

1 800 FLOWERS COM INC  
Form 10-Q  
February 05, 2016  
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 27, 2015**

**or**

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

**For the transition period from     to**

Commission File No. 0-26841

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

(Exact name of registrant as specified in its charter)

DELAWARE                      11-3117311  
(State of incorporation)      (I.R.S. Employer Identification No.)

One Old Country Road, Carle Place, New York 11514

(Address of principal executive offices)(Zip code)

(516) 237-6000

(Registrant's telephone number, including area code)

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

Yes      No

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

Yes      No

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

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

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:

34,722,189

(Number of shares of Class A common stock outstanding as of January 29, 2016)

29,983,004

(Number of shares of Class B common stock outstanding as of January 29, 2016)

---

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

**TABLE OF CONTENTS**

**INDEX**

	<u>Page</u>
<b>Part I. Financial Information</b>	
Item 1. Consolidated Financial Statements:	
Condensed Consolidated Balance Sheets – December 27, 2015 (Unaudited) and June 28, 2015	1
Condensed Consolidated Statements of Income (Unaudited) – Three and Six Months Ended December 27, 2015 and December 28, 2014	2
Condensed Consolidated Statements of Comprehensive Income (Unaudited) – Three and Six Months Ended December 27, 2015 and December 28, 2014	3
Condensed Consolidated Statements of Cash Flows (Unaudited) – Three and Six Months Ended December 27, 2015 and December 28, 2014	4
Notes to Condensed Consolidated Financial Statements (Unaudited)	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk	32
Item 4. Controls and Procedures	32
<b>Part II. Other Information</b>	
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	34
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 3. Defaults upon Senior Securities	34
Item 4. Mine Safety Disclosures	34

Item 5.	Other Information	34
Item 6.	Exhibits	35
	<b>Signatures</b>	<b>36</b>

---

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

	<b>December 27, 2015</b>	<b>June 28, 2015</b>
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 108,444	\$ 27,940
Trade receivables, net	78,206	16,191
Insurance receivable	-	2,979
Inventories	95,009	93,163
Prepaid and other	17,995	14,822
Total current assets	\$ 299,654	\$ 155,095
Property, plant and equipment, net	165,815	170,100
Goodwill	76,956	77,097
Other intangibles, net	79,936	82,125
Other assets	12,981	12,656
Total assets	\$ 635,342	\$ 497,073
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 60,679	\$ 35,425
Accrued expenses	146,519	73,639
Current maturities of long-term debt	16,031	14,543
Total current liabilities	223,229	123,607
Long-term debt	108,656	117,563
Deferred tax liabilities	36,279	37,807
Other liabilities	8,922	7,840
Total liabilities	377,086	286,817
Total 1-800-FLOWERS.COM, Inc. stockholders' equity	258,256	208,449
Noncontrolling interest in subsidiary	-	1,807

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q

Total equity	258,256	210,256
Total liabilities and equity	\$ 635,342	\$ 497,073

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 27,</b>	<b>December 28,</b>	<b>December 27,</b>	<b>December 28,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net revenues	\$548,381	\$534,275	\$704,422	\$660,978
Cost of revenues	295,798	293,850	384,330	367,240
Gross profit	252,583	240,425	320,092	293,738
Operating expenses:				
Marketing and sales	119,539	122,026	172,065	157,598
Technology and development	9,845	9,329	19,156	14,929
General and administrative	20,055	25,558	40,026	39,226
Depreciation and amortization	8,761	8,679	16,733	13,780
Total operating expenses	158,200	165,592	247,980	225,533
Operating income	94,383	74,833	72,112	68,205
Interest expense, net	2,162	2,489	4,053	2,809
Other (income) expense, net	242	149	(15,296)	582
Income before income taxes	91,979	72,195	83,355	64,814
Income tax expense	30,495	26,655	27,307	23,852
Net income	\$61,484	\$45,540	\$56,048	\$40,962
Less: Net loss attributable to noncontrolling interest	(55 )	(231 )	(1,007 )	(559 )
Net income attributable to 1-800-FLOWERS.COM, Inc.	\$61,539	\$45,771	\$57,055	\$41,521
Basic net income per common share attributable to 1-800-FLOWERS.COM, Inc.	\$0.95	\$0.71	\$0.88	\$0.65
Diluted net income per common share attributable to 1-800-FLOWERS.COM, Inc.	\$0.92	\$0.68	\$0.85	\$0.62
Weighted average shares used in the calculation of net income per common share:				
Basic	64,669	64,443	64,747	64,195
Diluted	66,979	67,061	67,220	66,641

*See accompanying Notes to Condensed Consolidated Financial Statements.*





**1-800-FLOWERS.COM, Inc. and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income***(in thousands)**(unaudited)*

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December</b>	<b>December</b>	<b>December</b>	<b>December</b>
	<b>27,</b>	<b>28,</b>	<b>27,</b>	<b>28,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income	\$61,484	\$ 45,540	\$56,048	\$ 40,962
Other comprehensive income/(loss) (currency translation)	79	(412 )	237	(352 )
Comprehensive income	61,563	45,128	56,285	40,610
Less:				
Net loss attributable to noncontrolling interest	(55 )	(231 )	(1,007 )	(559 )
Other comprehensive income (loss) (currency translation) attributable to noncontrolling interest	-	(170 )	87	(129 )
Comprehensive net loss attributable to noncontrolling interest	(55 )	(401 )	(920 )	(688 )
Comprehensive income attributable to 1-800-FLOWERS.COM, Inc.	\$61,618	\$ 45,529	\$57,205	\$ 41,298

