

1 800 FLOWERS COM INC  
Form 10-Q  
November 14, 2016  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended **October 2, 2016**

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**  
(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 or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

**Accelerated filer**

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

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

The number of shares outstanding of each of the Registrant’s classes of common stock as of **November 7, 2016**:

Class A common stock: **35,298,682**

Class B common stock: **29,983,004**

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

|   | <b>October 2,<br/>2016</b> | <b>July 3,<br/>2016</b> |
|---|----------------------------|-------------------------|
|   | <b>(unaudited)</b>         |                         |
| <b>Assets</b>                               |                            |                         |
| Current assets:                             |                            |                         |
| Cash and cash equivalents                   | \$ 6,755                   | \$27,826                |
| Trade receivables, net                      | 42,821                     | 19,123                  |
| Inventories                                 | 191,382                    | 103,328                 |
| Prepaid and other                           | 27,852                     | 16,382                  |
| Total current assets                        | 268,810                    | 166,659                 |
| Property, plant and equipment, net          | 168,186                    | 171,362                 |
| Goodwill                                    | 77,667                     | 77,667                  |
| Other intangibles, net                      | 78,709                     | 79,000                  |
| Other assets                                | 9,291                      | 8,253                   |
| Total assets                                | \$ 602,663                 | \$502,941               |
| <b>Liabilities and Stockholders' Equity</b> |                            |                         |
| Current liabilities:                        |                            |                         |
| Accounts payable                            | \$ 32,448                  | \$35,201                |
| Accrued expenses                            | 63,301                     | 66,066                  |
| Current debt                                | 146,375                    | 19,594                  |
| Total current liabilities                   | 242,124                    | 120,861                 |
| Long-term debt                              | 89,425                     | 94,396                  |
| Deferred tax liabilities                    | 34,814                     | 35,517                  |
| Other liabilities                           | 10,578                     | 9,581                   |
| Total liabilities                           | 376,941                    | 260,355                 |
| Total equity                                | 225,722                    | 242,586                 |
| Total liabilities and equity                | \$ 602,663                 | \$502,941               |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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

|  | <b>Three Months Ended</b> |                  |
|--|---------------------------|------------------|
|  | <b>October</b>            | <b>September</b> |
|  | <b>2, 2016</b>            | <b>27, 2015</b>  |
| Net revenues   | 165,829                   | 156,041          |
| Cost of revenues   | 94,442                    | 88,532           |
| Gross profit   | 71,387                    | 67,509           |
| Operating expenses:  |                           |                  |
| Marketing and sales  | 55,078                    | 52,526           |
| Technology and development   | 9,488                     | 9,311            |
| General and administrative   | 21,933                    | 19,971           |
| Depreciation and amortization  | 7,997                     | 7,972            |
| Total operating expenses   | 94,496                    | 89,780           |
| Operating loss   | (23,109 )                 | (22,271 )        |
| Interest expense, net  | 1,451                     | 1,891            |
| Other income, net  | (150 )                    | (15,538 )        |
| Loss before income taxes   | (24,410 )                 | (8,624 )         |
| Income tax benefit   | (8,639 )                  | (3,188 )         |
| Net loss   | (15,771 )                 | (5,436 )         |
| Less: Net loss attributable to noncontrolling interest   | -                         | (952 )           |
| Net loss attributable to 1-800-FLOWERS.COM, Inc.   | \$(15,771 )               | \$(4,484 )       |
| Basic and diluted net loss per common share attributable to 1-800-FLOWERS.COM, Inc.            | \$(0.24 )                 | \$(0.07 )        |
| Basic and diluted weighted average shares used in the calculation of net loss per common share | 65,081                    | 64,825           |

*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 Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>October</b>            | <b>September</b> |
|   | <b>2, 2016</b>            | <b>27, 2015</b>  |
| Net loss  | \$(15,771)                | \$ (5,436 )      |
| Other comprehensive income (currency translation)   | 95                        | 158              |
| Comprehensive loss  | (15,676)                  | (5,278 )         |
| Less:   |                           |                  |
| Net loss attributable to noncontrolling interest  | -                         | (952 )           |
| Other comprehensive income (currency translation) attributable to noncontrolling interest | -                         | 87               |
| Comprehensive net loss attributable to noncontrolling interest                            | -                         | (865 )           |
| Comprehensive loss attributable to 1-800-FLOWERS.COM, Inc.                                | \$(15,676)                | \$ (4,413 )      |

*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>Three months ended</b> |                   |
|--|---------------------------|-------------------|
|  | <b>October</b>            | <b>September</b>  |
|  | <b>2, 2016</b>            | <b>27, 2015</b>   |
| <b>Operating activities:</b>   |                           |                   |
| Net loss   | \$(15,771 )               | \$(5,436 )        |
| Reconciliation of net loss to net cash used in operating activities, net of acquisitions/dispositions: |                           |                   |
| Depreciation and amortization  | 7,997                     | 7,972             |
| Amortization of deferred financing costs   | 374                       | 414               |
| Deferred income taxes  | (703 )                    | (740 )            |
| Foreign equity method investment impairment  | -                         | 1,728             |
| Impairment of iFlorist   | -                         | 1,879             |
| Fire related gain  | -                         | (19,611 )         |
| Bad debt expense   | 188                       | 454               |
| Stock-based compensation   | 1,774                     | 1,518             |
| Other non-cash items   | 264                       | 181               |
| Changes in operating items:  |                           |                   |
| Trade receivables  | (23,886 )                 | (13,152 )         |
| Insurance receivable   | -                         | (449 )            |
| Inventories  | (88,054 )                 | (94,756 )         |
| Prepaid and other  | (11,470 )                 | (4,861 )          |
| Accounts payable and accrued expenses  | (5,518 )                  | (15,342 )         |
| Other assets   | -                         | (75 )             |
| Other liabilities  | (37 )                     | 45                |
| <b>Net cash used in operating activities</b>   | <b>(134,842)</b>          | <b>(140,231 )</b> |
| <b>Investing activities:</b>   |                           |                   |
| Capital expenditures, net of non-cash expenditures   | (4,703 )                  | (6,224 )          |
| <b>Net cash used in investing activities</b>   | <b>(4,703 )</b>           | <b>(6,224 )</b>   |
| <b>Financing activities:</b>   |                           |                   |
| Acquisition of treasury stock  | (2,964 )                  | (4,717 )          |
| Proceeds from exercise of employee stock options   | 1                         | 1                 |
| Proceeds from bank borrowings  | 125,000                   | 141,903           |
| Repayment of notes payable and bank borrowings   | (3,563 )                  | (16,685 )         |
| <b>Net cash provided by financing activities</b>   | <b>118,474</b>            | <b>120,502</b>    |



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|   |           |           |
|---|-----------|-----------|
| Net change in cash and cash equivalents | (21,071 ) | (25,953 ) |
| Cash and cash equivalents:              |           |           |
| Beginning of period                     | 27,826    | 27,940    |
| End of period                           | \$6,755   | \$1,987   |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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**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 month period ended October 2, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending July 2, 2017. 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 3, 2016.

The Company’s quarterly results may experience seasonal fluctuations. Due to the seasonal nature of the Company’s business, and its continued expansion into non-floral products, including the acquisition of Harry & David Holdings, Inc. (“Harry & David”) on September 30, 2014, the Thanksgiving through Christmas holiday season, which falls within the Company’s second fiscal quarter, is expected to generate nearly 50% of the Company’s annual revenues, and all of 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 2016, the Easter Holiday was on March 27th, and as a result, all revenue and EBITDA associated with this holiday was within the Company’s fiscal third quarter. In fiscal 2017, Easter falls on April 16th, which will result in the shift of some revenue and EBITDA from the Company’s third quarter to its fourth quarter.

