1800 FLOWERS COM INC
Form 10-Q
February 08, 2019

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION 

WASHINGTON, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended December 30, 2018
or
__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from $\qquad$ to $\qquad$

Commission File No. $\underline{\mathbf{0 - 2 6 8 4 1}}$

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

(Exact name of registrant as specified in its charter)

## DELAWARE

(State of incorporation)

## 11-3117311

(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer<br>Non-accelerated filer Smaller reporting company<br>Emerging growth company

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

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

The number of shares outstanding of each of the Registrant's classes of common stock as of February 1, 2019:

Class A common stock: $35,615,465$
Class B common stock: $28,542,823$

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## PART I. - FINANCIAL INFORMATION

ITEM 1. - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Condensed Consolidated Balance Sheets
(in thousands, except share data)

|  | December <br> $\mathbf{3 0 , 2 0 1 8}$ <br> (unaudited) | July 1, <br> $\mathbf{2 0 1 8}$ |
| :--- | :---: | :---: |
| Assets |  |  |
| Current assets: | $\$ 257,685$ | $\$ 147,240$ |
| Cash and cash equivalents | 48,400 | 12,935 |
| Trade receivables, net | 64,006 | 88,825 |
| Inventories | 20,108 | 24,021 |
| Prepaid and other | 390,199 | 273,021 |
| Total current assets |  |  |
|  | 160,204 | 163,340 |
| Property, plant and equipment, net | 62,590 | 62,590 |
| Goodwill | 59,909 | 59,823 |
| Other intangibles, net | 12,559 | 12,115 |
| Other assets | $\$ 685,461$ | $\$ 570,889$ |
| Total assets |  |  |
|  |  |  |
| Liabilities and Stockholders' Equity | $\$ 51,947$ | $\$ 41,437$ |
| Current liabilities: | 140,065 | 73,299 |
| Accounts payable | 11,500 | 10,063 |
| Accrued expenses | 203,512 | 124,799 |
| Current maturities of long-term debt |  |  |
| Total current liabilities | 86,970 | 92,267 |
|  | 25,546 | 26,200 |
| Long-term debt | 13,360 | 12,719 |
| Deferred tax liabilities | 329,388 | 255,985 |

Commitments and contingencies (See Note 13)

| Stockholders' equity: |  |  |
| :---: | :---: | :---: |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued | - | - |
| Class A common stock, $\$ 0.01$ par value, 200,000,000 shares authorized, 52,749,203 and $52,071,293$ shares issued at December 30, 2018 and July 1, 2018, respectively | 527 | 520 |
| Class B common stock, $\$ 0.01$ par value, 200,000,000 shares authorized, $33,822,823$ shares issued at December 30, 2018 and July 1, 2018 | 338 | 338 |
| Additional paid-in-capital | 344,769 | 341,783 |
| Retained earnings | 125,071 | 73,429 |
| Accumulated other comprehensive loss | (261 | (200 |
| Treasury stock, at cost, 17,103,738 and 15,978,790 Class A shares at December 30, 2018 and July 1, 2018, respectively, and 5,280,000 Class B shares at December 30, 2018 and July 1, 2018 | (114,371 ) | $(100,966)$ |
| Total stockholders' equity | 356,073 | 314,904 |
| Total liabilities and stockholders' equity | \$ 685,461 | \$570,889 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

## Condensed Consolidated Statements of Income

(in thousands, except for per share data)
(unaudited)

Net revenues
Cost of revenues

| Three Months <br> Ended |  | Six Months Ended |  |
| :---: | :---: | :---: | :---: |
| December | December | December | December |
| 30, 2018 | 31, 2017 | 30, 2018 | 31, 2017 |
| \$571,316 | \$ 526,093 | \$740,812 | \$ 683,442 |
| 316,489 | 290,834 | 417,445 | 380,905 |
| 254,827 | 235,259 | 323,367 | 302,537 |
| 119,664 | 113,771 | 172,618 | 163,493 |
| 10,906 | 9,175 | 21,185 | 18,845 |
| 21,603 | 19,170 | 42,033 | 38,575 |
| 7,969 | 8,677 | 15,812 | 16,761 |
| 160,142 | 150,793 | 251,648 | 237,674 |
| 94,685 | 84,466 | 71,719 | 64,863 |
| 1,430 | 1,226 | 2,420 | 2,257 |
| 1,266 | (86 ) | 992 | (346 |
| 91,989 | 83,326 | 68,307 | 62,952 |
| 23,411 | 12,627 | 16,995 | 5,475 |
| \$68,578 | \$70,699 | \$51,312 | \$57,477 |
| \$1.07 | \$ 1.09 | \$0.80 | \$ 0.89 |
| \$1.04 | \$ 1.06 | \$0.77 | \$ 0.86 |

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

| Basic | 64,209 | 64,601 | 64,415 | 64,778 |
| :--- | :--- | :--- | :--- | :--- | :--- |

Diluted

| 66,136 | 66,782 | 66,483 | 67,037 |
| :--- | :--- | :--- | :--- |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Condensed Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

|  | Three Months Ended |  | Six Months Ended |  |
| :---: | :---: | :---: | :---: | :---: |
|  | December <br> 30, <br> 2018 | December $\text { 31, } 2017$ | $\begin{aligned} & \text { Decemb } \\ & \text { 30, } \\ & 2018 \end{aligned}$ | December $\text { 31, } 2017$ |
| Net income | \$68,578 | \$ 70,699 | \$51,312 | \$ 57,477 |
| Other comprehensive income (currency translation \& other miscellaneous items) | 71 | 26 | 61 | 27 |
| Comprehensive income | \$68,649 | \$ 70,725 | \$51,373 | \$ 57,504 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

## Condensed Consolidated Statements of Cash Flows

(in thousands)
(unaudited)

> Six months ended December December 30, 2018 31, 2017

## Operating activities:

Net income
\$51,312 \$57,477
Reconciliation of net income to net cash provided by operating activities:
Depreciation and amortization
15,812 16,761

Amortization of deferred financing costs
Deferred income taxes
Bad debt expense
Stock-based compensation
452
480
(654 ) (12,338)

Other non-cash items
582418

Changes in operating items:
Trade receivables
$(36,047) \quad(30,769)$
Inventories
Prepaid and other
Accounts payable and accrued expenses
Other assets
Other liabilities
Net cash provided by operating activities
24,819 15,295
3,159 (4,272 )
78,361 69,269
(410 ) (97 )
139,583 114,166

## Investing activities:

Working capital adjustment related to sale of business

- $(8,500)$

Capital expenditures, net of non-cash expenditures
(11,786) (8,864 )
Net cash used in investing activities
(11,786) (17,364 )

## Financing activities:

Acquisition of treasury stock
Proceeds from exercise of employee stock options
Proceeds from bank borrowings
(13,405) (11,085 )

Repayment of bank borrowings
Repayment of bank borrowings
Net cash used in financing activities
$365 \quad 15$
30,000 30,000
$(34,312) \quad(32,875)$

Net change in cash and cash equivalents
(17,352) (13,945 )

Cash and cash equivalents:
Beginning of period
$110,445 \quad 82,857$
147,240 149,732
End of period
\$257,685 \$232,589

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 and six month periods ended December 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2019. 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 1, 2018.

The Company's quarterly results may experience seasonal fluctuations. Due to the seasonal nature of the Company's business, and its continued expansion into non-floral products, the Thanksgiving through Christmas holiday season, which falls within the Company's second fiscal quarter, generates 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, Easter and Administrative Professionals Week, revenues also rise during the Company's fiscal third and fourth quarters compared to its fiscal first quarter. In fiscal 2018, Easter was on April 1st, which resulted in the shift of Easter-related revenue and EBITDA into the Company's third quarter of fiscal 2018. Easter falls on April 21st in 2019, which will result in the shift of most Easter-related e-commerce and retail revenue and associated 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.

## Revenue Recognition


#### Abstract

Net revenue is measured based on the amount of consideration that we expect to receive, reduced by discounts and estimates for credits and returns (calculated based upon previous experience and management's evaluation). Service and outbound shipping charged to customers are recognized at the time the related merchandise revenues are recognized and are included in net revenues. Inbound and outbound shipping and delivery costs are included in cost of revenues. Net revenues exclude sales and other similar taxes collected from customers.