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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

	<b>Six months ended</b>	
	<b>December</b>	<b>December</b>
	<b>27,</b>	<b>28,</b>
	<b>2015</b>	<b>2014</b>
<b>Operating activities:</b>		
Net income	\$56,048	\$40,962
Reconciliation of net income to net cash provided by operating activities, net of acquisitions/dispositions:		
Depreciation and amortization	16,733	13,780
Amortization of deferred financing costs	817	639
Deferred income taxes	(1,527 )	(3,429 )
Foreign equity method investment impairment	1,728	-
Loss on sale/assets held for sale impairment-iFlorist	2,138	-
Non-cash impact of write-offs related to warehouse fire	-	29,522
Insurance proceeds for warehouse fire related to property damage	-	15,000
Bad debt expense	641	739
Stock-based compensation	3,181	2,782
Other non-cash items	181	1,474
Changes in operating items:		
Trade receivables	(62,657 )	(49,166 )
Insurance receivable	4,940	(14,945 )
Inventories	(2,266 )	48,990
Prepaid and other	1,572	6,218
Accounts payable and accrued expenses	90,290	86,480
Other assets	(106 )	(879 )
Other liabilities	(69 )	35
<b>Net cash provided by operating activities</b>	<b>111,644</b>	<b>178,202</b>
<b>Investing activities:</b>		
Acquisitions, net of cash acquired	-	(133,117)
Capital expenditures, net of non-cash expenditures	(13,052 )	(14,927 )
Other	-	641
<b>Net cash used in investing activities</b>	<b>(13,052 )</b>	<b>(147,403)</b>
<b>Financing activities:</b>		
Acquisition of treasury stock	(11,232 )	(5,011 )
Proceeds from exercise of employee stock options	563	1,788

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q

Proceeds from bank borrowings	178,000	239,786
Repayment of notes payable and bank borrowings	(185,419)	(165,895)
Debt issuance costs	-	(5,602 )
Other	-	152
<b>Net cash (used in) provided by financing activities</b>	<b>(18,088 )</b>	<b>65,218</b>
Net change in cash and cash equivalents	80,504	96,017
Cash and cash equivalents:		
Beginning of year	27,940	5,203
End of period	\$108,444	\$101,220

*See accompanying Notes to Condensed Consolidated Financial Statements.*

## 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 27, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending July 3, 2016. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended June 28, 2015.

The Company’s quarterly results may experience seasonal fluctuations. Due to the seasonal nature of the Company’s business, and its continued expansion into non-floral products, including the acquisition of Harry & David Holdings, Inc. (“Harry & David”) on September 30, 2014, the Thanksgiving through Christmas holiday season, which falls within the Company’s second fiscal quarter, is expected to generate nearly 50% of the Company’s annual revenues, and all of its earnings. Additionally, due to the number of major floral gifting occasions, including Mother's Day, Valentine’s Day and Administrative Professionals Week, revenues also rise during the Company’s fiscal third and fourth quarters in comparison to its fiscal first quarter. The Easter Holiday, which was on April 5<sup>th</sup> in fiscal 2015, falls on March 27<sup>th</sup> in fiscal 2016. As a result of the timing of Easter, during fiscal 2016, all revenue and EBITDA associated with the Easter Holiday will shift into the Company’s fiscal third quarter.

### *Use of Estimates*

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

### *Recent Accounting Pronouncements*

In April 2015, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2015-05, “Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.” This standard provides guidance to help entities determine whether

a cloud computing arrangement contains a software license that should be accounted for as internal-use software or as a service contract. Upon adoption, an entity has the option to apply the provisions of ASU 2015-05 either prospectively to all arrangements entered into or materially modified, or retrospectively. This standard is effective for the Company's fiscal year ending July 2, 2017. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which amends ASC 835-30, "Interest – Imputation of Interest." In order to simplify the presentation of debt issuance costs, ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability, consistent with the presentation of a debt discount. This presentation is consistent with the guidance in Concepts Statement 6, which states that debt issuance costs are similar to a debt discount and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. Concepts Statement 6 further states that debt issuance costs are not assets because they provide no future economic benefit. This new guidance is effective for the Company's fiscal year ending July 2, 2017 and should be applied retrospectively.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This amended guidance will enhance the comparability of revenue recognition practices and will be applied to all contracts with customers. Expanded disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized are requirements under the amended guidance. This guidance will be effective for the Company's fiscal year ending June 30, 2019 and may be applied retrospectively. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In November 2015 the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes,” which will require entities to present deferred tax assets (“DTAs”) and deferred tax liabilities (“DTLs”) as noncurrent in a classified balance sheet. The ASU simplifies the current guidance (ASC 740-10-45-4), which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet. The ASU is effective for the Company’s fiscal year ending July 1, 2018, and interim periods within those annual periods. The FASB decided to allow all entities to early adopt the ASU for financial statements that had not been issued. Therefore, we adopted this ASU at December 27, 2015, and have reclassified all prior periods to be consistent with the requirements outlined in the ASU. The impact of the adoption was to reclassify and net \$4.9 million of current deferred tax assets within long-term deferred tax liabilities, as of June 28, 2015.

### *Reclassifications*

Certain balances in the prior fiscal years have been reclassified to conform to the presentation in the current fiscal year. See “Recent Accounting Pronouncements” above regarding the impact of our adoption of ASU No. 2015-17 upon the classification of deferred tax assets in our consolidated balance sheets.