*Use of Estimates*

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

*Recent Accounting Pronouncements*

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This amended guidance will enhance the comparability of revenue recognition practices and will be applied to all contracts with customers. Expanded disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized are requirements under the amended guidance. This guidance will be effective for the Company's fiscal year ending 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 April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This standard provides guidance to help entities determine whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software or as a service contract. The Company adopted this standard prospectively to arrangements entered into, or materially modified, beginning on July 4, 2016. This adoption did not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which amends ASC 835-30, "Interest – Imputation of Interest." In order to simplify the presentation of debt issuance costs, ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, and not recorded as a separate asset. The Company adopted this standard effective July 4, 2016 and applied it retrospectively to all periods presented. The impact of the adoption of the new guidance was to reclassify \$3.6 million of deferred financing costs previously included within "Other Assets" to "Long-term debt" in the consolidated balance sheets as of July 3, 2016.

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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. ASU 2015-11 is effective for the Company's fiscal year ending July 1, 2018. The adoption of ASU 2015-11 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In November 2015 the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes," which will require entities to present deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") as noncurrent in a classified balance sheet. The ASU simplifies the current guidance (ASC 740-10-45-4), which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet. The ASU is effective for the Company's fiscal year ending July 1, 2018, and interim periods within those annual periods. However, the FASB allowed early adoption of the standard, and the Company adopted this ASU as of December 27, 2015, and has reclassified all prior periods to be consistent with the requirements outlined in the ASU. This adoption had no impact on the financial statements presented within this form 10-Q.

In January 2016, the FASB issued ASU 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. These changes 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 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. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

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, including recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. ASU No. 2016-09 is effective for the Company's fiscal year ending

July 1, 2018. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

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.

#### *Reclassifications*

Certain balances in the prior fiscal years have been reclassified to conform to the presentation in the current fiscal year. See “Recent Accounting Pronouncements” above regarding the impact of our adoption of ASU No. 2015-03 and ASU No. 2015-17.

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

Basic net loss per common share attributable to 1-800-FLOWERS.COM, Inc. is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per common share attributable to 1-800-FLOWERS.COM, Inc. is computed using the weighted-average number of common shares outstanding during the period, and excludes the dilutive potential common shares (consisting of employee stock options and unvested restricted stock awards), as their inclusion would be antidilutive. As a result of the net loss attributable to 1-800-FLOWERS.COM, Inc. for the three months ended October 2, 2016 and September 27, 2015, there is no dilutive impact to the net loss per share calculation for the respective periods.

**Note 3 – Stock-Based Compensation**

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 12 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended July 3, 2016, that provides for the grant to eligible employees, consultants and directors of stock options, restricted shares, and other stock-based awards.

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

|                                       | <b>Three Months<br/>Ended</b>  |                               |
|---------------------------------------|--------------------------------|-------------------------------|
|                                       | <b>October<br/>2,<br/>2016</b> | <b>September<br/>27, 2015</b> |
|                                       | <i>(in thousands)</i>          |                               |
| Stock options                         | \$114                          | \$ 90                         |
| Restricted stock                      | 1,660                          | 1,428                         |
| Total                                 | 1,774                          | 1,518                         |
| Deferred income tax benefit           | 703                            | 561                           |
| Stock-based compensation expense, net | \$1,071                        | \$ 957                        |

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

**Three Months  
Ended**

**October**  
**2,** **September**  
**2016** **27, 2015**

*(in thousands)*

|                            |         |          |
|----------------------------|---------|----------|
| Marketing and sales        | \$547   | \$ 607   |
| Technology and development | 100     | 228      |
| General and administrative | 1,127   | 683      |
| Total                      | \$1,774 | \$ 1,518 |

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The following table summarizes stock option activity during the three months ended October 2, 2016:

|   | <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 3, 2016                           | 2,182,234      | \$ 2.49  |  |   |
| Granted   | -              | \$ -   |  |   |
| Exercised   | (500 )         | \$ 2.88  |  |   |
| Forfeited   | -              | \$ -   |  |   |
| Outstanding at October 2, 2016                        | 2,181,734      | \$ 2.49  | 4.5  | \$ 14,616   |
| Options vested or expected to vest at October 2, 2016 | 2,132,653      | \$ 2.49  | 4.5  | \$ 14,295   |
| Exercisable at October 2, 2016                        | 1,262,734      | \$ 2.45  | 4.3  | \$ 8,503  |

As of October 2, 2016, the total future compensation cost related to non-vested options, not yet recognized in the statement of income, was \$1.1 million and the weighted average period over which these awards are expected to be recognized was 2.7 years.

The Company grants shares of Common Stock to its employees that are subject to restrictions on transfer and risk of forfeiture until fulfillment of applicable service conditions and, in certain cases, holding periods (Restricted Stock). The following table summarizes the activity of non-vested restricted stock awards during the three months ended October 2, 2016:

|                               | <b>Shares</b> | <b>Weighted<br/>Average<br/>Grant<br/>Date Fair<br/>Value</b> |
|-------------------------------|---------------|---|
| Non-vested at July 3, 2016    | 2,017,069     | \$ 6.78   |
| Granted                       | 38,442        | \$ 9.45   |
| Vested                        | (8,832 )      | \$ 5.42   |
| Forfeited                     | -             | \$ -  |
| Non-vested at October 2, 2016 | 2,046,679     | \$ 6.84   |



The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of October 2, 2016, there was \$6.0 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 1.8 years.

#### **Note 4 – Disposition of Colonial Gifts Limited**

During the quarter ended September 27, 2015, the Company's management committed to a plan to sell its iFlorist business in order to focus its internal resources and capital on integrating and achieving synergy savings with respect to its acquisition of Harry & David, which was completed on September 30, 2014. As a result, the Company determined that the iFlorist business (disposal group) met the held for sale criteria, as prescribed by FASB ASC 360-10-45-9, as of September 27, 2015. As such, the Company compared iFlorist's carrying amount (\$3.4 million) to its fair value less cost to sell (\$1.5 million), and recorded an impairment charge of \$1.9 million during the period ended September 27, 2015. The Company recorded this impairment charge within "Other (income) expense, net" in the condensed consolidated statements of operations. During October 2015, the Company completed the sale of substantially all of the assets of iFlorist to Euroflorist AB ("Euroflorist"), a pan-European floral and gifting company headquartered in Malmo, Sweden. As consideration for the assets sold, the Company received an investment in Euroflorist with a fair value on the date of sale of approximately \$1.5 million. (The Company will account for this investment using the cost method as it does not possess the ability to exercise significant influence over Euroflorist.) Upon completion of the sale of iFlorist during the quarter ended December 27, 2015, the Company recorded an additional loss on sale of \$0.2 million.

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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>October<br/>2, 2016</b> | <b>July 3,<br/>2016</b> |
|-----------------|----------------------------|-------------------------|
|                 | <i>(in thousands)</i>      |                         |
| Finished goods  | \$107,689                  | \$44,264                |
| Work-in-process | 29,162                     | 24,573                  |
| Raw materials   | 54,531                     | 34,491                  |
|                 | \$191,382                  | \$103,328               |

**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-Floral<br/>Consumer<br/>Floral</b> | <b>Bloom<br/>Wire<br/>Service</b> | <b>Gourmet<br/>Food &amp;<br/>Gift<br/>Baskets<br/>(1)</b> | <b>Total</b> |
|---|---|-----------------------------------|--|--------------|
|   | <i>(in thousands)</i>                       |                                   |  |              |
| Balance at October 2, 2016 and July 3, 2016 | \$17,441                                    | \$ -                              | \$60,226   | \$77,667     |

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

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

| <b>October 2, 2016<br/>Gross<br/>Carrying</b> | <b>July 3, 2016<br/>Gross<br/>Carrying</b> |
|---|--|
|---|--|

|   | <b>Amortization<br/>Period</b> | <b>Amount</b>         | <b>Accumulated<br/>Amortization</b> | <b>Net</b> | <b>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net</b> |
|---|--------------------------------|-----------------------|-------------------------------------|------------|---------------|-------------------------------------|------------|
|   | <i>(in years)</i>              | <i>(in thousands)</i> |                                     |            |               |                                     |            |
| Intangible assets with determinable lives |                                |                       |                                     |            |               |                                     |            |
| Investment in licenses                    | 14 - 16                        | \$7,420               | \$ 5,858                            | \$1,562    | \$7,420       | \$ 5,832                            | \$1,588    |
| Customer lists                            | 3 - 10                         | 21,144                | 16,266                              | 4,878      | 21,144        | 15,960                              | 5,184      |
| Other                                     | 5 - 14                         | 3,665                 | 2,707                               | 958        | 3,665         | 2,698                               | 967        |
|   |                                | 32,229                | 24,831                              | 7,398      | 32,229        | 24,490                              | 7,739      |
| Trademarks with indefinite lives          |                                | 71,311                | -                                   | 71,311     | 71,261        | -                                   | 71,261     |
| Total identifiable intangible assets      |                                | \$103,540             | \$ 24,831                           | \$78,709   | \$103,490     | \$ 24,490                           | \$79,000   |

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 2017 - \$1.2 million, fiscal 2018 - \$1.3 million, fiscal 2019 - \$0.7 million, fiscal 2020 - \$0.6 million, fiscal 2021 - \$1.0 million and thereafter - \$2.6 million.