A description of our principal revenue generating activities is as follows:

E-commerce revenues - consumer products sold through our online and telephonic channels. Revenue is recognized when control of the merchandise is transferred to the customer, which generally occurs upon shipment. Payment is typically due prior to the date of shipment.
Retail revenues - consumer products sold through our retail stores. Revenue is recognized when control of the goods is transferred to the customer, at the point of sale, at which time payment is received.
Wholesale revenues - products sold to our wholesale customers for subsequent resale. Revenue is recognized when control of the goods is transferred to the customer, in accordance with the terms of the applicable agreement. Payment terms are typically 30 days from the date control over the product is transferred to the customer. BloomNet Services - membership fees as well as other service offerings to florists. Membership and other subscription-based fees are recognized monthly as earned. Services revenues related to orders sent through the floral network are variable, based on either the number of orders or the value of orders, and are recognized in the period in which the orders are delivered. The contracts within BloomNet Services are typically month-to-month and as a result no consideration allocation is necessary across multiple reporting periods. Payment is typically due less than 30 days from the date the services were performed.

## Deferred revenues

Deferred revenues are recorded when the Company has received consideration (i.e. advance payment) before satisfying its performance obligations. As such, customer orders are recorded as deferred revenue prior to shipment or rendering of product or services. Deferred revenues primarily relate to e-commerce orders placed, but not shipped, prior to the end of the fiscal period, as well as for monthly subscription programs, including our "Fruit of the Month Club" and "Passport" Free Shipping program.

Our total deferred revenue as of July 1, 2018 was $\$ 13.5$ million (included in "Accrued expenses" on our consolidated balance sheets), of which, $\$ 2.8$ million and $\$ 12.3$ million was recognized as revenue during the three and six months ended December 30, 2018. The deferred revenue balance as of December 30, 2018 was $\$ 28.5$ million.

## Recently Issued Accounting Pronouncements - Adopted

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." amending revenue recognition guidance ("ASC 606") and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company determined that the new standard impacted the following areas related to our e-commerce and retail/franchise revenue streams: the costs of producing and distributing the Company's catalogs will be expensed upon mailing, instead of being capitalized and amortized in direct proportion to the actual sales; gift card breakage will be recognized over the expected customer redemption period, rather than when redemption is considered remote; e-commerce revenue will be recognized upon shipment, when control of the merchandise transfers to the customer, instead of upon receipt by the customer; initial and other franchise fees will be recognized over the franchise term (or remaining franchise term), rather than upon store opening (or renewal/transfer). The Company adopted this ASU effective July 2, 2018 for all revenue contracts with our customers using the modified retrospective approach and increased retained earnings by $\$ 0.3$ million. The adjustment primarily related to the unredeemed portion of our gift cards (breakage income), which increased retained earnings and reduced accrued expenses by $\$ 1.9$ million; partially offset by the change in accounting for the Company's catalogs, which decreased retained earnings and decreased prepaid expense by $\$ 0.8$ million; as well as a deferral of initial franchise fees, which decreased retained earnings and increased accrued expenses by $\$ 0.8$ million.

The comparative information presented in this Form $10-\mathrm{Q}$ has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company does not expect the adoption of the new revenue standard to have a material impact to our net income on an ongoing, annual basis. However, the adoption of the new revenue standard is expected to result in quarterly fluctuations, primarily as a result of the change in accounting for catalog costs, as noted above. During the three months ended December 30, 2018, assuming we had not adopted the new revenue standard, "Marketing and sales" expense, within our statement of operations, would have been approximately $\$ 0.4$ million higher, thereby decreasing our Net Income by approximately $\$ 0.3$ million (tax effected). During the six months ended December 30, 2018, assuming we had not adopted the new revenue standard, "Marketing and sales" expense, within our statement of operations, would have been approximately $\$ 1.2$ million lower, respectively, thereby increasing our Net Income by approximately $\$ 0.9$ million (tax effected). The Company's contract liabilities related to gift cards ( $\$ 1.8$ million as of December 30, 2018) are not considered material for purposes of this disclosure. Refer to Note 12 - Business Segments for disclosure of disaggregated revenues.

Financial Instruments - Recognition and Measurement. In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," as amended by ASU No. 2018-03, "Financial Instruments-Overall: Technical Corrections and Improvements," issued in February 2018. The new guidance 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 (subject to an exemption for investments that have no readily determinable fair values), 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. Upon adoption of the new guidance, we have elected to measure the investments we hold in certain non-marketable equity securities in which we do not have a controlling interest or significant influence that have no readily determinable fair values at cost, less impairment, adjusted for observable price changes from orderly transactions for identical or similar investments of the same issuer. The Company adopted the guidance prospectively effective July 2, 2018. The adoption did not have a significant impact on the Company's consolidated financial position or results of operations.

Statement of Cash Flows. In June 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230), a consensus of the FASB's Emerging Issues Task Force." ASU 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The Company adopted the guidance restrospectively, effective July 2, 2018. The adoption did not have a significant impact on the Company's consolidated financial position or results of operations.

Business Combinations - Definition of a Business. In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU 2017-01)," which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. The Company adopted the guidance prospectively, effective July 2, 2018. The adoption did not have a significant impact on the Company's consolidated financial position or results of operations.

Nonfinancial Assets - Derecognition. In February 2017, the FASB issued ASU No. 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets." This update clarifies the scope of accounting for the derecognition or partial sale of nonfinancial assets to exclude all businesses and nonprofit activities. ASU 2017-05 also provides a definition for in-substance nonfinancial assets and additional guidance on partial sales of nonfinancial assets. The Company adopted the guidance retrospectively, effective July 2, 2018. The adoption did not have a significant impact on the Company's consolidated financial position or results of operations.

Stock Compensation - Modification Accounting. In May 2017, the FASB issued ASU No. 2017-09, "Compensation Stock Compensation (Topic 718): Scope of Modification Accounting." This ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. An entity would not apply modification accounting if the fair value, vesting conditions, and

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classification of the awards are the same immediately before and after the modification. The Company adopted the guidance prospectively, to awards modified on or after the adoption date, effective July 2, 2018. The adoption did not have a significant impact on the Company's consolidated financial position or results of operations.

Cloud Computing Arrangements - Implementation Costs. In August 2018, the FASB issued ASU No. 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this ASU. The amendments in this Update also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element and also require the entity to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The Company adopted the guidance prospectively, to all implementation costs incurred after the date of adoption, effective July 2, 2018. The adoption did not have a significant impact on the Company's consolidated financial position or results of operations.

## Recently Issued Accounting Pronouncements - Not Yet Adopted

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

Financial Instruments - Measurement of Credit Losses. 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.

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

## U.S. Tax Reform

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

Shortly after the Tax Act was enacted, the SEC staff issued Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act" ("SAB 118"), which provides guidance on accounting for the Tax Act's impact. SAB 118 provided a measurement period, which in no case should extend beyond one year from the Tax Act enactment date, during which a company acting in good faith may complete the accounting for the impacts of the Tax Act under ASC Topic 740. In accordance with the expiration of the SAB 118 measurement period, we completed the assessment of the income tax effects of the Tax Act in the second quarter of fiscal 2019, with no adjustments recorded to the provisional amounts.

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## Note 2 - Net Income Per Common Share

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

|  | Three Mo <br> Ended <br> Decembe <br> 30, <br> 2018 <br> (in thousa | onths <br> December $\text { 31, } 2017$ <br> ands, except | Six Mont <br> Decembe <br> 30, <br> 2018 <br> per share | ths Ended <br> December $\text { 31, } 2017$ <br> data) |
| :---: | :---: | :---: | :---: | :---: |
| Numerator: |  |  |  |  |
| Net income | \$68,578 | \$ 70,699 | \$51,312 | \$ 57,477 |
| Denominator: |  |  |  |  |
| Weighted average shares outstanding | 64,209 | 64,601 | 64,415 | 64,778 |
| Effect of dilutive securities: |  |  |  |  |
| Employee stock options | 1,415 | 1,549 | 1,476 | 1,528 |
| Employee restricted stock awards | 512 | 632 | 592 | 731 |
|  | 1,927 | 2,181 | 2,068 | 2,259 |
| Adjusted weighted-average shares and assumed conversions | 66,136 | 66,782 | 66,483 | 67,037 |
| Net income per common share |  |  |  |  |
| Basic | \$1.07 | \$ 1.09 | \$0.80 | \$ 0.89 |
| Diluted | \$1.04 | \$ 1.06 | \$0.77 | \$ 0.86 |

## Note 3 - Stock-Based Compensation

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 12 and Note 13 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2018, 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:

|  | Three <br> Months <br> Ended <br> Decemb | Dece | Six Mo <br> Derem | ths Ended |
| :---: | :---: | :---: | :---: | :---: |
|  | $\begin{aligned} & 30, \\ & 2018 \end{aligned}$ | 31, 2017 <br> (in th | $\begin{aligned} & 30, \\ & 2018 \end{aligned}$ pusands) | $\text { 31, } 2017$ |
| Stock options | \$78 | \$107 | \$183 | \$ 215 |
| Restricted stock | 1,595 | 861 | 2,445 | 1,854 |
| Total | 1,673 | 968 | 2,628 | 2,069 |
| Deferred income tax benefit | 395 | 206 | 654 | 592 |
| Stock-based compensation expense, net | \$1,278 | \$762 | \$1,974 | \$ 1,477 |