### **Note 2 – Net Income Per Common Share**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 27, 2015</b>	<b>December 28, 2014</b>	<b>December 27, 2015</b>	<b>December 28, 2014</b>
	<i>(in thousands, except per share data)</i>			
Numerator:				
Net income	\$61,484	\$ 45,540	\$56,048	\$ 40,962
Less: Net loss attributable to noncontrolling interest	(55 )	(231 )	(1,007 )	(559 )
Income attributable to 1-800-FLOWERS.COM, Inc.	\$61,539	\$ 45,771	\$57,055	\$ 41,521
Denominator:				
Weighted average shares outstanding	64,669	64,443	64,747	64,195
Effect of dilutive securities:				
Employee stock options (1)	1,449	1,534	1,477	1,373
Employee restricted stock awards	861	1,084	996	1,073
	2,310	2,618	2,473	2,446

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q

Adjusted weighted-average shares and assumed conversions	66,979	67,061	67,220	66,641
Net income per common share attributable to 1-800-FLOWERS.COM, Inc.				
Basic	\$0.95	\$ 0.71	\$0.88	\$ 0.65
Diluted	\$0.92	\$ 0.68	\$0.85	\$ 0.62

Note (1): The effect of options to purchase 0.1 million shares for both the three and six months ended December 27, 2015 and 0.3 million and 0.6 million shares for the three and six months ended December 28, 2014, respectively, were excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.



**Note 3 – Stock-Based Compensation**

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note 12 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 2015, that provides for the grant to eligible employees, consultants and directors of stock options, restricted shares, and other stock-based awards.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 27,</b>	<b>December 28,</b>	<b>December 27,</b>	<b>December 28,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<i>(in thousands)</i>			
Stock options	\$ 112	\$ 114	\$ 202	\$ 224
Restricted stock	1,551	1,401	2,979	2,558
Total	1,663	1,515	3,181	2,782
Deferred income tax benefit	481	543	1,042	1,024
Stock-based compensation expense, net	\$ 1,182	\$ 972	\$ 2,139	\$ 1,758

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 27,</b>	<b>December 28,</b>	<b>December 27,</b>	<b>December 28,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<i>(in thousands)</i>			
Marketing and sales	\$ 588	\$ 500	\$ 1,195	\$ 817
Technology and development	92	106	319	169
General and administrative	983	909	1,667	1,796
Total	\$ 1,663	\$ 1,515	\$ 3,181	\$ 2,782

The following table summarizes stock option activity during the six months ended December 27, 2015:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value (000s)</b>
Outstanding at June 28, 2015	3,345,146	\$ 2.93		
Granted	0	\$ -		
Exercised	(108,390 )	\$ 5.07		
Forfeited	(57,157 )	\$ 7.94		
Outstanding at December 27, 2015	3,179,599	\$ 2.77	3.8	\$ 14,605
Options vested or expected to vest at December 27, 2015	3,102,964	\$ 2.77	3.8	\$ 14,240
Exercisable at December 27, 2015	2,234,699	\$ 2.84	3.0	\$ 10,081

As of December 27, 2015, the total future compensation cost related to non-vested options, not yet recognized in the statement of income, was \$1.4 million and the weighted average period over which these awards are expected to be recognized was 3.4 years.

The Company grants shares of Common Stock to its employees that are subject to restrictions on transfer and risk of forfeiture until fulfillment of applicable service conditions and, in certain cases, holding periods (Restricted Stock). The following table summarizes the activity of non-vested restricted stock awards during the six months ended December 27, 2015:

		<b>Weighted Average</b>
	<b>Shares</b>	<b>Grant Date</b>
		<b>Fair Value</b>
Non-vested at June 28, 2015	2,342,052	\$ 5.62
Granted	810,567	\$ 9.43
Vested	(877,862 )	\$ 5.19
Forfeited	(221,503 )	\$ 9.24
Non-vested at December 27, 2015	2,053,254	\$ 6.92

The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of December 27, 2015, there was \$10.6 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of 2.7 years.

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

##### *Acquisition of Harry & David*

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

During the quarter ended June 28, 2015, the Company finalized the allocation of the purchase price to the identifiable assets acquired and liabilities assumed based on its estimates of their fair values on the acquisition date. The

determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. The estimates and assumptions include the projected timing and amount of future cash flows and discount rates reflecting risk inherent in the future cash flows. Of the acquired intangible assets, \$5.2 million was assigned to customer lists, which are being amortized over the estimated remaining lives of between 4 to 11 years, \$35.5 million was assigned to trademarks, \$1.1 million was assigned to leasehold positions and \$16.0 million was assigned to goodwill, which is not expected to be deductible for tax purposes. The goodwill recognized in conjunction with our acquisition of Harry & David is primarily related to synergistic value created in terms of both operating costs and revenue growth opportunities, enhanced financial and operational scale, and other strategic benefits. It also includes certain other intangible assets that do not qualify for separate recognition, such as an assembled workforce.

The following table summarizes the final allocation of the purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition:

	<b>Harry &amp; David</b>
	<b>Final</b>
	<b>Purchase Price</b>
	<b>Allocation</b>
	<i>(in thousands)</i>
Current assets	\$ 126,268
Intangible assets	41,827
Goodwill	16,042
Property, plant and equipment	105,079
Other assets	(131 )
Total assets acquired	289,085
Current liabilities, including short-term debt	104,513
Deferred tax liabilities	42,048
Other liabilities assumed	24
Total liabilities assumed	146,585
Net assets acquired	\$ 142,500

The estimated fair value of the acquired work in process and finished goods inventory was determined utilizing the income approach. The income approach estimates the fair value of the inventory based on the net retail value of the inventory less operating expenses and a reasonable profit allowance. Raw materials inventory was valued at book value, as there have not been any significant price fluctuations or other events that would materially change the cost to replace the raw materials.