#### Note 7 – Investments

The Company has certain investments in non-marketable equity instruments of private companies. The Company accounts for these investments using the equity method if they provide the Company the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if the Company has an ownership interest in the voting stock of the investee between 20% and 50%, although other factors, such as representation on the investee's Board of Directors, are considered in determining whether the equity method is appropriate. The Company records equity method investments initially at cost, and adjusts the carrying amount to reflect the Company's share of the earnings or losses of the investee.

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The Company's equity method investments are comprised of a 32% interest in Flores Online, a Sao Paulo, Brazil based internet floral and gift retailer, that the Company made on May 31, 2012. The book value of this investment was \$1.1 million as of October 2, 2016 and July 3, 2016, 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 quarters ended October 2, 2016 and September 27, 2015 was less than \$0.1 million. During the quarter ended September 27, 2015, the Company determined that the fair value of its investment in Flores Online (\$1.2 million) was below its carrying value (\$2.9 million) and that this decline was other-than-temporary. As a result, the Company recorded an impairment charge of \$1.7 million, which is included within the "Other (income) expense, net" line items in the Company's consolidated statements of operations for the period ended September 27, 2015.

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 the "Other assets" line item within the Company's consolidated balance sheets. The aggregate carrying amount of the Company's cost method investments was \$1.7 million (including a \$1.5 million investment in Euroflorist – see Note 4 above) as of October 2, 2016 and July 3, 2016.

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 condensed consolidated balance sheets (see Note 10 below).

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

**Note 8 –Debt**

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

|                          | <b>October<br/>2, 2016</b> | <b>July 3,<br/>2016</b> |
|--------------------------|----------------------------|-------------------------|
|                          | <i>(in thousands)</i>      |                         |
| Revolver (1)             | \$125,000                  | \$-                     |
| Term Loan (1)            | 114,000                    | 117,563                 |
| Deferred financing costs | (3,200 )                   | (3,573 )                |
| Total debt               | 235,800                    | 113,990                 |

|                    |          |          |
|--------------------|----------|----------|
| Less: current debt | 146,375  | 19,594   |
| Long-term debt     | \$89,425 | \$94,396 |

In order to finance the Harry & David acquisition, on September 30, 2014, the Company entered into a Credit Agreement with JPMorgan Chase Bank as administrative agent, and a group of lenders (the “2014 Credit Facility”), consisting of a \$142.5 million five-year term loan (the “Term Loan”) with a maturity date of September 30, 2019, and a co-terminus revolving credit facility (the “Revolver”), with a seasonally adjusted limit ranging from \$100.0 to (1) \$200.0 million, which may be used for working capital (subject to applicable sublimits) and general corporate purposes. The Term Loan is payable in 20 quarterly installments of principal and interest beginning in December 2014, with escalating principal payments at the rate of 10% in years one and two, 15% in years three and four, and 20% in year five, with the remaining balance of \$42.75 million due upon maturity. Upon closing of the acquisition, the Company borrowed \$136.7 million under the Revolver to repay amounts outstanding under the Company’s and Harry & David’s previous credit agreements, as well as to pay acquisition-related transaction costs.

The 2014 Credit Facility requires that while any borrowings are outstanding the Company comply with certain financial and non-financial covenants, including the maintenance of certain financial ratios. The Company was in compliance with these covenants as of October 2, 2016. Outstanding amounts under the 2014 Credit Facility bear interest at the Company’s option at either: (i) LIBOR, plus a spread of 175 to 250 basis points, as determined by the Company’s leverage ratio, or (ii) ABR, plus a spread of 75 to 150 basis points. The 2014 Credit Agreement is secured by substantially all of the assets of the Company and the Subsidiary Guarantors.

Future principal payments under the term loan are as follows: \$16.0 million – remainder of 2017, \$21.4 million – 2018, \$26.7 million – 2019 and \$49.9 million– 2020.

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

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

|   | <b>October<br/>2, 2016</b> | <b>July 3,<br/>2016</b> |
|---|----------------------------|-------------------------|
|   | <i>(in thousands)</i>      |                         |
| Land  | \$ 30,789                  | \$ 30,789               |
| Orchards in production and land improvements    | 9,512                      | 9,483                   |
| Building and building improvements              | 55,746                     | 54,950                  |
| Leasehold improvements                          | 21,717                     | 21,584                  |
| Production equipment and furniture and fixtures | 66,275                     | 72,912                  |
| Computer and telecommunication equipment        | 60,957                     | 52,737                  |
| Software  | 137,987                    | 136,333                 |
| Capital projects in progress - orchards         | 8,957                      | 8,513                   |
| <b>Property, plant and equipment, gross</b>     | <b>391,940</b>             | <b>387,301</b>          |
| Accumulated depreciation and amortization       | (223,754)                  | (215,939)               |
| <b>Property, plant and equipment, net</b>       | <b>\$ 168,186</b>          | <b>\$ 171,362</b>       |

**Note 10 - Fair Value Measurements**

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

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

| Carrying Value                                 | Fair Value Measurements<br>- Assets (Liabilities) |          |         |
|--|---|----------|---------|
|  | Level 1   | Level 2  | Level 3 |
|  | <i>(in thousands)</i>                             |          |         |
| Assets (liabilities) as of October 2, 2016:    |   |          |         |
| Trading securities held in a “rabbi trust” (1) | \$ 5,887  | \$ 5,887 | \$ -    |
|  | \$ 5,887  | \$ 5,887 | \$ -    |
| Assets (liabilities) as of July 3, 2016:       |   |          |         |
| Trading securities held in a “rabbi trust” (1) | \$ 4,852  | \$ 4,852 | \$ -    |
|  | \$ 4,852  | \$ 4,852 | \$ -    |

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 months ended October 2, 2016 was 35.4%, compared to 37.0% in the same period of the prior year. The effective rate for fiscal 2017 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, which were partially offset by various permanent differences and tax credits. The effective rate for fiscal 2016 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, and other permanent differences, partially offset by tax credits.

The Company files income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign countries. The Company is currently being audited by the Internal Revenue Service for fiscal year 2014, however, fiscal years 2013 and 2015 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, mainly Canada and the United Kingdom.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. At October 2, 2016 the Company has remaining unrecognized tax positions of approximately \$0.6 million, including accrued interest and penalties of \$0.1 million. The Company believes that \$0.3 million of its unrecognized tax positions will be resolved over the next twelve months.

#### **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 (\*) below), nor does it include depreciation and amortization, other (income) expense, net and income taxes, or stock-based compensation and certain acquisition/integration costs, both of which are included within corporate overhead. Assets and liabilities are reviewed at the consolidated level by management and not accounted for by segment.