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

|  | Three <br> Months <br> Ended <br> DecembDecembecember | Six Months Ended |
| :--- | :---: | :---: | :---: | :---: |

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

## Stock Options

The following table summarizes stock option activity during the six months ended December 30, 2018:

|  | Weighted <br> Average | Weighted <br> Average <br> Remaining | Aggregate <br> Intrinsic |
| :--- | :--- | :--- | :--- |
| Options | Exercise | Contractual <br> Price | Value <br> (yerm |
|  |  | (000s) |  |

Outstanding at July 1, 2018
Granted
Exercised
Forfeited
Outstanding at December 30, 2018 1,700,000 \$ 2.35
Exercisable at December 30, $2018 \quad 1,562,000$ \$ $2.27 \quad 2.4 \quad$ \$ 15,068

As of December 30, 2018, the total future compensation cost related to non-vested options, not yet recognized in the statement of income, was $\$ 0.2$ million and the weighted average period over which these awards are expected to be recognized was 0.9 years.

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## Restricted Stock

The Company grants shares of Common Stock to its employees that are subject to restrictions on transfer and risk of forfeiture until fulfillment of applicable service and performance conditions and, in certain cases, holding periods (Restricted Stock). The following table summarizes the activity of non-vested restricted stock awards during the six months ended December 30, 2018:

Non-vested at July 1, $2018 \quad 968,273 \quad \$ 7.70$
Granted
911,089 \$ 12.49
Vested
Forfeited
Non-vested at December 30, 2018
$(409,676$ ) \$ 7.90
(8,180 ) \$ 9.45
1,461,506 \$ 10.62

The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of December 30,2018 , there was $\$ 13.2$ million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.3 years.

## Note 4 - Disposition

On March 15, 2017, the Company and Ferrero International S.A., a Luxembourg corporation ("Ferrero"), entered into a Stock Purchase Agreement (the "Purchase Agreement") pursuant to which Ferrero agreed to purchase from the Company all of the outstanding equity of Fannie May Confections Brands, Inc., including its subsidiaries, Fannie May Confections, Inc. and Harry London Candies, Inc. ("Fannie May") for a total consideration of $\$ 115.0$ million in cash, subject to adjustment for seasonal working capital. On May 30, 2017, the Company closed on the transaction, and the working capital adjustment was finalized in August 2017, resulting in an $\$ 8.5$ million payment to Ferrero during the first quarter of fiscal 2018. The associated gain of $\$ 14.6$ million was included within "Other (income) expense, net" in the fourth quarter of fiscal 2017.

The Company and Ferrero also entered into a transition services agreement, as amended, whereby the Company will provide certain post-closing services to Ferrero and Fannie May for a period of approximately 20 months, related to
the business of Fannie May, and a commercial agreement with respect to the distribution of certain Ferrero and Fannie May products.

## Note 5 - Inventory

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

| December |  |
| :--- | :--- |
| 30, | July 1, |
| 2018 | $\mathbf{2 0 1 8}$ |
| (in thousands) |  |
| $\$ 31,613$ | $\$ 33,930$ |
| 6,845 | 17,575 |
| 25,548 | 37,320 |
| $\$ 64,006$ | $\$ 88,825$ |

## Note 6 - Goodwill and Intangible Assets

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

|  | 1-800-FloBkormonat ConsumedWire Floral Service (in thousands) | Gourmet <br>  <br> Gift <br> Baskets | Total |
| :---: | :---: | :---: | :---: |
| Balance at December 30, 2018 and July 1, 2018 | \$17,441 \$ | \$ 45, 149 | \$62,590 |

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

December 30, 2018


July 1, 2018
Gross ${ }_{\text {Amount }}^{\text {Carrying }} \underset{\text { Amortization }}{ }$ Net
(in years)
Intangible assets with determinable lives:

| Investment in licenses | $14-16$ | $\$ 7,420$ | $\$ 6,095$ | $\$ 1,325$ | $\$ 7,420$ | $\$ 6,042$ | $\$ 1,378$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Customer lists | $3-10$ | 12,184 | 9,607 | 2,577 | 12,184 | 9,354 | 2,830 |
| Other | $5-14$ | 2,946 | 2,230 | 716 | 2,946 | 2,172 | 774 |
| Total intangible assets with |  | $\mathbf{2 2 , 5 5 0}$ | $\mathbf{1 7 , 9 3 2}$ | $\mathbf{4 , 6 1 8}$ | $\mathbf{2 2 , 5 5 0}$ | $\mathbf{1 7 , 5 6 8}$ | $\mathbf{4 , 9 8 2}$ |
| determinable lives |  |  |  |  |  |  |  |
| Trademarks with indefinite lives |  | $\mathbf{5 5 , 2 9 1}$ | $\mathbf{-}$ | $\mathbf{5 5 , 2 9 1}$ | $\mathbf{5 4 , 8 4 1}$ | $\mathbf{-}$ | $\mathbf{5 4 , 8 4 1}$ |
|  |  |  |  |  |  |  |  |
| Total identifiable intangible assets |  | $\mathbf{\$ 7 7 , 8 4 1}$ | $\mathbf{\$ 1 7 , 9 3 2}$ | $\mathbf{\$ 5 9 , 9 0 9}$ | $\mathbf{\$ 7 7 , 3 9 1}$ | $\mathbf{\$ 1 7 , 5 6 8}$ | $\mathbf{\$ 5 9 , 8 2 3}$ |

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 2019-\$0.3 million, fiscal 2020-\$0.6 million, fiscal 2021-\$0.6 million, fiscal 2022-\$0.5 million, fiscal 2023-\$0.5 million and thereafter - $\$ 2.1$ million.

Note 7 - Investments

Equity investments accounted for under the equity method

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

The Company's equity method investment is comprised of an interest in Flores Online, a Sao Paulo, Brazil based internet floral and gift retailer, that the Company originally acquired on May 31, 2012. The Company currently holds $24.9 \%$ of the outstanding shares of Flores Online. The book value of this investment was $\$ 0.5$ million as of September 30, 2018 and $\$ 0.6$ million as of July 1, 2018, and is included in the "Other assets" line item within the Company's consolidated balance sheets. The Company's equity in the net loss of Flores Online for the three and six months ended December 30, 2018 and December 31, 2017 was less than $\$ 0.1$ million. During the quarter ended December 31, 2017, Flores Online entered into a share exchange agreement with Isabella Flores, whereby among other changes, the Company exchanged 5\% of its interest in Flores Online for a 5\% interest in Isabella Flores. This new investment of approximately $\$ 0.1$ million is currently being accounted for as an equity investment without a readily determinable fair value (see below). In conjunction with this share exchange, the Company determined that the fair value of its investment in Flores Online was below its carrying value and that this decline was other-than-temporary. As a result, the Company recorded an impairment charge of $\$ 0.2$ million, which is included within "Other (income) expense, net" in the Company's consolidated statement of income during the quarter ended December 31, 2017.

## Equity investments without a readily determinable fair value

Investments in non-marketable equity instruments of private companies, where the Company does not possess the ability to exercise significant influence, are accounted for at cost, less impairment (assessed qualitatively at each reporting period), adjusted for observable price changes from orderly transactions for identical or similar investments of the same issuer. These investments are included within "Other assets" in the Company's consolidated balance sheets. The aggregate carrying amount of the Company's cost method investments was $\$ 1.7$ million as of December 30, 2018 and July 1, 2018.

## Equity investments with a readily determinable fair value

The Company also holds certain trading securities associated with its Non-Qualified Deferred Compensation Plan ("NQDC Plan"). These investments are measured using quoted market prices at the reporting date and are included within the "Other assets" line item in the consolidated balance sheets (see Note 10 - Fair Value Measurements).