The estimated fair value of the deferred revenue was determined based on the costs to perform the remaining services and/or satisfy the Company's remaining obligations, plus a reasonable profit for those activities. These remaining costs exclude sales and marketing expenses since the Deferred Revenue has already been "sold," and no additional sales and marketing expenses will be incurred. The reasonable profit to be earned on the deferred revenue was estimated based on the profit mark-up that the Company earns on similar services.

The estimated fair value of property, plant and equipment was determined utilizing a combination of the cost, sales comparison, market, and excess earnings method approaches, as follows:

Under the cost approach a replacement cost of the asset is first determined based on replacing the real property with assets of equal utility and functionality, developed based on both the indirect and the direct cost methods. The indirect cost method includes multiplying the assets' historical costs by industry specific inflationary trend factors to yield an estimated replacement cost. In applying this method, all direct and indirect costs including tax, freight, installation, engineering and other associated soft costs were considered. The direct cost method includes obtaining a current replacement cost estimate from the Company and equipment dealers, which includes all applicable direct and indirect costs. An appropriate depreciation allowance is then applied to the replacement cost based on the effective age of the assets relative to the expected normal useful lives of the assets, condition of the assets, and the planned future utilization of the assets. The determination of fair value also includes considerations of functional obsolescence and economic obsolescence, where applicable.

The sales comparison approach was considered for certain real estate property. Under the sales comparison approach, an estimate of fair value is determined by comparing the property being valued to similar properties that have been sold within a reasonable period from the valuation date, applying appropriate units of comparison.

The market approach was considered for certain assets with active secondary markets including agricultural equipment, automobiles, computer equipment, general equipment, mobile equipment, packaging machinery and semi-tractors. Under the market approach market, comparables for the assets are obtained from equipment dealers, resellers, industry databases, and published price guides. The market comparables are then adjusted to the subject assets based on age, condition or type of transaction. All applicable direct and indirect costs are also considered and reflected in the final fair value determination.

The fair value of orchards in production was determined based on the excess earnings method under the income approach. This valuation approach assumed that the orchards' production could be sold independently through a wholesale market rather than Harry & David's retail channel. The excess earnings method required calculating future crop revenue as determined by multiplying the future crop volume in tons to be produced by the projected price per ton based on the USDA "Agricultural Prices" report released January 31, 2015 by the National Agricultural Statistics Services. Appropriate expenses were deducted from the sales attributable to the orchards and economic rents were charged for the return on contributory assets. The after-tax cash flows attributable to the asset were discounted back to their net present value at an appropriate rate of return and summed to calculate the value of the orchards.

The estimated fair value of the acquired trademarks was determined using the relief from royalty method, which is a risk-adjusted discounted cash flow approach. The relief from royalty method values an intangible asset by estimating the royalties saved through ownership of the asset. The relief from royalty method requires identifying the future revenue that would be generated by the trademark, multiplying it by a royalty rate deemed to be avoided through ownership of the asset and discounting the projected royalty savings amounts back to the acquisition date. The royalty rate used in the valuation was based on a consideration of market rates for similar categories of assets. The discount rate used in the valuation was based on the Company's weighted average cost of capital, the riskiness of the earnings stream association with the trademarks and the overall composition of the acquired assets.

The estimated fair value of the acquired customer lists was determined using the excess earnings method under the income approach. This method requires identifying the future revenue that would be generated by existing customers at the time of the acquisition, considering an appropriate attrition rate based on the historical experience of the Company. Appropriate expenses are then deducted from the revenues and economic rents are charged for the return on contributory assets. The after-tax cash flows attributable to the asset are discounted back to their net present value at an appropriate intangible asset rate of return and summed to calculate the value of the customer lists.

#### *Disposition of Colonial Gifts Limited*

On December 3, 2013, the Company completed its acquisition of a controlling interest in Colonial Gifts Limited ("iFlorist"). iFlorist, located in the UK, is a direct-to-consumer marketer of floral and gift-related products sold and delivered throughout Europe. The acquisition was achieved in stages and was accounted for using the acquisition method of accounting in accordance with the FASB's guidance regarding business combinations.

During the quarter ended September 27, 2015, the Company's management committed to a plan to sell its iFlorist business in order to focus its internal resources and capital on integrating Harry & David and achieving expected synergy savings. During October 2015, the Company completed the sale of substantially all of the assets of iFlorist to Euroflorist AB ("Euroflorist"), a pan-European floral and gifting company headquartered in Malmo, Sweden. As consideration for the assets sold, the Company received an investment in Euroflorist with a fair value on the date of sale of approximately \$1.5 million. The Company will account for this investment using the cost method as it does not

possess the ability to exercise significant influence over Euroflorist.

As a result of the above, the Company determined that the iFlorist business (disposal group) met the held for sale criteria, as prescribed by FASB ASC 360-10-45-9, as of September 27, 2015. As a result, the Company compared iFlorist's carrying amount (\$3.4 million) to its fair value less cost to sell (\$1.5 million), and recorded an impairment charge of \$1.9 million during the period ended September 27, 2015. The Company recorded this impairment charge within "Other (income) expense, net" in the condensed consolidated statements of operations. During the quarter ended December 27, 2015, the Company completed the sale of the iFlorist business and recorded an additional loss on sale of \$0.2 million.