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| <b>Net Revenues:</b>              | <b>Three Months Ended</b>  |                               |
|-----------------------------------|----------------------------|-------------------------------|
|                                   | <b>October<br/>2, 2016</b> | <b>September<br/>27, 2015</b> |
|                                   | <i>(in thousands)</i>      |                               |
| Segment Net Revenues:             |                            |                               |
| 1-800-Flowers.com Consumer Floral | \$75,215                   | \$ 72,948                     |
| BloomNet Wire Service             | 20,964                     | 21,549                        |
| Gourmet Food & Gift Baskets       | 69,814                     | 61,592                        |
| Corporate                         | 263                        | 257                           |
| Intercompany eliminations         | (427 )                     | (305 )                        |
| Total net revenues                | \$165,829                  | \$ 156,041                    |

| <b>Operating Loss:</b>               | <b>Three Months Ended</b>  |                               |
|--------------------------------------|----------------------------|-------------------------------|
|                                      | <b>October<br/>2, 2016</b> | <b>September<br/>27, 2015</b> |
|                                      | <i>(in thousands)</i>      |                               |
| Segment Contribution Margin:         |                            |                               |
| 1-800-Flowers.com Consumer Floral    | \$8,181                    | \$ 7,549                      |
| Bloomnet Wire Service                | 7,279                      | 6,915                         |
| Gourmet Food & Gift Baskets          | (9,304 )                   | (8,494 )                      |
| Segment Contribution Margin Subtotal | 6,156                      | 5,970                         |
| Corporate (a)                        | (21,268)                   | (20,269 )                     |
| Depreciation and amortization        | (7,997 )                   | (7,972 )                      |
| Operating loss                       | \$(23,109)                 | \$(22,271 )                   |

(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**

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

*Edible Arrangements:*

On November 20, 2014, a complaint was filed in the United States District Court for the District of Connecticut by Edible Arrangements LLC and Edible Arrangements International, LLC, alleging that the Company's use of the terms "Fruit Bouquets," "Edible," "Bouquet," "Edible Fruit Arrangements," "Edible Arrangements," and "DoFruit" and its use of a six-petal pineapple slice design in connection with marketing and selling edible fruit arrangements constitutes trademark infringement, false designation of origin, dilution, and contributory infringement under the federal Lanham Act, 29 USC § 1114 and 1125(a), common law unfair competition, and a violation of the Connecticut Unfair Trade Practices Act, Connecticut General Statutes § 42-110b (a). The Complaint alleged Edible Arrangements has been damaged in the amount of \$97.4 million. The Complaint requested a declaratory judgment in favor of Edible Arrangements, an injunction against the Company's use of the terms and design, an accounting and payment of the Company's profits from its sale of edible fruit arrangements, a trebling of the Company's profits from such sales or of any damages sustained by Edible Arrangements, punitive damages, and attorneys' fees. On November 24, 2014, the Complaint was amended to add a breach of contract claim for use of these terms and the design, based on a contract that had been entered by one of the Company's subsidiaries prior to its acquisition by the Company. On January 29, 2015, the Plaintiffs amended the Complaint to add one of the Company's subsidiaries and to claim its damages were \$101.4 million.

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The Company filed an Answer and a Counterclaim on February 27, 2015. The Answer asserted substantial defenses, including fair use by the Company of generic and descriptive terms, as expressly permitted under the Lanham Act, invalidity of Edible Arrangements' trademark registrations on grounds of fraud and trademark misuse, lack of exclusive rights on the part of Edible Arrangements, functionality of the claimed design mark, acquiescence, estoppel, and Edible Arrangements' use of the claimed trademarks in violation of the antitrust laws. The Counterclaim sought a declaratory judgment of lack of infringement and invalidity of claimed marks, cancellation of Edible Arrangements' registrations due to its fraud and misuse, genericism, and lack of secondary meaning as to any terms deemed descriptive, and damages in an amount to be determined for violation of the antitrust provisions of the federal Sherman Act and the Connecticut Unfair Trade Practices Act.

Following extensive discovery, the parties engaged in mediation and reached an agreement in principle to resolve all claims on June 30, 2016. The parties entered a Confidential Settlement Agreement on July 22, 2016, pursuant to which, among other things, the Company paid \$1.5 million to Edible Arrangements and the Company agreed not to use "Edible", "Edible Arrangements" or "Do Fruit" in its marketing, except that the Company may refer to "Edible Arrangements" to comment on or compare the Company's products to those of "Edible Arrangements". The Company maintains its rights to market its products as "Fruit Bouquets" and "Bouquets," and to the continued use of its branding of "Fruit Bouquets.com" and Fruit Bouquets by 1800Flowers.com. In addition, all claims and counterclaims in the case were dismissed with prejudice. The Company recorded the settlement paid to Edible Arrangements in the "General and administrative expense" line item in the consolidated statements of income for the year ended July 3, 2016.

**Note 14. Fire at the Fannie May Warehouse and Distribution Facility**

On November 27, 2014, a fire occurred at the Company's Maple Heights, Ohio warehouse and distribution facility. While the fire did not cause any injuries, the building was severely damaged, rendering it inoperable for the key calendar 2014 holiday season, and all Fannie May and Harry London confections in the facility were destroyed. As a result, the Company had limited supplies of its Fannie May Fine Chocolates and Harry London Chocolates products available in its retail stores as well as for its ecommerce and wholesale channels during its fiscal 2015 holiday season. While the Company implemented contingency plans to increase production for Fannie May Fine Chocolates and Harry London Chocolates products at its production facility in Canton, Ohio and to shift warehousing and distribution operations to alternate Company facilities, product availability was severely limited, impacting revenue and earnings during fiscal 2015, and lingering into fiscal 2016.

The following table reflects the costs related to the fire and the insurance recovery and associated gain as of September 27, 2015:

**Fire-related  
Insurance  
Recovery**

|   |                           |
|---|---------------------------|
|   | <i>(in<br/>thousands)</i> |
| Loss on inventory                       | \$ 29,587                 |
| Other fire related costs                | 5,802                     |
| Total fire related costs                | 35,389                    |
| Less: fire related insurance recoveries | (55,000 )                 |
| Fire related gain                       | \$ (19,611 )              |

During the three months ended September 27, 2015, the Company and its insurance carrier reached final agreement regarding the Fannie May fire claim. The agreement, in the amount of \$55.0 million, provided for: (i) recovery of raw materials and work-in-process at replacement cost, and finished goods at selling price, less costs to complete the sale and normal discounts and other charges, as well as (ii) other incremental fire-related costs. The cost of inventory lost in the fire was approximately \$29.6 million, while other fire-related costs amounted to approximately \$5.8 million, including incremental contracted lease and cold storage fees which will be incurred until the Company moves back into its leased facility once the landlord completes repairs in December 2015. The resulting gain of \$19.6 million is included in "Other (income) expense, net" in the condensed consolidated statements of operations for the period ended September 27, 2015, as all the contingencies surrounding the payment have been resolved. Through September 27, 2015, the Company had received \$30.0 million of the settlement from its insurance carrier, and received the remaining \$25.0 million balance in October 2015.

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**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 gourmet food and floral gifts for all occasions. For the past 40 years, 1-800-FLOWERS® (1-800-356-9377 or [www.1800flowers.com](http://www.1800flowers.com)) has been helping deliver smiles for our customers with gifts for every occasion, including fresh flowers and the finest selection of plants, gift baskets, gourmet foods, confections, candles, balloons and plush stuffed animals. As always, our 100% Smile Guarantee® backs every gift. The Company’s Celebrations® suite of services including Celebrations Passport® Free Shipping program, Celebrations Rewards® and Celebrations Reminders<sup>SM</sup>, are all designed to engage with customers and deepen relationships as a one-stop destination for all celebratory and gifting occasions. In 2016, 1-800-Flowers.com was awarded a Silver Stevie “e-Commerce Customer Service” Award, recognizing the Company’s innovative use of online technologies and social media to service the needs of customers. In addition, 1-800-FLOWERS.COM, Inc. was recognized as one of Internet Retailer’s Top 300 B2B e-commerce companies and was also recently named in Internet Retailer’s 2016 Top Mobile 500 as one of the world’s leading mobile commerce sites. The Company was included in Internet Retailer’s 2015 Top 500 for fast growing e-commerce companies. In 2015, 1-800-FLOWERS.COM was named a winner of the “Best Companies to Work for in New York State” award by The New York Society for Human Resource Management (NYS-SHRM).