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Note 8 -Debt

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

|  | December July 1, <br> 30, 2018 <br> (in thousands) |  |
| :--- | :---: | :---: |
|  | $\$-$ | $\$-$ |
| Revolver (1) | 100,625 | 104,938 |
| Term Loan (1) | $(2,155$ | $(2,608)$ |
| Deferred financing costs | $(11,500$ | 10,063 |
| Total debt | 98,470 | 102,330 |
| Less: current debt | $\$ 86,970$ | $\$ 92,267$ |

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

For each borrowing under the 2016 Amended Credit Agreement, the Company may elect that such borrowing bear interest at an annual rate equal to either: (1) a base rate plus an applicable margin varying from $0.75 \%$ to $1.5 \%$, based on the Company's consolidated leverage ratio, where the base rate is the highest of (a) the prime rate, (b) the highest of the federal funds rate and the overnight bank funding rate as published by the New York Fed, plus $0.5 \%$, and (c) an adjusted LIBO rate, plus $1 \%$ or (2) an adjusted LIBO rate plus an applicable margin varying
from $1.75 \%$ to $2.5 \%$, based on the Company's consolidated leverage ratio. The 2016 Amended Credit Agreement requires that, while any borrowings are outstanding, the Company comply with certain financial covenants and affirmative covenants as well as certain negative covenants, that subject to certain exceptions, limit the Company's ability to, among other things, incur additional indebtedness, make certain investments and make certain restricted payments. The Company was in compliance with these covenants as of December 30, 2018. The 2016 Amended Credit Agreement is secured by substantially all of the assets of the Company and the Subsidiary Guarantors.

Future principal payments under the Term Loan are as follows: $\$ 5.8$ million - fiscal 2019,\$12.9 million fiscal 2020, $\$ 15.8$ million - fiscal 2021, and $\$ 66.1$ million - fiscal 2022.

## Note 9 - Property, Plant and Equipment

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

|  | December <br> 30, 2018 <br> (in thousands) | July 1, <br> 2018 |
| :--- | :--- | :--- |
|  | $\$ 30,789$ | $\$ 30,789$ |
| Land | 59,108 | 58,450 |
| Orchards in production and land improvements | 11,268 | 10,962 |
| Building and building improvements | 13,422 | 12,997 |
| Leasehold improvements | 57,471 | 53,066 |
| Production equipment and furniture and fixtures | 49,232 | 46,925 |
| Computer and telecommunication equipment | 122,346 | 115,944 |
| Software | 8,058 | 10,789 |
| Capital projects in progress - orchards | 351,694 | 339,922 |
| Property, plant and equipment, gross | $(191,490)$ | $(176,582)$ |
| Accumulated depreciation and amortization | $\$ 160,204$ | $\$ 163,340$ |
| Property, plant and equipment, net |  |  |

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Note 10 - Fair Value Measurements

Cash and cash equivalents, trade and other receivables, prepaids, accounts payable and accrued expenses are reflected in the consolidated balance sheets at carrying value, which approximates fair value due to the short-term nature of these instruments. Although no trading market exists, the Company believes that the carrying amount of its debt approximates fair value due to its variable nature. The Company's investments in non-marketable equity instruments of private companies are carried at cost and are periodically assessed for other-than-temporary impairment, when an event or circumstances indicate that an other-than-temporary decline in value may have occurred. The Company's remaining financial assets and liabilities are measured and recorded at fair value (see table below). The Company's non-financial assets, such as definite lived intangible assets and property, plant and equipment, are recorded at cost and are assessed for impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. Goodwill and indefinite lived intangibles are tested for impairment annually, or more frequently if events occur or circumstances change such that it is more likely than not that an impairment may exist, as required under the accounting standards.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level $l$ 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.

Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, Level 2 or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3
Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

## Fair Value Measurements

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CarryingAssets (Liabilities) Value

Level Level Level
132
(in thousands)
Assets (liabilities) as of December 30, 2018:
Trading securities held in a "rabbi trust" (1)

| $\$ 9,938$ | $\$ 9,938$ | $\$$ | - |
| :--- | :--- | :--- | :--- |
| $\$ 0,938$ | $\$ 0,938$ | $\$$ | - |

## Assets (liabilities) as of July 1, 2018:

Trading securities held in a "rabbi trust" (1)

| $\$ 9,368$ | $\$ 9,368$ | $\$$ | - | $\$$ | - |
| :--- | :--- | :--- | :--- | :--- | :--- |
| $\$ 9,368$ | $\$ 9,368$ | $\$$ | - | $\$$ | - |

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

## Note 11 - Income Taxes

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. This estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The Company's effective tax rate from operations for the three and six months ended December 30, 2018 was $25.4 \%$ and $24.9 \%$ respectively, compared to $15.2 \%$ and $8.7 \%$ in the same periods of the prior year. The effective rates for fiscal 2019 differed from the U.S. federal statutory rate of $21 \%$ due to state income taxes and nondeductible expenses for executive compensation, which were partially offset by various permanent differences and tax credits. The effective rates for fiscal 2018 differed from the transitional U.S. federal tax rate of $28.0 \%$ due to a tax benefit of $\$ 12.2$ million, or $\$ 0.18$ per diluted share, recognized during the second quarter of fiscal 2018, reflecting a revaluation of deferred tax liabilities at the lower U.S. federal statutory rate of $21 \%$ as a result of the Tax Act (see Note 1 - Accounting Policies above), and various permanent differences and tax credits, partially offset by state income taxes.

The Company files income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign countries. The Company is currently undergoing its U.S. federal examination for fiscal 2016, however, fiscal years 2015 and 2017 remain subject to U.S. federal examination. Due to ongoing state examinations and nonconformity with the U.S. federal statute of limitations for assessment, certain states remain open from fiscal 2013. The Company's foreign income tax filings from fiscal 2013 are open for examination by its respective foreign tax authorities, mainly Canada, Brazil, 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 December 30, 2018, the Company has an unrecognized tax benefit, including an immaterial
amount of accrued interest and penalties, of approximately $\$ 0.6$ million. The Company believes that $\$ 0.1$ million of unrecognized tax positions will be resolved over the next twelve months.

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## Note 12 - Business Segments

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

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

Segment performance is measured based on contribution margin, which includes only the direct controllable revenue and operating expenses of the segments. As such, management's measure of profitability for these segments does not include the effect of corporate overhead (see (a) below), nor does it include depreciation and amortization, other (income) expense, net and income taxes, or stock-based compensation, both of which are included within corporate overhead. Assets and liabilities are reviewed at the consolidated level by management and not accounted for by segment.

Net Revenues:

| Three Months Ended |  | Six Months Ended |  |
| :---: | :---: | :---: | :---: |
| December | December | Decemb | December |
| 30, 2018 | 31, 2017 <br> (in thousand | $\text { 30, } 2018$ $n d s)$ | 31, 2017 |
| \$108,106 | \$ 100,064 | \$193,182 | \$ 176,674 |
| 23,435 | 20,375 | 47,428 | 40,139 |
| 440,003 | 405,964 | 500,521 | 466,950 |
| 315 | 317 | 582 | 587 |
| (543 ) | (627 | (901 | $(908$ |
| \$571,316 | \$526,093 | \$740,812 | \$ 683,442 |

## Operating Income:

Three Months
Ended
December December December December
30, 2018 31, 2017 30, 2018 31, 2017
(in thousands)
Segment Contribution Margin:

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| 1-800-Flowers.com Consumer Floral | $\$ 9,808$ | $\$ 10,791$ | $\$ 17,303$ | $\$ 17,762$ |
| :--- | :---: | :--- | :--- | :---: |
| BloomNet Wire Service | 8,257 | 7,692 | 15,895 | 14,393 |
| Gourmet Food \& Gift Baskets | 105,514 | 93,496 | 96,393 | 88,509 |
| Segment Contribution Margin Subtotal | 123,579 | 111,979 | 129,591 | 120,664 |
| Corporate (a) | $(20,925)$ | $(18,836)$ | $(42,060)$ | $(39,040)$ |
| Depreciation and amortization | $(7,969$ | $)$ | $(8,677$ | $)$ |
| Operating income | $\$ 94,685$ | $\$ 84,466$ | $\$ 71,719$ | $(16,761)$ |
| O64,863 |  |  |  |  |

(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.