**Note 5 – Inventory**

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

	<b>December</b>	<b>June</b>
	<b>27,</b>	<b>28,</b>
	<b>2015</b>	<b>2015</b>
	<i>(in thousands)</i>	
Finished goods	\$49,877	\$43,254
Work-in-process	11,175	16,020
Raw materials	33,957	33,889
	\$95,009	\$93,163

**Note 6 – Goodwill and Intangible Assets**

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

	<b>Gourmet</b>			
	<b>BloomNet</b>	<b>Food &amp;</b>		
	<b>1-800-Flowers.com</b>	<b>Gift</b>	<b>Baskets</b>	<b>Total</b>
	<b>Consumer</b>	<b>Wire</b>	<b>(1)</b>	
	<b>Floral</b>	<b>Service</b>		
	<i>(in thousands)</i>			
Balance at June 28, 2015	\$17,582	\$ -	\$ 59,515	\$77,097
Other	(141 )	-	-	(141 )
Balance at December 27, 2015	\$17,441	\$ -	\$ 59,515	\$76,956

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

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



## Note 7 – Investments

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

The Company's equity method investments are comprised of a 32% interest in Flores Online, a Sao Paulo, Brazil based internet floral and gift retailer, that the Company made on May 31, 2012. The book value of this investment was \$1.2 million as of December 27, 2015 and \$2.9 million as of June 28, 2015, and is included in Other assets within the condensed consolidated balance sheets. The Company's equity in the net loss of Flores Online for the quarters ended December 27, 2015 and December 28, 2014 was less than \$0.1 million. During the quarter ended September 27, 2015, the Company determined that the fair value of its investment in Flores Online (\$1.2 million) was below its carrying value (\$2.9 million) and that this decline was other-than-temporary. As a result, the Company recorded an impairment charge of \$1.7 million, which is included within "Other (income) expense, net" in the condensed consolidated statements of operations.

Investments in non-marketable equity instruments of private companies, where the Company does not possess the ability to exercise significant influence, are accounted for under the cost method. Cost method investments are originally recorded at cost, and are included within Other assets in the Company's condensed consolidated balance sheets. The aggregate carrying amount of the Company's cost method investments was \$2.3 million as of December 27, 2015 (including a \$1.5 million investment in Euroflorist – see Note 4 above) and \$0.7 million as of June 28, 2015.

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

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

## Note 8 – Debt

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

	<b>December 27, 2015</b>	<b>June 28, 2015</b>
	<i>(in thousands)</i>	
Revolver (1)	\$-	\$-
Term Loan (1)	124,687	131,813
Bank loan (2)	-	293
Total debt	124,687	132,106
Less: current debt	16,031	14,543
Long-term debt	\$108,656	\$117,563

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

The 2014 Credit Facility requires that while any borrowings are outstanding the Company comply with certain financial and non-financial covenants, including the maintenance of certain financial ratios. The Company was in compliance with these covenants as of December 27, 2015. Outstanding amounts under the 2014 Credit Facility bear interest at the Company's option at either: (i) LIBOR, plus a spread of 175 to 250 basis points, as determined by the Company's leverage ratio, or (ii) ABR, plus a spread of 75 to 150 basis points. The 2014 Credit Agreement is secured by substantially all of the assets of the Company and the Subsidiary Guarantors.

Future principal payments under the term loan are as follows: \$7.1 million – 2016, \$19.6 million – 2017, \$21.4 million – 2018, \$26.7 million – 2019 and \$49.9 million– 2020.

- (2) Bank loan assumed through the Company's acquisition of a majority interest in iFlorist. The Company repaid this loan during the quarter ended December 27, 2015.

## Note 9 - Property, Plant and Equipment

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

	<b>December 27, 2015</b>	<b>June 28, 2015</b>
	<i>(in thousands)</i>	
Land	\$31,077	\$31,077
Orchards in production and land improvements	9,072	9,028
Building and building improvements	55,758	55,121
Leasehold improvements	20,170	19,459
Production equipment and furniture and fixtures	67,653	63,132
Computer and telecommunication equipment	51,783	56,582
Software	127,996	150,695
Capital projects in progress	6,634	7,335
	370,141	392,429
Accumulated depreciation and amortization	(204,326)	(222,329)
	\$165,815	\$170,100

## Note 10 - Fair Value Measurements

Cash and cash equivalents, receivables, accounts payable and accrued expenses are reflected in the consolidated balance sheets at carrying value, which approximates fair value due to the short-term nature of these instruments. Although no trading market exists, the Company believes that the carrying amount of its debt approximates fair value due to its variable nature. The Company's investments in non-marketable equity instruments of private companies are carried at cost and are periodically assessed for other-than-temporary impairment, when an event or circumstances

indicate that an other-than-temporary decline in value may have occurred. The Company's remaining financial assets and liabilities are measured and recorded at fair value (see table below). The Company's non-financial assets, such as definite lived intangible assets and property, plant and equipment, are recorded at cost and are assessed for impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. Goodwill and indefinite lived intangibles are tested for impairment annually, or more frequently if events occur or circumstances change such that it is more likely than not that an impairment may exist, as required under the accounting standards.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the guidance are described below:

- Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
- Level 3 Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

**Fair Value Measurements**

Carrying Value	Assets (Liabilities)		
	Level 1	Level 2	Level 3
	<i>(in thousands)</i>		
Assets (liabilities) as of December 27, 2015:			
Trading securities held in a “rabbi trust” (1)	\$ 4,359	\$ 4,359	\$ -
	\$ 4,359	\$ 4,359	\$ -

**Fair Value Measurements**

Carrying Value	Assets (Liabilities)		
	Level 1	Level 2	Level 3
	<i>(in thousands)</i>		
Assets (liabilities) as of June 28, 2015:			
Trading securities held in a “rabbi trust” (1)	\$ 3,118	\$ 3,118	\$ -
	\$ 3,118	\$ 3,118	\$ -

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 Other assets, with the corresponding liability included in Other liabilities, in the consolidated balance sheets.