The Company’s BloomNet® international floral wire service ([www.mybloomnet.net](http://www.mybloomnet.net)) provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably. The 1-800-FLOWERS.COM, Inc. “Gift Shop” also includes gourmet gifts 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)); premium chocolates and confections from Fannie May® ([www.fanniemay.com](http://www.fanniemay.com) and [www.harrylondon.com](http://www.harrylondon.com)); gift baskets and towers from 1-800- Baskets.com® ([www.1800baskets.com](http://www.1800baskets.com)); premium English muffins and other breakfast treats from Wolferman's® (1-800-999-1910 or [www.wolfermans.com](http://www.wolfermans.com)); carved fresh fruit arrangements from FruitBouquets.com ([www.fruitbouquets.com](http://www.fruitbouquets.com)); and top quality steaks and chops from Stock Yards® ([www.stockyards.com](http://www.stockyards.com)).

On September 30, 2014, the Company completed its acquisition of Harry & David Holdings, Inc. ("Harry & David"), a leading multi-channel specialty retailer and producer of branded premium gift-quality fruit, gourmet food products and other gifts marketed under the Harry & David®, Wolferman's® and Cushman's® brands. The transaction, at a purchase price of \$142.5 million, included the Harry & David's brands and websites as well as its headquarters, manufacturing and distribution facilities and orchards in Medford, Oregon, a warehouse and distribution facility in Hebron, Ohio and 46 Harry & David retail stores located throughout the country.

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

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

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The following table presents the net revenues, gross profit and category contribution margin from each of the Company's business segments, as well as consolidated EBITDA and Adjusted EBITDA and adjusted net income (loss). (Due to certain one-time items, the following Non-GAAP reconciliation tables have been included within MD&A. In order to present comparable information, certain financial information for the three months ended September 27, 2015 is also being presented on a pro-forma basis.)

|                                   | <b>Three Months Ended</b> |                   |               |          |
|-----------------------------------|---------------------------|-------------------|---------------|----------|
|                                   | <b>October</b>            | <b>September</b>  | <b>%</b>      |          |
|                                   | <b>2, 2016</b>            | <b>27, 2015</b>   | <b>Change</b> |          |
| <b>Net revenues:</b>              |                           |                   |               |          |
| 1-800-Flowers.com Consumer Floral | \$75,215                  | \$ 72,948         | 3.1           | %        |
| BloomNet Wire Service             | 20,964                    | 21,549            | -2.7          | %        |
| Gourmet Food & Gift Baskets       | 69,814                    | 61,592            | 13.3          | %        |
| Corporate                         | 263                       | 257               | 2.3           | %        |
| Intercompany eliminations         | (427 )                    | (305 )            | 40.0          | %        |
| <b>Total net revenues</b>         | <b>\$165,829</b>          | <b>\$ 156,041</b> | <b>6.3</b>    | <b>%</b> |
| <b>Gross profit:</b>              |                           |                   |               |          |
| 1-800-Flowers.com Consumer Floral | \$30,499                  | \$ 28,769         | 6.0           | %        |
|                                   | 40.5 %                    | 39.4 %            |               |          |
| BloomNet Wire Service             | 11,794                    | 11,766            | 0.2           | %        |
|                                   | 56.3 %                    | 54.6 %            |               |          |
| Gourmet Food & Gift Baskets       | 28,751                    | 26,632            | 8.0           | %        |
|                                   | 41.2 %                    | 43.2 %            |               |          |
| Corporate (a)                     | 343                       | 342               | 0.3           | %        |
|                                   | 130.4 %                   | 133.1 %           |               |          |
| <b>Total gross profit</b>         | <b>\$71,387</b>           | <b>\$ 67,509</b>  | <b>5.7</b>    | <b>%</b> |
|                                   | 43.0 %                    | 43.3 %            |               |          |

|   | <b>Three Months Ended</b> |                  |                    |                  |                 |
|---|---------------------------|------------------|--------------------|------------------|-----------------|
| <b>EBITDA, excluding stock- based compensation:</b> | <b>October</b>            | <b>Reported</b>  | <b>Integration</b> | <b>Adjusted</b>  | <b>As</b>       |
|   | <b>2, 2016</b>            | <b>September</b> | <b>Costs</b>       | <b>September</b> | <b>Adjusted</b> |
|   |                           | <b>27, 2015</b>  |                    | <b>27, 2015</b>  | <b>%</b>        |
|   |                           |                  |                    |                  | <b>Change</b>   |
|   |                           |                  |                    |                  |                 |

**Category Contribution Margin:**



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|   |                   |                    |               |                    |              |          |
|---|-------------------|--------------------|---------------|--------------------|--------------|----------|
| 1-800-Flowers.com Consumer Floral                 | \$8,181           | \$ 7,549           | \$ -          | \$ 7,549           | 8.4          | %        |
| BloomNet Wire Service                             | 7,279             | 6,915              | -             | 6,915              | 5.3          | %        |
| Gourmet Food & Gift Baskets                       | (9,304 )          | (8,494 )           | -             | (8,494 )           | -9.5         | %        |
| Category Contribution Margin Subtotal             | 6,156             | 5,970              | -             | 5,970              | 3.1          | %        |
| Corporate (a)                                     | (21,268)          | (20,269 )          | 828           | (19,441 )          | -9.4         | %        |
| <b>EBITDA</b>                                     | <b>\$(15,112)</b> | <b>\$(14,299 )</b> | <b>\$ 828</b> | <b>\$(13,471 )</b> | <b>-12.2</b> | <b>%</b> |
| Add: Stock-based compensation                     | 1,774             | 1,518              | -             | 1,518              | -16.9        | %        |
| <b>EBITDA, excluding stock-based compensation</b> | <b>\$(13,338)</b> | <b>\$(12,781 )</b> | <b>\$ 828</b> | <b>\$(11,953 )</b> | <b>-11.6</b> | <b>%</b> |

Table of Contents**Reconciliation of GAAP net loss to Adjusted loss attributable to 1-800-FLOWERS.COM, Inc.:**

|   | <b>Three Months Ended</b> |                     |
|---|---------------------------|---------------------|
|   | <b>October</b>            | <b>September</b>    |
|   | <b>2, 2016</b>            | <b>27, 2015</b>     |
| GAAP net loss   | \$(15,771)                | \$ (5,436 )         |
| Less: Net loss attributable to noncontrolling interest  | -                         | (952 )              |
| Loss attributable to 1-800-FLOWERS.COM, Inc.  | (15,771)                  | (4,484 )            |
| Adjustments to reconcile loss attributable to 1-800-FLOWERS.COM, Inc. to Adjusted loss attributable to 1-800-FLOWERS.COM, Inc.                |                           |                     |
| Add back: Loss on sale/impairment of iFlorist   | -                         | 1,879               |
| Add back: Impairment of foreign equity method investment  | -                         | 1,728               |
| Add back: Harry & David integration costs   | -                         | 828                 |
| Deduct: Gain from insurance recovery on warehouse fire  | -                         | (19,611 )           |
| Deduct income tax effect of adjustments   | -                         | 5,352               |
| <b>Adjusted loss attributable to 1-800-FLOWERS.COM, Inc.</b>  | <b>\$(15,771)</b>         | <b>\$ (14,308 )</b> |
| <b>GAAP loss per common share attributable to 1-800-FLOWERS.COM, Inc.</b>   |                           |                     |
| Basic and diluted   | \$(0.24 )                 | \$ (0.07 )          |
| <b>Adjusted loss per common share attributable to 1-800-FLOWERS.COM, Inc.</b>   |                           |                     |
| Basic and diluted   | \$(0.24 )                 | \$ (0.22 )          |
| <b>Weighted average shares used in the calculation of GAAP loss and Adjusted loss per common share attributable to 1-800-FLOWERS.COM, Inc</b> |                           |                     |
| Basic and diluted   | 65,081                    | 64,825              |