The following tables represent a disaggregation of revenue from contracts with customers, by channel:

|  | Three Months Ended December 30, 2018 |  |  |  | Three Months Ended December 31, 2017 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Consumer <br> Floral | BloomNet <br> Wire <br> Service | Gourmet <br>  <br> Gift <br> Baskets | Consolidated | Consumer <br> Floral | BloomNet <br> Wire <br> Service | Gourmet <br>  <br> Gift <br> Baskets | Consolidated |
| Net revenues |  |  |  |  |  |  |  |  |
| E-commerce | \$ 106,300 | \$ | \$352,521 | \$ 458,821 | \$98,125 | \$ - | \$326,007 | \$ 424,132 |
| Retail | 1,063 | - | 24,971 | 26,034 | 1,056 | - | 24,852 | 25,908 |
| Wholesale | - | 5,793 | 62,511 | 68,304 | - | 6,012 | 55,105 | 61,117 |
| BloomNet services | - | 17,642 | - | 17,642 | - | 14,363 | - | 14,363 |
| Franchise/Other | 743 | - | - | 743 | 883 | - | - | 883 |
| Corporate | - | - | - | 315 | - | - | - | 317 |
| Eliminations | - | - | - | (543 ) | ) - | - | - | (627 |
| Net revenues | \$108,106 | \$ 23,435 | \$440,003 | \$ 571,316 | \$100,064 | \$ 20,375 | \$405,964 | \$ 526,093 |

Net revenues

| E-commerce | $\$ 189,750$ | $\$-$ | $\$ 386,771$ | $\$ 576,521$ | $\$ 173,037$ | $\$-$ | $\$ 359,866$ | $\$ 532,903$ |
| :--- | :---: | :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Retail | 1,924 | - | 32,750 | 34,674 | 1,927 | - | 32,945 | 34,872 |
| Wholesale | - | 13,926 | 81,000 | 94,926 | - | 13,366 | 74,139 | 87,505 |

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| Bloomnet | - | 33,502 | - | 33,502 | - | 26,773 | - | 26,773 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| services | - | - | - | 1,508 | 1,710 | - | - | 1,710 |
| Franchise/Other | 1,508 | - | - | 582 | - | - | - | 587 |
| Corporate | - | - | - | $(901$ | - | - | - | $(908$ |
| Eliminations | - | - | $\$ 470,812$ | $\$ 176,674$ | $\$ 40,139$ | $\$ 466,950$ | $\$ 683,442$ |  |

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## Note 13 - Commitments and Contingencies

## Litigation

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

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

## Forward Looking Statements


#### Abstract

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


## Overview

1-800-FLOWERS.COM, Inc. and its subsidiaries (collectively, the "Company") is a leading provider of gifts designed to help customers express, connect and celebrate. For more than 40 years, 1-800-Flowers.com ${ }^{\circledR}$ has been delivering smiles to customers with gifts for every occasion, including fresh flowers and the best selection of plants, gift baskets, gourmet foods, confections, jewelry, candles, balloons and plush stuffed animals. As always, our $100 \%$ Smile Guarantee ${ }^{\circledR}$ backs every gift. The Company's family of brands includes 1-800-Flowers.com®, 1-800-Baskets.com®, Cheryl's Cookies ${ }^{\circledR}$, FruitBouquets.com®, Harry \& David $®$, Moose Munch $\circledR$, The Popcorn Factory ${ }^{\circledR}$, Wolferman's ${ }^{\circledR}$, Personalization Universe ${ }^{\circledR}$, Simply Chocolate ${ }^{\circledR}$, Goodsey ${ }^{\text {SM }}$, DesignPac Gifts LLC, and Stock Yards®. Through the Celebrations Passport® loyalty program, which provides members with free standard shipping and no service charge across our portfolio of brands, 1-800-FLOWERS.COM, Inc. strives to deepen its relationships with its customers. The Company also operates BloomNet ${ }^{\circledR}$, an international floral wire service providing a broad-range of products and services designed to help professional florists grow their businesses profitably, as well as $\mathrm{Napco}{ }^{\mathrm{SM}}$, a resource for floral gifts and seasonal décor. 1-800-FLOWERS.COM, Inc. received the Gold award in the "Mobile Payments and Commerce" category at the Mobile Marketing Association 2018 Global Smarties Awards. In addition, Harry \& David was named to the Internet Retailer 2019 "The Hot 100" list. Shares in 1-800-FLOWERS.COM, Inc. are traded on the NASDAQ Global Select Market, ticker symbol: FLWS.

For additional information, see Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" of our Annual Report on Form 10-K for the year ended July 1, 2018.

## Definitions of non-GAAP Financial Measures:

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

## EBITDA and adjusted (comparable) EBITDA

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

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

EBITDA and adjusted (comparable) EBITDA have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. Some of the limitations are: (a) EBITDA and adjusted (comparable) EBITDA do not reflect changes in, or cash requirements for, the Company's working capital needs; (b) EBITDA and adjusted (comparable) EBITDA do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Company's debts; and (c) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future and EBITDA does not reflect any cash requirements for such capital expenditures. EBITDA should only be used on a supplemental basis combined with GAAP results when evaluating the Company's performance.

[^0]We define segment contribution margin as earnings before interest, taxes, depreciation and amortization, before the allocation of corporate overhead expenses. Adjusted (comparable) segment contribution margin is defined as segment contribution margin adjusted for certain items affecting period to period comparability. See Segment Information for details on how segment contribution margin and comparable segment contribution margin were calculated for each period presented.

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

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

## Adjusted net income and adjusted (comparable) net income per common share

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

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

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

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## Segment Information

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

## Net revenues:

| 1-800-Flowers.com Consumer Floral | $\$ 108,106$ | $\$ 100,064$ | 8.0 | $\%$ |
| :--- | :--- | :--- | :--- | :--- |
| BloomNet Wire Service | 23,435 | 20,375 | 15.0 | $\%$ |
| Gourmet Food \& Gift Baskets | 440,003 | 405,964 | 8.4 | $\%$ |
| Corporate | 315 | 317 | -0.6 | $\%$ |
| Intercompany eliminations | $(543$ | $)$ | $(627$ | $)$ |
| Total net revenues | $\$ 571,316$ | $\$ 526,093$ | 8.6 | $\%$ |

Gross profit:
1-800-Flowers.com Consumer Floral

BloomNet Wire Service

Gourmet Food \& Gift Baskets

Corporate

## Total gross profit



EBITDA (non-GAAP)
Segment Contribution Margin (non-GAAP) (a):

| 1-800-Flowers.com Consumer Floral | $\$ 9,808$ | $\$ 10,791$ | -9.1 | $\%$ |
| :--- | :--- | :--- | :--- | :--- |
| BloomNet Wire Service | 8,257 | 7,692 | 7.3 | $\%$ |
| Gourmet Food \& Gift Baskets | 105,514 | 93,496 | 12.9 | $\%$ |
| Segment Contribution Margin Subtotal | 123,579 | 111,979 | 10.4 | $\%$ |
| Corporate (b) | $(20,925)$ | $(18,836$ | -11.1 | $\%$ |
| EBITDA (non-GAAP) | 102,654 | 93,143 | 10.2 | $\%$ |
| Add: Stock-based compensation | 1,673 | 968 | 72.8 | $\%$ |
| Add: Comp charge related to NQ Plan Investment Appreciation | $(1,249)$ | 364 | -443.1 | $\%$ |
| Adjusted EBITDA (non-GAAP) | $\$ 103,078$ | $\$ 94,475$ | 9.1 | $\%$ |

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## Net revenues:

1-800-Flowers.com Consumer Floral
BloomNet Wire Service
Gourmet Food \& Gift Baskets
Corporate
Intercompany eliminations
Total net revenues
Gross profit:

| 1-800-Flowers.com Consumer Floral | \$74,920 |  | \$69,578 |  | 7.7 | \% |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 38.8 | \% | 39.4 | \% |  |  |
| BloomNet Wire Service | 24,235 |  | 22,751 |  | 6.5 | \% |
|  | 51.1 | \% | 56.7 | \% |  |  |
| Gourmet Food \& Gift Baskets | 223,702 |  | 209,620 |  | 6.7 | \% |
|  | 44.7 | \% | 44.9 | \% |  |  |
| Corporate (a) | 510 |  | 588 |  | -13.3 | \% |
|  | 87.6 | \% | 100.2 | \% |  |  |
| Total gross profit | \$323,367 |  | \$ 302,537 |  | 6.9 | \% |
|  | 43.7 | \% | 44.3 | \% |  |  |

EBITDA (non-GAAP):
Segment Contribution Margin (non-GAAP) (a):
1-800-Flowers.com Consumer Floral
BloomNet Wire Service
Gourmet Food \& Gift Baskets
Segment Contribution Margin Subtotal
Corporate (b)
EBITDA (non-GAAP)
Add: Stock-based compensation
Add: Comp charge related to NQ Plan Investment Appreciation
Adjusted EBITDA (non-GAAP)

| $\$ 17,303$ | $\$ 17,762$ | -2.6 | $\%$ |
| :--- | :--- | :--- | :--- |
| 15,895 | 14,393 | 10.4 | $\%$ |
| 96,393 | 88,509 | 8.9 | $\%$ |
| 129,591 | 120,664 | 7.4 | $\%$ |
| $(42,060)$ | $(39,040)$ | -7.7 | $\%$ |
| 87,531 | 81,624 | 7.2 | $\%$ |
| 2,628 | 2,069 | 27.0 | $\%$ |
| $(967$ | 639 | -251.3 | $\%$ |
| $\$ 89,192$ | $\$ 84,332$ | 5.8 | $\%$ |