#### **Note 11 – Income Taxes**

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. This estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The Company’s effective tax rate from operations for the three months and six months ended December 27, 2015 was 33.2% and 32.8% respectively, compared to 36.9% and 36.8% in the same periods of the prior year. The effective rate for fiscal 2016 differed from the U.S. federal statutory rate of 35% primarily due to the domestic production deduction and various tax credits such as employment credits and research and development credits that were recently renewed by U.S. Congress in December 2015, as well as the impact of the Company’s reduced effective foreign tax rate in the UK resulting from the recent sale of iFlorist in October 2015, partially offset by state income taxes. The effective rate for fiscal 2015 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, and other permanent differences, partially offset by tax credits.

The Company files income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign countries. The Company concluded its U.S. federal examination for fiscal 2011, however, fiscal years 2012 thru 2014 remain subject to U.S. federal examination. Due to ongoing state examinations and non-conformity with the U.S. federal statute of limitations for assessment, certain states remain open from fiscal 2011. The Company commenced operations in foreign jurisdictions in 2012. The Company's foreign income tax filings are open for examination by its respective foreign tax authorities, mainly Canada and the United Kingdom.



The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. At December 27, 2015 the Company has remaining unrecognized tax positions of approximately \$0.6 million, including accrued interest and penalties of \$0.1 million. The Company believes that none of its unrecognized tax positions will be resolved over the next twelve months

## Note 12 – Business Segments

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

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

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

	Three Months Ended		Six Months Ended	
	December 27, 2015	December 28, 2014	December 27, 2015	December 28, 2014
<b>Net Revenues:</b>				
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<i>(in thousands)</i>			
Segment Net Revenues:				
1-800-Flowers.com Consumer Floral	\$94,826	\$99,600	\$167,774	\$173,998
BloomNet Wire Service	19,674	20,110	41,223	40,121
Gourmet Food & Gift Baskets	434,317	414,669	495,910	447,028
Corporate	298	312	555	512
Intercompany eliminations	(734 )	(416 )	(1,040 )	(681 )
Total net revenues	\$548,381	\$534,275	\$704,422	\$660,978

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 27,</b>	<b>December 28,</b>	<b>December 27,</b>	<b>December 28,</b>
<b>Operating Income</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<i>(in thousands)</i>			
Segment Contribution Margin:				
1-800-Flowers.com Consumer Floral	\$11,733	\$9,527	\$19,283	\$16,777
Bloomnet Wire Service	7,355	6,668	14,270	13,165
Gourmet Food & Gift Baskets	103,874	90,455	95,379	88,020
Segment Contribution Margin Subtotal	122,962	106,650	128,932	117,962
Corporate (*)	(19,818 )	(23,138 )	(40,087 )	(35,977 )
Depreciation and amortization	(8,761 )	(8,679 )	(16,733 )	(13,780 )
Operating income	\$94,383	\$74,833	\$72,112	\$68,205

\* Corporate expenses consist of the Company's enterprise shared service cost centers, and include, among other items, Information Technology, Human Resources, Accounting and Finance, Legal, Executive and Customer Service Center functions, as well as Stock-Based Compensation, and integration and acquisition costs related to the acquisition of Harry & David of \$0 and \$0.8 million during the three and six months ended December 27, 2015, respectively and \$3.8 million and \$4.5 million during the three and six months ended and December 28, 2014, respectively. In order to leverage the Company's infrastructure, these functions are operated under a centralized management platform, providing support services throughout the organization. The costs of these functions, other than those of the Customer Service Center, which are allocated directly to the above segments based upon usage, are included within corporate expenses, as they are not directly allocable to a specific segment. The Company has commenced integration of Harry & David into its operating platforms, and as such, their operating costs have been classified in a similar manner.

## Note 13 – Commitments and Contingencies

### *Legal Proceedings*

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

### *Edible Arrangements:*

On November 20, 2014, a complaint was filed in the United States District Court for the District of Connecticut by Edible Arrangements LLC and Edible Arrangements International, LLC, alleging that the Company's use of the terms "Fruit Bouquets," "Edible," "Bouquet," "Edible Fruit Arrangements," "Edible Arrangements," and "DoFruit" and its use of a six-petal pineapple slice design in connection with marketing and selling edible fruit arrangements constitutes trademark infringement, false designation of origin, dilution, and contributory infringement under the federal Lanham Act, 29 USC § 1114 and 1125(a), common law unfair competition, and a violation of the Connecticut Unfair Trade Practices Act, Connecticut General Statutes § 42-110b (a). The Complaint alleges Edible Arrangements has been damaged in the amount of \$97,411,000. The Complaint requests a declaratory judgment in favor of Edible Arrangements, an injunction against the Company's use of the terms and design, an accounting and payment of the Company's profits from its sale of edible fruit arrangements, a trebling of the Company's profits from such sales or of any damages sustained by Edible Arrangements, punitive damages, and attorneys' fees. On November 24, 2014, the Complaint was amended to add a breach of contract claim for use of these terms and the design, based on a contract that had been entered by one of the Company's remote subsidiaries prior to its acquisition by the Company.