Table of Contents**Reconciliation of GAAP net loss attributable to 1-800-Flowers.com, Inc. to Adjusted EBITDA, excluding stock-based compensation(b):**

|  | <b>Three Months Ended</b> |                    |
|--|---------------------------|--------------------|
|  | <b>October</b>            | <b>September</b>   |
|  | <b>2, 2016</b>            | <b>27, 2015</b>    |
| Loss attributable to 1-800-FLOWERS.COM, Inc.               | \$(15,771)                | \$(4,484 )         |
| Add:   |                           |                    |
| Interest expense, net                                      | 1,301                     | 2,357              |
| Depreciation and amortization                              | 7,997                     | 7,972              |
| Loss on sale/impairment of iFlorist                        | -                         | 1,879              |
| Impairment of foreign equity method investment             | -                         | 1,728              |
| Less:  |                           |                    |
| Net loss attributable to noncontrolling interest           | -                         | 952                |
| Income tax benefit   | 8,639                     | 3,188              |
| Gain from insurance recovery on warehouse fire             | -                         | 19,611             |
| <b>EBITDA</b>  | <b>(15,112)</b>           | <b>(14,299 )</b>   |
| Add: Integration costs                                     | -                         | 828                |
| <b>Adjusted EBITDA</b>                                     | <b>(15,112)</b>           | <b>(13,471 )</b>   |
| Add: Stock-based compensation                              | 1,774                     | 1,518              |
| <b>Adjusted EBITDA, excluding stock-based compensation</b> | <b>\$(13,338)</b>         | <b>\$(11,953 )</b> |

(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.

(b) Performance is measured based on segment contribution margin or segment Adjusted EBITDA, reflecting only the direct controllable revenue and operating expenses of the segments. As such, management's measure of profitability for these segments does not include the effect of corporate overhead, described above, depreciation and amortization, other income (net), nor does it include one-time charges or gains. Management utilizes EBITDA, and adjusted financial information, as a performance measurement tool because it considers such information a meaningful supplemental measure of its performance and believes it is frequently used by the investment community in the evaluation of companies with comparable market capitalization. The Company also uses EBITDA and adjusted financial information as one of the factors used to determine the total amount of bonuses available to be awarded to executive officers and other employees. The Company's credit agreement uses EBITDA and adjusted financial information to measure compliance with covenants such as interest coverage and debt incurrence. EBITDA and adjusted financial information is also used by the Company to evaluate and price potential acquisition candidates. EBITDA and adjusted financial information have limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. Some of these limitations are: (a) EBITDA does not reflect changes in, or cash requirements for, the Company's working capital needs; (b) EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Company's debts; and (c) although depreciation and amortization are non-cash charges, the

assets being depreciated and amortized may have to be replaced in the future, and EBITDA does not reflect any cash requirements for such capital expenditures. Because of these limitations, EBITDA should only be used on a supplemental basis combined with GAAP results when evaluating the Company's performance.

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

|                    | <b>Three Months Ended</b>     |                  |               |   |
|--------------------|-------------------------------|------------------|---------------|---|
|                    | <b>October</b>                | <b>September</b> | <b>%</b>      |   |
|                    | <b>2, 2016</b>                | <b>27, 2015</b>  | <b>Change</b> |   |
|                    | <i>(dollars in thousands)</i> |                  |               |   |
| Net revenues:      |                               |                  |               |   |
| E-Commerce         | \$107,084                     | \$104,697        | 2.3           | % |
| Other              | 58,745                        | 51,344           | 14.4          | % |
| Total net revenues | \$165,829                     | \$156,041        | 6.3           | % |

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

Net revenues increased 6.3% during the three months ended October 2, 2016, compared to the same period of the prior year as a result of revenue growth within the Gourmet Foods & Gift Baskets and Consumer Floral segments, partially offset by a decline within the BloomNet Wire Service segment. Adjusting for the impact of the disposition of iFlorist in October 2015, pro-forma net revenues increased 6.8% during the three months ended October 2, 2016, in comparison to the same period of the prior year.

E-commerce revenues (combined online and telephonic) increased by 2.3% during the three months ended October 2, 2016, compared to the same period of the prior year, as a result of growth within the Consumer Floral and Gourmet Foods & Gift Baskets segments. During the three months ended October 2, 2016, the Company fulfilled approximately 1,572,000 orders through its e-commerce sales channels (online and telephonic sales), compared to approximately 1,545,000 during the same period of the prior year, while the average order value increased to \$68.13 during the three months ended October 2, 2016 from \$67.76 during the same period of the prior year.

Other revenues are comprised of the Company's BloomNet Wire Service segment, as well as the wholesale and retail channels of its 1-800-Flowers.com Consumer Floral and Gourmet Food and Gift Baskets segments. Other revenues increased by 14.4% during the three months ended October 2, 2016, compared to the same period of the prior year, as a result of growth within the Gourmet Food and Gift Baskets segment, attributable to a combination of timing of wholesale shipments and wholesale/retail comp store growth. This increase was partially offset by a timing related decline in BloomNet wholesale product volume.

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, as well as iFlorist, a UK based e-commerce retailer of floral products (through the date of its disposition in October 2015). Net revenues increased 3.1%, during the three months ended October 2, 2016, in comparison to the same period of the prior year, as a result of an increase in order volume for the Company's 1-800-Flowers.com brand. Adjusting for the impact of the disposition of iFlorist in October 2015, for the three months ended October 2, 2016, pro-forma net revenues for the 1800-Flowers.com Consumer Floral segment increased 4.2% in comparison to the same period of the prior year.

The BloomNet Wire Service segment includes revenues from membership fees as well as other product and service offerings to florists. Net revenues decreased 2.7% during the three months ended October 2, 2016 compared to the same period of the prior year primarily reflecting the timing of some product shipments to wholesale accounts which shifted from the first quarter into the second quarter.

The Gourmet Food & Gift Baskets segment includes the operations of Harry & David, Wolferman's, Stockyards, Cheryl's, Fannie May, Harry London, 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 brand names, as well as wholesale operations. Net revenues increased 13.3% during the three months ended October 2, 2016 compared to the same period of the prior year. Approximately half of the revenue growth within the segment was attributable to the early shipment of holiday gift basket orders at the request of some of the Company's wholesale customers. Revenue growth for the period also benefited from double digit increases at the Company's Cheryl's and The Popcorn Factory brands as well as positive same store sales in its Fannie May business where initiatives to enhance the brand's performance have begun to take hold.

Table of Contents**Gross Profit**

|                | <b>Three Months Ended</b>     |                  |               |   |
|----------------|-------------------------------|------------------|---------------|---|
|                | <b>October</b>                | <b>September</b> | <b>%</b>      |   |
|                | <b>2, 2016</b>                | <b>27, 2015</b>  | <b>Change</b> |   |
|                | <i>(dollars in thousands)</i> |                  |               |   |
| Gross profit   | \$71,387                      | \$ 67,509        | 5.7           | % |
| Gross margin % | 43.0 %                        | 43.3 %           |               |   |

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 increased 5.7% during the three months ended October 2, 2016, compared to the same period of the prior year, as a result of the aforementioned revenue growth. Gross margin percentage decreased 30 basis points to 43.0% during the three months ended October 2, 2016, primarily due to the product mix shift associated with the aforementioned early shipment of gift basket orders to Gourmet Foods and Gift Baskets wholesale customers, in comparison to the same period of the prior year.

The 1-800-Flowers.com Consumer Floral segment gross profit increased by 6.0% during the three months ended October 2, 2016, in comparison to the same period of the prior year, while gross margin percentage increased 110 basis points to 40.5% reflecting the efficient use of promotional marketing programs as well as reductions in shipping costs.

The BloomNet Wire Service segment gross profit during the three months ended October 2, 2016 was consistent with the same period of the prior year, as the revenue decline referred to above was offset by gross margin percentage improvement of 170 basis points to 56.3%, as a result of sales mix.

The Gourmet Food & Gift Baskets segment gross profit increased 8.0% during the three months ended October 2, 2016, compared to the same period of the prior year, due to the increase in revenue noted above. Gross profit margin of 41.2%, reflects the product mix associated with the aforementioned early shipment of gift basket orders to wholesale customers, resulting in a decrease of 200 basis points in comparison to the same period of the prior year.

