials statement – see below), and higher health insurance costs.

***Depreciation and Amortization Expense***

|                               | <b>Three Months Ended</b>     |                |               |   | <b>Six Months Ended</b> |                |               |   |
|-------------------------------|-------------------------------|----------------|---------------|---|-------------------------|----------------|---------------|---|
|                               | <b>December</b>               | <b>January</b> | <b>%</b>      |   | <b>December</b>         | <b>January</b> | <b>%</b>      |   |
|                               | <b>31,</b>                    | <b>1, 2017</b> | <b>Change</b> |   | <b>31,</b>              | <b>1, 2017</b> | <b>Change</b> |   |
|                               | <b>2017</b>                   |                |               |   | <b>2017</b>             |                |               |   |
|                               | <i>(dollars in thousands)</i> |                |               |   |                         |                |               |   |
| Depreciation and amortization | \$8,677                       | \$9,167        | -5.3          | % | \$16,761                | \$17,164       | -2.3          | % |
| Percentage of net revenues    | 1.6                           | %              | 1.7           | % | 2.5                     | %              | 2.4           | % |

Depreciation and amortization expense for the three months ended December 31, 2017 decreased 5.3% and 2.3%, in comparison to the same period of the prior year, due to the disposition of Fannie May. On a comparable basis, adjusting prior year depreciation and amortization expense to exclude Fannie May, depreciation and amortization expense increased 3.9% and 7.9% during the respective three and six months ended December 31, 2017, in comparison to the same periods of the prior year as a result of recent shorter-lived IT capital expenditures.

***Interest Expense, net***

| Three Months Ended            |         |        | Six Months Ended |         |        |
|-------------------------------|---------|--------|------------------|---------|--------|
| December                      | January | %      | December         | January | %      |
| 31,                           | 1, 2017 | Change | 31,              | 1, 2017 | Change |
| 2017                          |         |        | 2017             |         |        |
| <i>(dollars in thousands)</i> |         |        |                  |         |        |

|                       |         |         |       |   |         |         |       |   |
|-----------------------|---------|---------|-------|---|---------|---------|-------|---|
| Interest expense, net | \$1,226 | \$2,154 | -43.1 | % | \$2,257 | \$3,605 | -37.4 | % |
|-----------------------|---------|---------|-------|---|---------|---------|-------|---|

Interest expense, net consists primarily of interest expense and amortization of deferred financing costs attributable to the Company's credit facility (See Note 8 - Debt, in Item 1. for details regarding the 2016 Amended Credit Facility), net of income earned on the Company's available cash balances.

Interest expense, net decreased 43.1% and 37.4% during the three and six months ended December 31, 2017 in comparison to the same periods of the prior year, as a result of scheduled repayment of term loan borrowings and funding fiscal 2018 working capital requirements primarily through the use of cash on hand from the sale of Fannie May, in comparison to fiscal 2017, when the Company funded working capital requirements through its revolving credit facility.

Table of Contents***Other (income) expense, net***

| Three Months Ended            |         |        | Six Months Ended |         |        |
|-------------------------------|---------|--------|------------------|---------|--------|
| December                      | January | %      | December         | January | %      |
| 31,                           | 1, 2017 | Change | 31,              | 1, 2017 | Change |
| 2017                          |         |        | 2017             |         |        |
| <i>(dollars in thousands)</i> |         |        |                  |         |        |

|                             |        |    |   |  |       |   |         |    |      |   |       |   |
|-----------------------------|--------|----|---|--|-------|---|---------|----|------|---|-------|---|
| Other (income) expense, net | \$(86) | \$ | 1 |  | 8,700 | % | \$(346) | \$ | (149 | ) | 132.2 | % |
|-----------------------------|--------|----|---|--|-------|---|---------|----|------|---|-------|---|

Other income, net for the three and six months ended December 31, 2017 consists primarily of investment earnings of the Company's Non-Qualified Deferred Compensation Plan assets, partially offset by a \$0.2 million impairment related to the Company's equity method investment in Flores Online (see Note 7 - Investments above).

Other (income) expense, net for the three and six months ended January 1, 2017 primarily consists of investment earnings of the Company's Non-Qualified Deferred Compensation Plan assets for both the three and six months ended January 1, 2017, partially offset by a decrease in the Company's equity interest in Flores Online of \$0.1 million for both the three and six months ended January 1, 2017.