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

Net income

| Three Months Ended | Six Months Ended |
| :---: | :---: |
| December | Decemb |
| $\text { 31, } 2017$ | 30, $\quad$ 31, 2017 |

Adjustments to reconcile net income to adjusted net income (non-GAAP)
Deduct U.S. tax reform benefit on deferred income tax (c)
Adjusted net income (non-GAAP)

| - | 12,158 | - | 12,158 |
| :--- | ---: | ---: | ---: |
| $\$ 68,578$ | $\$ 58,541$ | $\$ 51,312$ | $\$ 45,319$ |

Basic and diluted net income per common share
Basic

| $\$ 1.07$ | $\$ 1.09$ | $\$ 0.80$ | $\$ 0.89$ |
| :--- | :--- | :--- | :--- |
| $\$ 1.04$ | $\$ 1.06$ | $\$ 0.77$ | $\$ 0.86$ |

Basic and diluted adjusted net income per common share (non-GAAP)
Basic
Diluted

| $\$ 1.07$ | $\$ 0.91$ | $\$ 0.80$ | $\$ 0.70$ |
| :--- | :--- | :--- | :--- |
| $\$ 1.04$ | $\$ 0.88$ | $\$ 0.77$ | $\$ 0.68$ |

Weighted average shares used in the calculation of net income and adjusted net income per common share
Basic

| 64,209 | 64,601 | 64,415 | 64,778 |
| :--- | :--- | :--- | :--- |
| 66,136 | 66,782 | 66,483 | 67,037 |

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

| Net income | $\$ 68,578$ | $\$ 70,699$ | $\$ 51,312$ | $\$ 57,477$ |
| :--- | :--- | :--- | :--- | :--- |
| Add: |  |  |  |  |
| Interest expense, net | 2,696 | 1,140 | 3,412 | 1,911 |
| Depreciation and amortization | 7,969 | 8,677 | 15,812 | 16,761 |
| Income tax expense | 23,411 | 12,627 | 16,995 | 5,475 |
| EBITDA | 102,654 | 93,143 | 87,531 | 81,624 |
|  | $(1,249$ | 364 | $(967$ | 639 |

Add: Compensation charge/(benefit) related to NQ plan investment appreciation/depreciation

| Add: Stock-based compensation | 1,673 | 968 | 2,628 | 2,069 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |

Adjusted EBITDA
\$103,078 \$ 94,475 \$89,192 \$84,332

Segment performance is measured based on segment contribution margin or segment Adjusted EBITDA, reflecting only the direct controllable revenue and operating expenses of the segments, both of which are non-GAAP
a) measurements. As such, management's measure of profitability for these segments does not include the effect of corporate overhead, described above, depreciation and amortization, other income (net), and other items that we do not consider indicative of our core operating performance.
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, b) these functions are operated under a centralized management platform, providing support services throughout the organization. The costs of these functions, other than those of the Customer Service Center, which are allocated directly to the above categories based upon usage, are included within corporate expenses as they are not directly allocable to a specific segment.
The adjustment to deduct the U.S. tax reform impact from Net Income includes the impact of the re-valuation of
c) the Company's deferred tax liability of $\$ 12.2$ million, or $\$ 0.18$ per diluted share, as a result of the Tax Act, but does not include the ongoing impact of the lower federal corporate tax rate.

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## Results of Operations

## Net Revenues

| Three Months Ended |  |  |  | Six Months Ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| December December |  | \% |  | December December |  | \% |  |
| 30, 2018 | 31, 2017 | Change |  | 30, 2018 | 31, 2017 | Change |  |
| (dollars in thousands) |  |  |  |  |  |  |  |
| \$458,821 | \$ 424,132 | 8.2 | \% | \$576,521 | \$ 532,903 | 8.2 | \% |
| 112,495 | 101,961 | 10.3 | \% | 164,291 | 150,539 | 9.1 | \% |
| \$571,316 | \$526,093 | 8.6 | \% | \$740,812 | \$683,442 | 8.4 |  |

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

Net revenues increased $8.6 \%$ and $8.4 \%$ during the three and six months ended December 30, 2018, respectively, compared to the same periods of the prior year, due to strong customer demand for both holiday and everyday gifting occasions in our Gourmet Food \& Gift Baskets and Consumer Floral segments, as well as membership, transaction and services growth in the BloomNet Wire Service segment.

Disaggregated revenue by channel follows:

Three Months Ended
December 30, 2018

| Consumer |  |  |
| :--- | :--- | :--- |
| Floral | BloomNet <br> Wire | Gourmet <br>  <br> Gift |
| Service |  |  | | Baskets |
| :--- |

Three Months Ended
December 31, 2017

| Consumer | BloomNet <br> Wire | Gourmet <br>  <br> Gift | Consolidated |
| :--- | :--- | :--- | :--- |
| Sloral | Service | Baskets |  |

Net revenues

| E-commerce | $\$ 106,300$ | $\$-$ | $\$ 352,521$ | $\$ 458,821$ | $\$ 98,125$ | $\$-$ | $\$ 326,007$ | $\$ 424,132$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Retail | 1,063 | - | 24,971 | 26,034 | 1,056 | - | 24,852 | 25,908 |
| Wholesale | - | 5,793 | 62,511 | 68,304 | - | 6,012 | 55,105 | 61,117 |
| BloomNet | - | 17,642 | - | 17,642 | - | 14,363 | - | 14,363 |
| services | - | - | - | 743 | 883 | - | - | 883 |
| Franchise/Other | 743 | - | - | 315 | - | - | - | 317 |
| Corporate | - | - | - |  |  |  |  |  |


| Eliminations | - | - | - | $(543$ | $)$ | - | - | $(627$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Net revenues | $\$ 108,106$ | $\$ 23,435$ | $\$ 440,003$ | $\$ 571,316$ | $\$ 100,064$ | $\$ 20,375$ | $\$ 405,964$ | $\$ 526,093$ |


|  | Six Months Ended December 30, 2018 |  |  |  | Six Months Ended December 31, 2017 |  | Gourmet <br>  <br> Gift <br> Baskets | Consolidated |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Consumer Floral | BloomNet <br> Wire <br> Service | Gourmet <br>  <br> Gift <br> Baskets | Consolidated | Consumer <br> Floral | BloomNet Wire Service |  |  |
| Net revenues |  |  |  |  |  |  |  |  |
| E-commerce | \$ 189,750 | \$ - | \$386,771 | \$ 576,521 | \$173,037 | \$ | \$359,866 | \$ 532,903 |
| Retail | 1,924 | - | 32,750 | 34,674 | 1,927 |  | 32,945 | 34,872 |
| Wholesale | - | 13,926 | 81,000 | 94,926 | - | 13,366 | 74,139 | 87,505 |
| Bloomnet services | - | 33,502 | - | 33,502 | - | 26,773 | - | 26,773 |
| Franchise/Other | 1,508 | - | - | 1,508 | 1,710 | - | - | 1,710 |
| Corporate | - | - | - | 582 | - | - | - | 587 |
| Eliminations | - | - | - | (901 ) | ) - | - | - | (908 |
| Net revenues | \$ 193,182 | \$ 47,428 | \$500,521 | \$ 740,812 | \$176,674 | \$ 40,139 | \$466,950 | \$ 683,442 |

E-commerce revenues (combined online and telephonic) increased by $8.2 \%$ during both the three and six months ended December 30, 2018, compared to the same periods of the prior year, as a result of growth within the Consumer Floral and Gourmet Foods \& Gift Baskets segments of $8.3 \%$ and $8.1 \%$ for the three months ended December 30, 2018 , respectively and $9.7 \%$ and $7.5 \%$ for the six months ended December 30,2018 , respectively. During the three months ended December 30, 2018, the Company fulfilled approximately $5,497,000$ orders through its e-commerce sales channels (online and telephonic sales), an increase of $6.3 \%$ compared to the same period of the prior year, while average order value increased $1.8 \%$, to $\$ 83.47$, during the three months ended December 30, 2018, compared to the same period of the prior year. During the six months ended December 30, 2018, the Company fulfilled approximately $7,153,000$ orders through its e-commerce sales channels (online and telephonic sales), an increase of $6.9 \%$ compared to the same period of the prior year, while average order value increased $1.2 \%$, to $\$ 80.60$, during the six months ended December 30, 2018, compared to 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 \& Gift Baskets segments. Other revenues increased by $10.3 \%$ and $9.1 \%$ during the three and six months ended December 30, 2018, respectively, compared to the same periods of the prior year, primarily as a result of services growth within the BloomNet Wire Service segment, and wholesale growth within the Gourmet Food \& Gift Baskets segment.