*Marketing and Sales Expense*

|                            | <b>Three Months Ended</b>     |                  |     |               |
|----------------------------|-------------------------------|------------------|-----|---------------|
|                            | <b>October</b>                | <b>September</b> |     | <b>%</b>      |
|                            | <b>2, 2016</b>                | <b>27, 2015</b>  |     | <b>Change</b> |
|                            | <i>(dollars in thousands)</i> |                  |     |               |
| Marketing and sales        | \$55,078                      | \$ 52,526        | 4.9 | %             |
| Percentage of net revenues | 33.2 %                        | 33.7 %           |     |               |

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

Marketing and sales expense increased 4.9% during the three months ended October 2, 2016, compared to the same period of the prior year, primarily due to increased marketing spending in preparation for the upcoming holiday season, as well as increases in service center and other labor costs.



Table of Contents***Technology and Development Expense***

|                            | <b>Three Months Ended</b>     |                  |               |   |
|----------------------------|-------------------------------|------------------|---------------|---|
|                            | <b>October</b>                | <b>September</b> | <b>%</b>      |   |
|                            | <b>2,</b>                     | <b>27, 2015</b>  | <b>Change</b> |   |
|                            | <b>2016</b>                   |                  |               |   |
|                            | <i>(dollars in thousands)</i> |                  |               |   |
| Technology and development | \$9,488                       | \$ 9,311         | 1.9           | % |
| Percentage of net revenues | 5.7                           | % 6.0            | %             |   |

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 increased 1.9% during the three months ended October 2, 2016, compared to the same period of the prior year, as a result of increased license and maintenance costs related to system monitoring, security and website platforms.

***General and Administrative Expense***

|                            | <b>Three Months Ended</b>     |                  |               |   |
|----------------------------|-------------------------------|------------------|---------------|---|
|                            | <b>October</b>                | <b>September</b> | <b>%</b>      |   |
|                            | <b>2, 2016</b>                | <b>27, 2015</b>  | <b>Change</b> |   |
|                            | <i>(dollars in thousands)</i> |                  |               |   |
| General and administrative | \$21,933                      | \$ 19,971        | 9.8           | % |
| Percentage of net revenues | 13.2                          | % 12.8           | %             |   |

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

General and administrative expense increased 9.8% during the three months ended October 2, 2016, compared to the same period of the prior year, primarily as a result of increased labor and health insurance costs in fiscal 2017,

partially offset by one-time integration costs incurred during the three months ended September 27, 2015.

*Depreciation and Amortization Expense*

|                               | <b>Three Months Ended</b>      |                               |                     |   |
|-------------------------------|--------------------------------|-------------------------------|---------------------|---|
|                               | <b>October<br/>2,<br/>2016</b> | <b>September<br/>27, 2015</b> | <b>%<br/>Change</b> |   |
|                               | <i>(dollars in thousands)</i>  |                               |                     |   |
| Depreciation and amortization | \$7,997                        | \$ 7,972                      | 0.3                 | % |
| Percentage of net revenues    | 4.8                            | 5.1                           | %                   | % |

Depreciation and amortization expense for the three months ended October 2, 2016 was consistent with the same period of the prior year.

Table of Contents***Interest Expense, net***

**Three Months Ended**  
**October**    **September**    **%**  
**2,**        **27, 2015**        **Change**  
**2016**  
*(dollars in thousands)*

|                       |          |          |       |   |
|-----------------------|----------|----------|-------|---|
| Interest expense, net | \$ 1,451 | \$ 1,891 | -23.3 | % |
|-----------------------|----------|----------|-------|---|

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 for details regarding the 2014 Credit Facility), net of income earned on the Company's available cash balances.

Interest expense, net decreased during the three months ended October 2, 2016 in comparison to the same period of the prior year, as a result of scheduled repayments of term debt.

***Other income, net***

**Three Months Ended**  
**October**    **September**    **%**  
**2,**        **27, 2015**        **Change**  
**2016**  
*(dollars in thousands)*

|                   |         |             |       |   |
|-------------------|---------|-------------|-------|---|
| Other income, net | \$(150) | \$(15,538 ) | -99.0 | % |
|-------------------|---------|-------------|-------|---|

Other income, net for the three months ended October 2, 2016 consists primarily of an increase in the value of assets within the Company's Non-Qualified Deferred Compensation Plan, partially offset by a decrease in the Company's equity interest in Flores Online.

Other income, net for the three months ended September 27, 2015 consists primarily of a \$19.6 million gain on insurance recoveries related to the Fannie May warehouse fire, offset by a \$1.9 million impairment of iFlorist assets held for sale (see Note 4 ), a \$1.7 million impairment of the Flores Online investment, and a decline in the value of Non-Qualified Deferred Compensation Plan investments.

### ***Income Taxes***

The Company recorded income tax benefit of \$8.6 million and \$3.2 million during the three months ended October 2, 2016, and September 27, 2015, respectively. The Company's effective tax rate during the three months ended October 2, 2016 was 35.4%, compared to 37.0% in the same period of the prior year. The effective rate for fiscal 2017 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, which were partially offset by various permanent differences and tax credits. The effective rate for fiscal 2016 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, and other permanent differences, offset by tax credits. At October 2, 2016 the Company has remaining unrecognized tax positions of approximately \$0.6 million, including accrued interest and penalties of \$0.1 million. The Company believes that \$0.3 million of its unrecognized tax positions will be resolved over the next twelve months.

### **Liquidity and Capital Resources**

#### *Cash Flows*

At October 2, 2016, the Company had working capital of \$26.7 million, including cash and cash equivalents of \$6.8 million, compared to working capital of \$45.8 million, including cash and cash equivalents of \$27.8 million, at July 3, 2016.

Net cash used in operating activities of \$134.8 million for the three months ended October 2, 2016, was primarily attributable to the Company's net loss during the period, as well as seasonal changes in working capital, including increases in inventory, receivables and prepaid expenses related to the upcoming holiday season and timing of accounts payable and accrued expense payments, partially offset by non-cash charges for depreciation/amortization and stock based compensation.

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Net cash used in investing activities of \$4.7 million for the three months ended October 2, 2016, was primarily attributable to capital expenditures related to the Company's technology infrastructure, and Gourmet Foods & Gift Baskets production equipment.

Net cash provided by financing activities of \$118.5 million for the three months ended October 2, 2016 was primarily from net revolving credit facility borrowings of \$125.0 million required to fund working capital needs, partially offset by the acquisition of \$3.0 million of treasury stock and \$3.6mm of term debt repayment. The Company expects that all borrowings under its revolving credit facility will be repaid by the end of the fiscal second quarter.

### *Credit Facility*

See Note 8 - Debt in Item 1 for details regarding the 2014 Credit Facility.

Despite the current challenging economic environment, the Company believes that cash flows from operations along with available borrowings from its 2014 Credit Facility will be a sufficient source of liquidity. 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 expects to generate significant cash from operations during its second quarter, and then utilize that cash for operating needs during its fiscal third and fourth quarters, after which time the Company expects to borrow against its Revolver to fund pre-holiday manufacturing and inventory purchases. Borrowings under the Revolver typically peak in November, at which time cash generated from operations during the Christmas holiday shopping season are expected to enable the Company to repay working capital borrowings prior to the end of December.

### *Stock Repurchase Program*

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. In June 2015, the Company's Board of Directors authorized an increase of \$25 million to its stock repurchase plan. As of October 2, 2016, \$9.1 million remained authorized under the plan. On October 4, 2016 the Company's Board of Directors authorized an additional increase to the stock repurchase plan, restoring the amount available for repurchase to \$25 million.

### *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 3, 2016.

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

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended July 3, 2016, 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 3, 2016.