On January 29, 2015, the Plaintiffs amended the Complaint to add one of the Company's subsidiaries and to claim its damages were \$ 101,436,000. The Company filed an Answer and a Counterclaim on February 27, 2015. The Answer asserts substantial defenses, including fair use by the Company of generic and descriptive terms, as expressly permitted under the Lanham Act, invalidity of Edible Arrangements' trademark registrations on grounds of fraud and trademark misuse, lack of exclusive rights on the part of Edible Arrangements, functionality of the claimed design mark, acquiescence, estoppel, and Edible Arrangements' use of the claimed trademarks in violation of the antitrust laws.

The Counterclaim seeks a declaratory judgment of lack of infringement and invalidity of claimed marks, cancellation of Edible Arrangements' registrations due to its fraud and misuse, genericism, and lack of secondary meaning as to terms deemed descriptive, and damages in an amount to be determined for violation of the antitrust provisions of the federal Sherman Act and the Connecticut Unfair Trade Practices Act.

By Order dated May 4, 2015, the court ordered a phasing of the case and bifurcated the antitrust Counterclaim from the infringement claims. Discovery has begun and is continuing.

Edible Arrangements filed a motion to dismiss the Company's Sherman Act and Connecticut Unfair Trade Practices Act claims. The Company filed its brief in opposition to the motion to dismiss on July 10, 2015. On November 12, 2015, following oral argument before the Court, the Court denied Edible Arrangements' motion seeking to dismiss the Company's federal Sherman Act and Connecticut Unfair Trade Practices Act claims.

The Company believes its Counterclaims to the Edible Arrangements' claims are meritorious and that there are substantial defenses to all of the Edible Arrangements' claims and expects to defend the claims vigorously.

At this time, we are unable to estimate a possible loss or range of possible loss for the aforementioned action for various reasons, including, among others: (i) the damages sought are indeterminate, (ii) the proceeding is in the early stages, and (iii) there is uncertainty as to the outcome of the pending motion. As a result of the foregoing, we have determined that the amount of possible loss or range of loss is not reasonably estimable. However, legal matters are inherently unpredictable and subject to significant uncertainties, some of which may be beyond our control.

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

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

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

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

During the three months ended September 27, 2015, the Company and its insurance carrier reached final agreement, and during the three months ended December 27, 2015, the Company received all remaining proceeds from its Fannie May fire claim. The agreement, in the amount of \$55.0 million, provided for: (i) recovery of raw materials and work-in-process at replacement cost, and finished goods at selling price, less costs to complete the sale and normal discounts and other charges, as well as (ii) other incremental fire-related costs. The cost of inventory lost in the fire was approximately \$29.6 million, while other fire-related costs amounted to approximately \$5.8 million, including incremental contracted lease and cold storage fees which will be incurred until the Company moves back into its

leased facility once the landlord completes repairs, currently anticipated before the end of the Company's third quarter of fiscal 2016. The resulting gain of \$19.6 million is included in "Other (income) expense, net" in the condensed consolidated statements of operations for the period ended December 27, 2015.

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

### Forward Looking Statements

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

### Overview

1-800-FLOWERS.COM, Inc. and its subsidiaries (collectively, the "Company") is a leading provider of gourmet food and floral gifts for all occasions. For nearly 40 years, 1-800-FLOWERS® ([1-800-356-9377](tel:1-800-356-9377) or [www.1800flowers.com](http://www.1800flowers.com)) has been helping deliver smiles for our customers with gifts for every occasion, including fresh flowers and the finest selection of plants, gift baskets, gourmet foods, confections, candles, balloons and plush stuffed animals. As always, our 100% Smile Guarantee® backs every gift. Most notably, [1-800-FLOWERS.COM](http://1-800-FLOWERS.COM) was recognized as one of the Internet Retailers Top 300 B2B e-commerce companies. In addition, [1-800-FLOWERS.COM](http://1-800-FLOWERS.COM) was recently named in Internet Retailer's 2016 Top Mobile 500 as one of the world's leading mobile commerce sites. The Company was also included in Internet Retailer's 2015 Top 500 for fast growing e-commerce companies. In 2015, [1-800-FLOWERS.COM](http://1-800-FLOWERS.COM) was named a winner of the "Best Companies to Work for in New York State" award by The New York Society for Human Resource Management (NYS-SHRM). [1-800-FLOWERS.COM](http://1-800-FLOWERS.COM) was awarded the 2014 Silver Stevie Award, recognizing the organization's outstanding Customer Service and commitment to our 100% Smile Guarantee®. [1-800-FLOWERS.COM](http://1-800-FLOWERS.COM) received a Gold Award for Best User Experience on a Mobile Optimized Site for the 2013 [Horizon Interactive Awards](#).