The 1-800-Flowers.com Consumer Floral segment includes the operations of the 1-800-Flowers.com brand, which derives revenue from the sale of consumer floral products through its e-commerce sales channels (telephonic and online sales), retail stores, and royalties from its franchise operations. Net revenues increased $8.0 \%$ and $9.3 \%$, during the three and six months ended December 30, 2018, compared to the same periods of the prior year, due to strength in everyday and holiday gifting, driven in part by the Company's investments in strategic marketing and merchandising

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programs designed to accelerate growth and increase market share. Revenues during the six months ended December 31, 2017 were negatively impacted, by approximately $\$ 0.8$ million, due to hurricanes Harvey and Irma.

The BloomNet Wire Service segment includes revenues from membership fees as well as other product and service offerings to florists. Net revenues increased $15.0 \%$ and $18.2 \%$ during the three and six months ended December 30, 2018, respectively, compared to the same periods of the prior year, primarily due to higher services revenues, including membership, reciprocity, clearinghouse, directory and transaction fees, driven by increased 1-800-Flowers and florist-to-florist orders sent through the network, as well as an increase in wholesale product volume. During the six months ended December 31, 2017, revenues were negatively impacted, by approximately $\$ 0.2$ million, as a result of forgiveness of fees for shops affected by hurricanes Harvey and Irma.

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The Gourmet Food \& Gift Baskets segment includes the operations of Harry \& David, Wolferman's, Stockyards, Cheryl's, 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 and Cheryl's brand names, as well as wholesale operations. Net revenues increased $8.4 \%$ and $7.2 \%$ during the three and six months ended December 30, 2018, respectively, compared to the same periods of the prior year attributable to: (i) strong growth at Harry \& David, driven by improved merchandising assortments, increased investments in digital marketing programs, which contributed to new customer growth, and its "Share More" messaging which resonated with customers; (ii) higher revenue at Cheryl's Cookies, as the brand was able to win-back customers, drive demand, and fulfill increased volume, as a result of initiatives that corrected operational issues experienced during the weeks leading up to the Christmas holiday in the prior year; and (iii) strong growth in the 1-800-Baskets/DesignPac business due to increased demand from new and existing wholesale customers, as well as e-commerce demand for the Simply Chocolates line of products. The operational issues at Cheryl's have been addressed, and business has returned to its normal pace. The increases noted above were partially offset by the timing of our 2018 Cherry Fruit of the Month Club shipment, which, due to the timing of the harvest, was shipped at the end of June 2018, compared to the 2017 crop, which ripened later, and was shipped in the beginning of July 2017.

## Gross Profit

| Three Months Ended |  |  | Six Months Ended |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| December | December | \% | December | December | \% |
| 30, 2018 | 31, 2017 | Change | 30, 2018 | 31, 2017 | Change |
| (dollars in thousands) |  |  |  |  |  |
| \$254,827 | \$ 235,259 | 8.3 | \% \$323,367 | \$ 302,537 | 6.9 |
| 44.6 \% | 44.7 |  | 43.7 \% | 44.3 |  |

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 includes labor and facility costs related to direct-to-consumer and wholesale production operations, as well as payments made to sending florists related to order volume sent through the Company's BloomNet network.

Gross profit increased $8.3 \%$ and $6.9 \%$ during the three and six months ended December 30, 2018, respectively, compared to the same periods of the prior year, due to the increase in revenues noted above, partially offset by a decline in gross profit percentage of 10 and 60 basis points, during the three and six months ended December 30, 2018, respectively, compared to the same periods of the prior year. The lower gross profit percentage reflects the impact of promotional activity to increase sales, continued rising seasonal labor costs, the growth of our Passport free shipping program, and BloomNet's lower gross margin percentage, partially offset by logistics initiatives, which
reduced per order transportation costs, as well as shifting some product manufacturing to earlier in the season to better utilize our core workforce, thereby reducing the need for seasonal labor, and the automation of certain manufacturing functions.

The 1-800-Flowers.com Consumer Floral segment gross profit increased by $7.2 \%$ and $7.7 \%$ during the three and six months ended December 30, 2018, respectively, compared to the same periods of the prior year, as a result of the revenue increases noted above, partially offset by a decrease in gross profit percentage of 30 and 60 basis points to $38.5 \%$ and $38.8 \%$, respectively. The lower gross profit percentages reflect higher product costs and promotional activity, as well as an increased Passport program participation, which has improved customer loyalty and purchase frequency.

The BloomNet Wire Service segment's gross profit increased by $5.4 \%$ and $6.5 \%$ during the three and six months ended December 30, 2018, respectively, compared to the same periods of the prior year, due to the increase in revenues noted above, partially offset by a decrease in gross profit percentage of 480 and 560 basis points to $52.6 \%$ and $51.1 \%$, respectively. The lower gross profit percentages are due to the mix impact resulting from the increase in the volume of lower margin florist-to-florist orders on membership and transaction fee margins.

The Gourmet Food \& Gift Baskets segment gross profit increased by $8.8 \%$ and $6.7 \%$ during the three and six months ended December 30, 2018, respectively, compared to the same periods of the prior year, due to the increase in revenues noted above. Gross profit percentage increased 20 basis points to $45.6 \%$ during the three months ended December 30, 2018, primarily due to logistics initiatives, which lowered shipping costs at Harry \& David and Cheryl's, as well as improved operational performance at Cheryl's, which experienced fulfillment issues during the weeks leading up to the Christmas holiday in the prior year. Gross profit percentage decreased 20 basis points to $44.7 \%$ during the six months ended December 30,2018 , due to sales mix, rising labor costs, and penetration of Passport.

## Marketing and Sales Expense



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 $5.2 \%$ and $5.6 \%$ during the three and six months ended December 30, 2018, primarily due to increased advertising spend within the Consumer Floral and Gourmet Foods \& Gift Baskets segments, as a result of the Company's incremental marketing efforts designed to accelerate revenue growth and capture market share, as well as an increase in performance-based bonuses. Increased efficiency around our digital marketing programs generated strong revenue growth, which in turn, enabled us to leverage our platform, while automation initiatives in our service centers drove lower customer service costs, allowing us to reduce marketing and sales as a percentage of net sales by 70 and 60 basis points, to $20.9 \%$ and $23.3 \%$, during the three and six months ended December 30, 2018, respectively.

The variances above include the impact of the adoption of ASC 606, which requires that the costs of producing and distributing the Company's catalogs be expensed upon mailing, instead of being capitalized and amortized in direct proportion to the actual sales. During the three months ended December 30, 2018, assuming we had not adopted the new revenue standard, "Marketing and sales" expense, within our statement of operations, would have been approximately $\$ 0.4$ million higher. During the six months ended December 30, 2018, assuming we had not adopted the new revenue standard, "Marketing and sales" expense, within our statement of operations, would have been approximately $\$ 1.2$ million lower.

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## Technology and Development Expense



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 $18.9 \%$ and $12.4 \%$ during the three and six months ended December 30,2018 , compared to the same periods of the prior year, primarily due to increased license and maintenance costs required to support the Company's technology platform, as well an increase in labor due to annual merit increases and an increase in performance-based bonuses.

## General and Administrative Expense



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 $12.7 \%$ and $9.0 \%$ during the three and six months ended December 30, 2018, compared to the same periods of the prior year, primarily due to higher health insurance costs and professional fees, as well as an increase in labor costs related to performance-based bonuses, partially offset by a decrease in the value of Non-Qualified Deferred Compensation Plan investments (increase offset in Other (income) expense net line item on the financials statement - see below).

## Depreciation and Amortization Expense



Depreciation and amortization expense for the three and six months ended December 30, 2018 decreased $8.2 \%$ and $5.7 \%$, respectively, compared to the same periods of the prior year, as certain short-lived assets were fully depreciated/amortized in the first half of fiscal 2019.

## Interest Expense, net

| Three M | Months End |  | Six M | ths Ended |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Decemb | December | \% | Dec | December |  |
| $\begin{aligned} & \text { 30, } \\ & 2018 \end{aligned}$ | $\text { 31, } 2017$ | Change |  | 31, 2017 | Change |

(dollars in thousands)
Interest expense, net $\$ 1,430 \quad \$ 1,226 \quad 16.6 \quad \% \quad \$ 2,420 \quad \$ 2,257 \quad 7.2 \quad \%$

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

Interest expense, net increased $16.6 \%$ and $7.2 \%$ during the three and six months ended December 30, 2018, compared to the same periods of the prior year, due to the impact of increasing interest rates on the Company's variable rate

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Revolver, partially offset by a declining outstanding Term Loan balance, and higher interest earned on available cash balances.