***Income Taxes***

The Company recorded an income tax expense of \$12.6 million and \$5.5 million, respectively, during the three and six months ended December 31, 2017 and income tax expense of \$31.5 million and \$22.8 million, respectively, during the three and six months ended January 1, 2017. The Company's effective tax rate for the three and six months ended December 31, 2017 was 15.2% and 8.7% respectively, compared to 33.3% and 32.6% in the same periods of the prior year. The effective rates for fiscal 2018 were impacted by changes associated with the Tax Act (see Note 1 - Accounting Policies in Item 1. above). During the quarter ended December 31, 2017, the Company recognized a benefit of \$15.9 million, or \$0.24 per diluted share related to the impact of the Tax Act, consisting of a discrete tax benefit of \$12.2 million, or \$0.18 per diluted share, reflecting a revaluation of deferred tax liabilities at the lower U.S. federal statutory rate of 21%, and a benefit of \$3.7 million, or \$0.06 per diluted share, reflecting the Company's lower transitional federal tax rate in fiscal 2018 of 28.0 percent. In addition, fiscal 2018 effective rates were impacted by state income taxes, which were partially offset by various permanent differences and tax credits. The effective rates for fiscal 2017 differed from the U.S. federal statutory rate due to state income taxes, which were more than offset by various permanent differences and tax credits, including excess tax benefits on stock based compensation as a result of the Company's adoption of ASU 2016-09. At December 31, 2017, the Company has an unrecognized tax benefit, including an immaterial amount of accrued interest and penalties, of approximately \$0.4 million. The Company believes that no significant unrecognized tax positions will be resolved over the next twelve months.

## Liquidity and Capital Resources

### *Liquidity and borrowings*

The Company's principal sources of liquidity are cash on hand, cash flows generated from operations and the borrowings available under the 2016 Credit Facility (see Note 8 - Debt in Item 1 for details). At December 31, 2017, the Company had working capital of \$172.2 million, including cash and cash equivalents of \$232.6 million, compared to working capital of \$132.2 million, including cash and cash equivalents of \$149.7 million, at July 2, 2017. Borrowings under the Revolver (working capital needs), which were significantly lower than prior year as a result of cash generated from the sale of Fannie May, peaked in November, when cash generated from operations during the Christmas holiday shopping season enabled the Company to repay the Revolver prior to the end of December 2017. Due to the seasonal nature of the Company's business, and its continued expansion into non-floral products, 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 its earnings. As a result, the Company generated significant cash from operations during its second quarter, which, after re-paying all borrowings outstanding under its Revolver, is expected to be sufficient to provide for operating needs until the second quarter of fiscal 2019, when the Company expects to borrow against its Revolver to fund pre-holiday manufacturing and inventory purchases.

We believe that our sources of funding will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. However, any projections of future cash needs and cash flows are subject to substantial uncertainty. We continually evaluate opportunities to repurchase common stock and we will, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services, capital infrastructure, and technologies, which might affect our liquidity requirements or cause us to require additional financing.



Table of Contents

*Cash Flows*

Net cash provided by operating activities of \$114.2 million for the six months ended December 31, 2017, was primarily attributable to the Company's net income during the period, adjusted by non-cash charges for depreciation/amortization, deferred income taxes (including the impact of the Tax Act – see Note 1 Accounting Policies and Note 11 – Income taxes in Item 1 above) and stock based compensation, as well as seasonal changes in working capital, including holiday related increases in accounts payable and accrued expenses, and reductions in inventory, partially offset by increases in receivables related to holiday season sales.

Net cash used in investing activities of \$17.4 million for the six months ended December 31, 2017, was primarily attributable to the working capital adjustment related to the sale of Fannie May, of which \$8.5 million was still due to Ferrero at July 2, 2017 and to capital expenditures related to the Company's technology initiatives and Gourmet Foods & Gift Basket segment manufacturing production and orchard planting equipment.

Net cash used in financing activities of \$13.9 million for the six months ended December 31, 2017 was primarily due to Term Loan repayments of \$2.9 million and the acquisition of \$11.1 million of treasury stock. All borrowings under the Company's revolving credit facility were repaid by the end of the fiscal second 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. On August 30, 2017, the Company's Board of Directors authorized an increase to its stock repurchase plan of up to \$30.0 million. As of December 31, 2017, \$21.1 million remained 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 July 2, 2017.



Table of Contents

**Critical Accounting Policies and Estimates**

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 2017, 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 July 2, 2017, except for the enactment of the Tax Act (see Note 1 - Accounting Policies and Note 11 – Income taxes in Item 1 above for details).