### *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. 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.

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In April 2015, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2015-05, “Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.” This standard provides guidance to help entities determine whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software or as a service contract. The Company adopted this standard prospectively to arrangements entered into, or materially modified, beginning on July 4, 2016. This adoption did not have a material impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” which amends ASC 835-30, “Interest – Imputation of Interest.” In order to simplify the presentation of debt issuance costs, ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, and not recorded as a separate asset. The Company adopted this standard effective July 4, 2016 and applied it retrospectively to all periods presented. The impact of the adoption of the new guidance was to reclassify \$3.6 million of deferred financing costs previously included within “Other Assets” to “Long-term debt” in the consolidated balance sheets as of July 3, 2016.

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. ASU 2015-11 is effective for the Company’s fiscal year ending July 1, 2018. The adoption of ASU 2015-11 is not expected to have a significant impact on the Company’s consolidated financial position or results of operations.

In November 2015 the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes,” which will require entities to present deferred tax assets (“DTAs”) and deferred tax liabilities (“DTLs”) as noncurrent in a classified balance sheet. The ASU simplifies the current guidance (ASC 740-10-45-4), which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet. The ASU is effective for the Company’s fiscal year ending July 1, 2018, and interim periods within those annual periods. However, the FASB allowed early adoption of the standard, and the Company adopted this ASU as of December 27, 2015, and has reclassified all prior periods to be consistent with the requirements outlined in the ASU. This adoption had no impact on the financial statements presented within this form 10-Q.

In January 2016, the FASB issued ASU 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. These changes 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 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. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

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, including recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. ASU No. 2016-09 is effective for the Company’s fiscal year ending July 1, 2018. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.



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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.

**Forward Looking Information and Factors that May Affect Future Results**

Our disclosure and analysis in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent the Company’s current expectations or beliefs concerning future events and can generally be identified by the use of statements that include words such as “estimate,” “project,” “believe,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “will,” “goal,” “target” or similar phrases. These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of the Company’s control that could cause actual results to differ materially from the results expressed or implied in the forward-looking statements, including:

the Company’s ability:

to achieve revenue and profitability;

to leverage its operating platform and reduce operating expenses;

to manage the increased seasonality of its business;

to cost effectively acquire and retain customers;

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

to reduce working capital requirements and capital expenditures;

to compete against existing and new competitors;

to manage expenses associated with sales and marketing and necessary general and administrative and technology investments; and

to cost efficiently manage inventories;

the outcome of contingencies, including legal proceedings in the normal course of business; and

general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products.

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

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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 3, 2016 listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them in Part I, Item 1A, of that filing under the heading “Cautionary Statements Under the Private Securities Litigation Reform Act of 1995”. We incorporate that section of that Form 10-K in this filing and investors should refer to it.

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

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

*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 million during the quarter ended October 2, 2016.

**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 October 2, 2016. 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 October 2, 2016.

*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 October 2, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**Litigation**

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

*Edible Arrangements:*

On November 20, 2014, a complaint was filed in the United States District Court for the District of Connecticut by Edible Arrangements LLC and Edible Arrangements International, LLC, alleging that the Company's use of the terms "Fruit Bouquets," "Edible," "Bouquet," "Edible Fruit Arrangements," "Edible Arrangements," and "DoFruit" and its use of a six-petal pineapple slice design in connection with marketing and selling edible fruit arrangements constitutes trademark infringement, false designation of origin, dilution, and contributory infringement under the federal Lanham Act, 29 USC § 1114 and 1125(a), common law unfair competition, and a violation of the Connecticut Unfair Trade Practices Act, Connecticut General Statutes § 42-110b (a). The Complaint alleged Edible Arrangements has been damaged in the amount of \$97.4 million. The Complaint requested a declaratory judgment in favor of Edible Arrangements, an injunction against the Company's use of the terms and design, an accounting and payment of the Company's profits from its sale of edible fruit arrangements, a trebling of the Company's profits from such sales or of any damages sustained by Edible Arrangements, punitive damages, and attorneys' fees. On November 24, 2014, the Complaint was amended to add a breach of contract claim for use of these terms and the design, based on a contract that had been entered by one of the Company's subsidiaries prior to its acquisition by the Company. On January 29, 2015, the Plaintiffs amended the Complaint to add one of the Company's subsidiaries and to claim its damages were \$101.4 million.

The Company filed an Answer and a Counterclaim on February 27, 2015. The Answer asserted substantial defenses, including fair use by the Company of generic and descriptive terms, as expressly permitted under the Lanham Act, invalidity of Edible Arrangements' trademark registrations on grounds of fraud and trademark misuse, lack of exclusive rights on the part of Edible Arrangements, functionality of the claimed design mark, acquiescence, estoppel, and Edible Arrangements' use of the claimed trademarks in violation of the antitrust laws. The Counterclaim sought a declaratory judgment of lack of infringement and invalidity of claimed marks, cancellation of Edible Arrangements' registrations due to its fraud and misuse, genericism, and lack of secondary meaning as to any terms deemed descriptive, and damages in an amount to be determined for violation of the antitrust provisions of the federal Sherman Act and the Connecticut Unfair Trade Practices Act.

Following extensive discovery, the parties engaged in mediation and reached an agreement in principle to resolve all claims on June 30, 2016. The parties entered a Confidential Settlement Agreement on July 22, 2016, pursuant to which, among other things, the Company paid \$1.5 million to Edible Arrangements and the Company agreed not to use “Edible”, “Edible Arrangements” or “Do Fruit” in its marketing, except that the Company may refer to “Edible Arrangements” to comment on or compare the Company’s products to those of “Edible Arrangements”. The Company maintains its rights to market its products as “Fruit Bouquets” and “Bouquets,” and to the continued use of its branding of “Fruit Bouquets.com” and Fruit Bouquets by 1800Flowers.com. In addition, all claims and counterclaims in the case were dismissed with prejudice. The Company recorded the settlement paid to Edible Arrangements in the “General and administrative expense” line item in the consolidated statements of income for the year ended July 3, 2016.

#### **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 3, 2016.

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

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. In June 2015, the Company’s Board of Directors authorized an increase of \$25 million to its stock repurchase plan. As of October 2, 2016, \$9.1 million remained authorized under the plan. On October 4, 2016 the Company’s Board of Directors authorized an additional increase to the stock repurchase plan, restoring the amount available for repurchase to \$25 million.

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The following table sets forth, for the months indicated, the Company's purchase of common stock during the first three months of fiscal 2017, which includes the period July 4, 2016 through October 2, 2016:

| <b>Period</b>  | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid Per Share (1)</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) (2)</b> |
|--|---|---|---|--|
| <i>(in thousands, except average price paid per share)</i> |   |   |   |  |
| 07/04/16 - 07/31/16  | 95.0                                    | \$9.31                                  | 95.0  | \$11,161   |
| 08/01/16 - 08/28/16  | 100.0                                   | \$9.31                                  | 100.0   | \$10,227   |
| 08/29/16 - 10/02/16  | 123.6                                   | \$9.21                                  | 123.6   | \$9,085  |
| <b>Total</b>   | <b>318.6</b>                            | <b>\$9.27</b>                           | <b>318.6</b>  |  |

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

(2) 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.

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**ITEM 6. EXHIBITS**

- 10.24 Nonqualified Supplemental Deferred Compensation Plan dated December 21, 2010. \*
- 10.25 Employment Agreement made October 4, 2016, effective as of July 4, 2016, between 1-800-Flowers.com, Inc. and James F. McCann\*\* (Current report on form 8-K filed on October 6, 2016, Exhibit 10.1)
- 10.26 Employment Agreement made October 4, 2016, effective as of July 4, 2016, between 1-800-Flowers.com, Inc. and Christopher G. McCann\*\* (Current report on form 8-K filed on October 6, 2016, Exhibit 10.2)
- 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.

\*\* Incorporated by reference to exhibits or appendices previously filed with the Securities and Exchange Commission, as indicated by the reference in brackets.

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**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: November 14, 2016 Christopher G. McCann  
Chief Executive Officer,  
Director and President  
(Principal Executive Officer)

/s/ William E. Shea

Date: November 14, 2016 William E. Shea  
Senior Vice President, Treasurer and  
Chief Financial Officer (Principal  
Financial and Accounting Officer)