## Other (income) expense, net

| Three Months Ended | Six Months Ended |  |  |
| :--- | :--- | :--- | :--- |
| December | December | \% | December |
| 30, | 30, | Becember | \% |
| 2018 31, 2017 $\quad$ Change | 2018 | 31, 2017 | Change |
| (dollars in thousands) |  |  |  |

Other (income) expense, net $\$ 1,266 \$(86)-1,572.1 \% ~ \$ 992 \$(346)-386.7 \%$

Other income, net for the three and six months ended December 30, 2018 consists primarily of investment losses of the Company's Non-Qualified Deferred Compensation Plan assets.

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

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## Income Taxes

The Company recorded an income tax expense of $\$ 23.4$ million and $\$ 17.0$ million, during the three and six months ended December 30, 2018, respectively, and income tax expense of $\$ 12.6$ million and $\$ 5.5$ million, during the three and six months ended December 31, 2017, respectively. The Company's effective tax rate for the three and six months ended December 30, 2018 was $25.4 \%$ and $24.9 \%$, respectively, compared to $15.2 \%$ and $8.7 \%$ in the same periods of the prior year. The effective rates for fiscal 2019 differed from the U.S. federal statutory rate of $21 \%$ due to state income taxes and nondeductible expenses for executive compensation, which were partially offset by various permanent differences and tax credits. The effective rates for fiscal 2018 differed from the transitional U.S. federal tax rate of $28.0 \%$ due to a tax benefit of $\$ 12.2$ million, or $\$ 0.18$ per diluted share, recognized during the second quarter of fiscal 2018, reflecting a revaluation of deferred tax liabilities at the lower U.S. federal statutory rate of $21 \%$, as a result of the Tax Act (see Note 1 - Accounting Policies, in Item 1. above), and various permanent differences and tax credits, partially offset by state income taxes. At December 30, 2018, the Company has an unrecognized tax benefit, including an immaterial amount of accrued interest and penalties, of approximately $\$ 0.6$ million. The Company believes that $\$ 0.1$ million of unrecognized tax positions will be resolved over the next twelve months.

## Liquidity and Capital Resources

## Liquidity and borrowings

The Company's principal sources of liquidity are cash on hand, cash flows generated from operations and borrowings available under the 2016 Amended Credit Agreement (see Note 8 - Debt in Item 1 for details). At December 30, 2018, the Company had working capital of $\$ 186.7$ million, including cash and cash equivalents of $\$ 257.7$ million, compared to working capital of $\$ 148.2$ million, including cash and cash equivalents of $\$ 147.2$ million, at July 1, 2018. 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, generates nearly $50 \%$ of the Company's annual revenues, and all of its earnings. As a result, the Company was able to utilize cash on hand to fund operations through September 2018. In October 2018, the Company borrowed under its Revolver to fund working capital needs, and borrowings peaked at $\$ 30.0$ million in November 2018. Cash generated from operations during the Christmas holiday shopping season enabled the Company to repay the Revolver prior to the end of December 2018. Available cash balances are expected to be sufficient to provide for operating needs until the second quarter of fiscal 2020, when the Company expects to borrow against its Revolver to fund pre-holiday manufacturing and inventory purchases.

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

## Cash Flows

Net cash provided by operating activities of $\$ 139.6$ million for the six months ended December 30, 2018, was primarily attributable to the Company's net income during the period, adjusted by non-cash charges for depreciation/amortization and stock based compensation, as well as seasonal changes in working capital, including holiday related increases in accounts payable and accrued expenses, and reductions in inventory, partially offset by increases in receivables related to holiday season sales.

Net cash used in investing activities of $\$ 11.8$ million for the six months ended December 30, 2018, was primarily attributable to capital expenditures related to the Company's technology initiatives and Gourmet Food \& Gift Baskets segment manufacturing production, warehousing and orchard planting equipment.

Net cash used in financing activities of $\$ 17.4$ million for the six months ended December 30, 2018 was primarily due to Term Loan repayments of $\$ 4.3$ million, and the acquisition of $\$ 13.4$ million of treasury stock. All borrowings under the Company's Revolver were repaid by the end of the fiscal second quarter.

## Stock Repurchase Program

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. On August 30, 2017, the Company's Board of Directors authorized an increase to its stock repurchase plan of up to $\$ 30.0$ million. As of December 30, 2018, $\$ 6.6$ million remained authorized under the plan.

## Contractual Obligations

There have been no material changes outside the ordinary course of business related to the Company's contractual obligations as discussed in the Annual Report on Form 10-K for the year ended July 1, 2018.

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## Critical Accounting Policies and Estimates

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2018, 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 1, 2018, except for the adoption of ASC 606 (see Note 1 - Accounting Policies in Item 1 above for details).

## Recently Issued Accounting Pronouncements

A discussion of recently issued accounting pronouncements, both adopted and yet to be adopted, is included in Note 1 in Item 1 of this Quarterly Report on Form 10-Q.

## 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 sin phrases. These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of the Company's control that could cause actual results to differ materially from the results expressed or implied in the forward-looking statements, including:
the Company's ability:
oto achieve revenue and profitability;
oto leverage its operating platform and reduce operating expenses;
oto manage the increased seasonality of its business;
oto cost effectively acquire and retain customers;
oto effectively integrate and grow acquired companies;

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oto reduce working capital requirements and capital expenditures;
oto compete against existing and new competitors;
to manage expenses associated with sales and marketing and necessary general and administrative and technology
${ }^{0}$ investments; and
oto cost efficiently manage inventories;
the outcome of contingencies, including legal proceedings in the normal course of business; and
general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products.

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

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Forms $10-\mathrm{Q}, 8-\mathrm{K}$ and $10-\mathrm{K}$ reports to the Securities and Exchange Commission. Our Annual Report on Form 10-K filing for the fiscal year ended July 1, 2018 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 $10-\mathrm{K}$ in this filing and investors should refer to it.

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## 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 2016 Amended Credit Agreement 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 $\$ 0.1$ and $\$ 0.3$ million during the three and six months ended December 30, 2018, respectively.

## ITEM 4. CONTROLS AND PROCEDURES

## Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 30, 2018. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 30, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the Company's evaluation required by Rules 13a-15(d) or 15d-15(d) of the Securities Exchange Act of 1934 during the quarter ended December 30, 2018, 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

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

## ITEM 1A. RISK FACTORS.

There were no material changes to the Company's risk factors as discussed in Part 1, Item 1A-Risk Factors in the Company's Annual Report on Form 10-K for the year ended July 1, 2018.

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

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. On August 30, 2017, the Company's Board of Directors authorized an increase to its stock repurchase plan of up to $\$ 30.0$ million. As of December 30, 2018, $\$ 6.6$ million remained authorized under the plan.

The following table sets forth, for the months indicated, the Company's purchase of common stock during the first six months of fiscal 2019, which includes the period July 2, 2018 through December 30, 2018:

| Period | Total <br> Number <br> of | Price | Total | Dumber of |
| :--- | :--- | :--- | :--- | :--- | | Value of |
| :--- |
| Shares |$\quad$ Shares


| Shares <br> PurchasedPer <br> Share | Purchased <br> as Part of | that May <br> Yet Be <br> Purchased |
| ---: | :--- | :--- |
|  | Publicly <br> Announced | Under the <br> Plans or |
|  | Plans or <br> Programs |  |
|  | Programs |  |

(in thousands, except average price paid per share)

| $07 / 02 / 18-07 / 29 / 18$ | - | $\$-$ | - | $\$ 19,997$ |
| :--- | :--- | :--- | :--- | :--- |
| $07 / 30 / 18-08 / 26 / 18$ | - | $\$-$ | - | $\$ 19,997$ |
| $08 / 27 / 18-09 / 30 / 18$ | 345.6 | $\$ 11.66$ | 345.6 | $\$ 15,957$ |
| $10 / 01 / 18-10 / 28 / 18$ | 318.4 | $\$ 11.12$ | 318.4 | $\$ 12,409$ |
| $10 / 29 / 18-11 / 25 / 18$ | 346.0 | $\$ 12.70$ | 346.0 | $\$ 8,010$ |
| $11 / 26 / 18-12 / 30 / 18$ | 115.0 | $\$ 12.31$ | 115.0 | $\$ 6,591$ |
|  |  |  |  |  |
| Total | $1,125.0$ | $\$ 11.89$ | $1,125.0$ |  |

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

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS
31.1 Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * 31.2 Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101.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.

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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: February 8, 2019
Christopher G. McCann
Chief Executive Officer,
Director and President
(Principal Executive Officer)
/s/William E. Shea
William E. Shea
Date: February 8, 2019 Senior Vice President, Treasurer and Chief Financial Officer (Principal
Financial and Accounting Officer)

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[^0]:    Segment contribution margin and adjusted (comparable) segment contribution margin