***Recent Accounting Pronouncements***

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. As we continue to evaluate the impact of this ASU, we have determined that the new standard will impact the following areas: the costs of producing and distributing the Company's catalogs will be expensed upon shipment, instead of being capitalized and amortized in direct proportion to the actual sales; gift card breakage will be estimated based on the historical pattern of gift card redemption, rather than when redemption is considered remote; the Company will defer revenue at the time the Celebrations Reward loyalty points are earned using a relative fair value approach, rather than accruing a liability equal to the incremental cost of fulfilling its obligations. We have further identified the timing of revenue recognition for e-commerce orders (shipping point versus destination) as a potential issue in our analysis, which is not expected to change the total amount of revenue recognized, but could accelerate the timing of when revenue is recognized. We plan to adopt this guidance beginning with the first quarter in the fiscal year ending June 30, 2019 on a retrospective basis with a cumulative adjustment to retained earnings. We are continuing to evaluate the impact that this ASU, and related amendments and interpretive guidance, will have on our consolidated financial statements, including the related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330)." The pronouncement was issued to simplify the measurement of inventory and changes the measurement from lower of cost or market to lower of cost and net realizable value. The Company adopted this standard effective July 3, 2017. The adoption of ASU 2015-11 did not

have a significant impact on the Company's consolidated financial position or results of operations.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The pronouncement requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. This guidance will become effective for the Company's fiscal year ending June 30, 2019. The adoption is not expected to have a significant impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Under this guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for the Company's fiscal year ending June 28, 2020. We are currently evaluating the impact and expect the ASU will have a material impact on our consolidated financial statements, primarily to the consolidated balance sheets and related disclosures.

Table of Contents

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting.” ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company elected to early adopt the amendments in ASU 2016-09, in fiscal 2017. As a result, stock-based compensation excess tax benefits are reflected in the Consolidated Statements of Income as a component of the provision for income taxes, whereas they were previously recognized in equity. This change resulted in the recognition of excess tax benefits against income tax expenses, rather than additional paid-in capital, of \$1.0 million for the year ended July 2, 2017. There was no impact on earnings per share since approximately 700,000 tax benefit shares for the year ended July 2, 2017, previously associated with the APIC pool calculation, are no longer considered in the diluted share computation. Additionally, our Consolidated Statements of Cash Flows now present excess tax benefits as an operating activity. This change has been applied prospectively in accordance with the ASU and prior periods have not been adjusted. Further, the Company has elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The cumulative effect of this change, which was recorded as compensation expense in fiscal 2017, was not material to the financial statements. In addition, this ASU allows entities to withhold an amount up to an employees’ maximum individual statutory tax rate in the relevant jurisdiction, up from the minimum statutory requirement, without resulting in liability classification of the award. We adopted this change on a modified retrospective basis, with no impact to our consolidated financial statements. Finally, this ASU clarified that the cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. This change does not have an impact on the Company’s consolidated financials as it conforms with its current practice.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 introduces a new forward-looking “expected loss” approach, to estimate credit losses on most financial assets and certain other instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the entity’s assumptions, models and methods for estimating expected credit losses. ASU 2016-13 is effective for the Company’s fiscal year ending July 4, 2021, and the guidance is to be applied using the modified-retrospective approach. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230), a consensus of the FASB’s Emerging Issues Task Force.” ASU 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The ASU is effective for the Company’s fiscal year ending June 30, 2019, and interim periods within those fiscal years. Early adoption is permitted, including interim periods within those fiscal years. An entity that elects early adoption must adopt all of the amendments in the same period. The guidance requires application using a retrospective transition method. The adoption is not expected to have a significant impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU 2017-01)," which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. ASU 2017-01 is effective for the Company's fiscal year ending June 30, 2019, with early adoption permitted, and should be applied prospectively. We do not expect the standard to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. This guidance is effective for the Company's fiscal year ending July 4, 2021, with early adoption permitted, and should be applied prospectively. We do not expect the standard to have a material impact on our consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets." This update clarifies the scope of accounting for the derecognition or partial sale of nonfinancial assets to exclude all businesses and nonprofit activities. ASU 2017-05 also provides a definition for in-substance nonfinancial assets and additional guidance on partial sales of nonfinancial assets. This guidance will be effective for the Company's fiscal year ending June 30, 2019 and may be applied retrospectively. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

## Table of Contents

In May 2017, the FASB issued ASU No 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting.” This ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. An entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for the Company's fiscal year ending June 30, 2019, with early adoption permitted, and should be applied prospectively to an award modified on or after the adoption date. The Company is 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:

- oto achieve revenue and profitability;
  - oto leverage its operating platform and reduce operating expenses;
  - oto manage the increased seasonality of its business;
  - oto cost effectively acquire and retain customers;
  - oto effectively integrate and grow acquired companies;
  - oto reduce working capital requirements and capital expenditures;
  - oto compete against existing and new competitors;
  - oto manage expenses associated with sales and marketing and necessary general and administrative and technology investments; and
  - oto cost efficiently manage inventories;
- the outcome of contingencies, including legal proceedings in the normal course of business; and
- general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products.

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

Investors should bear this in mind as they consider forward-looking statements.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Forms 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission. Our Annual Report on Form 10-K filing for the fiscal year ended July 2, 2017 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.



Table of Contents

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

The Company is exposed to market risk from the effect of interest rate changes.

*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 expose the Company to market risk for changes in interest rates. The effect of a 50 basis point increase in current interest rates on the Company's interest expense would be approximately \$0.2 and \$0.3 million during the three and six months ended December 31, 2017, respectively.

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 31, 2017. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2017.

*Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting identified in connection with the Company's evaluation required by Rules 13a-15(d) or 15d-15(d) of the Securities Exchange Act of 1934 during the quarter ended

December 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**PART II. – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Litigation

There are various claims, lawsuits, and pending actions against the Company and its subsidiaries incident to the operations of its businesses. It is the opinion of management, after consultation with counsel, that the ultimate resolution of such claims, lawsuits and pending actions will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

**ITEM 1A. RISK FACTORS.**

There were no material changes to the Company's risk factors as discussed in Part 1, Item 1A-Risk Factors in the Company's Annual Report on Form 10-K for the year ended July 2, 2017.

Table of Contents**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. On August 30, 2017, the Company's Board of Directors authorized an increase to its stock repurchase plan of up to \$30.0 million. As of December 31, 2017, \$21.1 million remained authorized under the plan.

The following table sets forth, for the months indicated, the Company's purchase of common stock during the first six months of fiscal 2018, which includes the period July 3, 2017 through December 31, 2017:

| <b>Period</b>                                              | <b>Total<br/>Number<br/>of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>Per<br/>Share<br/>(1)</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Dollar<br/>Value of<br/>Shares<br/>that May<br/>Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs</b> |
|------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <i>(in thousands, except average price paid per share)</i> |                                                         |                                                             |                                                                                                                         |                                                                                                                     |
| 07/03/17 - 07/30/17                                        | 89.3                                                    | \$ 9.66                                                     | 89.3                                                                                                                    | \$ 16,363                                                                                                           |
| 07/31/16 - 08/27/17                                        | 99.6                                                    | \$ 9.08                                                     | 99.6                                                                                                                    | \$ 15,456                                                                                                           |
| 08/28/17 - 10/01/17                                        | 268.7                                                   | \$ 9.43                                                     | 268.7                                                                                                                   | \$ 27,859                                                                                                           |
| 10/02/17 - 10/29/17                                        | 233.5                                                   | \$ 9.62                                                     | 233.5                                                                                                                   | \$ 25,606                                                                                                           |
| 10/30/17 - 12/03/17                                        | 414.3                                                   | \$ 9.36                                                     | 414.3                                                                                                                   | \$ 21,719                                                                                                           |
| 12/04/17 - 12/31/17                                        | 61.9                                                    | \$ 10.16                                                    | 61.9                                                                                                                    | \$ 21,089                                                                                                           |
| <b>Total</b>                                               | <b>1,167.3</b>                                          | <b>\$ 9.47</b>                                              | <b>1,167.3</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.

Table of Contents

**ITEM 6. EXHIBITS**

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

\* Filed herewith.

Table of Contents

**SIGNATURES**

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

1-800-FLOWERS.COM, Inc.

(Registrant)

/s/ Christopher G. McCann \_\_\_\_

Date: February 9, 2017 Christopher G. McCann  
Chief Executive Officer,  
Director and President  
(Principal Executive Officer)

/s/ William E. Shea \_\_\_\_

Date: February 9, 2017 William E. Shea  
Senior Vice President, Treasurer and  
Chief Financial Officer (Principal  
Financial and Accounting Officer)