The Company's BloomNet® international floral wire service ([www.mybloomnet.net](http://www.mybloomnet.net)) provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably. The [1-800-FLOWERS.COM](http://1-800-FLOWERS.COM) "Gift Shop" also includes gourmet gifts such as premium, gift-quality fruits and other gourmet items from Harry & David® ([1-877-322-1200](tel:1-877-322-1200) or [www.harryanddavid.com](http://www.harryanddavid.com)), popcorn and specialty treats from The Popcorn Factory® ([1-800-541-2676](tel:1-800-541-2676) or [www.thepopcornfactory.com](http://www.thepopcornfactory.com)); cookies and baked gifts from Cheryl's® ([1-800-443-8124](tel:1-800-443-8124) or [www.cheryls.com](http://www.cheryls.com)); premium chocolates and confections from Fannie May®

([www.fanniemay.com](http://www.fanniemay.com) and [www.harrylondon.com](http://www.harrylondon.com)); gift baskets and towers from 1-800- Baskets.com® ([www.1800baskets.com](http://www.1800baskets.com)); premium English muffins and other breakfast treats from Wolferman's (1-800-999-1910 or [www.wolfermans.com](http://www.wolfermans.com)); carved fresh fruit arrangements from FruitBouquets.com ([www.fruitbouquets.com](http://www.fruitbouquets.com)); and top quality steaks and chops from Stock Yards® ([www.stockyards.com](http://www.stockyards.com)).

On September 30, 2014, the Company completed its acquisition of Harry & David Holdings, Inc. (“Harry & David”), a leading multi-channel specialty retailer and producer of branded premium gift-quality fruit, gourmet food products and other gifts marketed under the Harry & David®, Wolferman's® and Cushman's® brands. The transaction, at a purchase price of \$142.5 million, included the Harry & David's brands and websites as well as its headquarters, manufacturing and distribution facilities and orchards in Medford, Oregon, a warehouse and distribution facility in Hebron, Ohio and 46 Harry & David retail stores located throughout the country. Harry & David's revenues were approximately \$386 million in fiscal 2014, with Adjusted EBITDA of approximately \$28 million. The historical results of Harry & David, as well as applicable pro forma results are included in the Company's Form 8-K/A filed on December 16, 2014.

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



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

## Category Information

The following table presents the net revenues, gross profit and category contribution margin from each of the Company's business segments, as well as consolidated EBITDA and Adjusted EBITDA. (Due to certain one-time items, the following Non-GAAP reconciliation tables have been included within MD&A. In order to present comparable information, the financial information for the three and six months ended December 27, 2015 and December 28, 2014 is also being presented on a pro-forma basis to give effect to the Harry & David acquisition as if it had been completed on June 30, 2014. This pro-forma information has been prepared by management for informational purposes only, and is not necessarily indicative of or intended to represent the results that would have been achieved had the acquisition been consummated as of this date. The pre-acquisition operating results of Harry & David, for the three months ended September 28, 2014, included within this pro-forma information, do not reflect any operating efficiencies and/or cost savings that the Company may achieve with respect to the combined companies, but have been adjusted to give effect to non-recurring items that are directly attributable to the acquisition.)

	Three Months Ended							
	December 27, 2015	Reported December 28, 2014	Impact of Warehouse Fire	Impact of Purchase Accounting Adjustment to Deferred Revenue	Impact of Purchase Accounting Adjustment for Inventory Fair Value Step-Up	Impact of Purchase Accounting Adjustment of Harry & David Acquisition Costs	As Adjusted December 28, 2014	% Change
	<i>(dollars in thousands)</i>							
<b>Net revenues:</b>								
1-800-Flowers.com Consumer Floral	\$ 94,826	\$ 99,600	\$ -	\$ -	\$ -	\$ -	\$ 99,600	-4.8 %
BloomNet Wire Service	19,674	20,110	250	-	-	-	20,360	-3.4 %
Gourmet Food & Gift Baskets	434,317	414,669	13,596	1,621	-	-	429,886	1.0 %
Corporate	298	312	-	-	-	-	312	-4.5 %
Intercompany eliminations	(734 )	(416 )	-	-	-	-	(416 )	76.4 %
<b>Total net revenues</b>	<b>\$ 548,381</b>	<b>\$ 534,275</b>	<b>\$ 13,846</b>	<b>\$ 1,621</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 549,742</b>	<b>-0.2 %</b>
<b>Gross profit:</b>								
	\$ 38,218	\$ 38,577	\$ -	\$ -	\$ -	\$ -	\$ 38,577	-0.9 %

Edgar Filing: 1 800 FLOWERS COM INC - Form 10-Q

1-800-Flowers.com Consumer Floral	40.3	%	38.7	%	-	-	-	-	38.7	%
BloomNet Wire Service	11,204		11,075		50	-	-	-	11,125	0.7 %
	56.9	%	55.1	%	-	-	-	-	54.6	%
Gourmet Food & Gift Baskets	202,976		190,577		5,856	1,621	4,760	-	202,814	0.1 %
	46.7	%	46.0	%	-	-	-	-	47.2	%
Corporate (*)	186		196		-	-	-	-	196	-5.1 %
	62.4	%	62.8	%	-	-	-	-	62.8	%
<b>Total gross profit</b>	\$ 252,583		\$ 240,425		\$ 5,906	\$ 1,621	\$ 4,760	\$ -	\$ 252,712	-0.1 %
	46.1	%	45.0	%	42.7	%	-	-	46.0	%
<b>Category Contribution Margin:</b>										
1-800-Flowers.com Consumer Floral	\$ 11,733		\$ 9,527		\$ -	\$ -	\$ -	\$ -	\$ 9,527	23.2 %
BloomNet Wire Service	7,355		6,668		50	-	-	-	6,718	9.5 %
Gourmet Food & Gift Baskets	103,874		90,455		5,531	1,621	4,760	-	102,367	1.5 %
Category Contribution Margin Subtotal	122,962		106,650		5,581	1,621	4,760	-	118,612	3.7 %
Corporate (*)	(19,818 )		(23,138 )		-	-	-	3,755	(19,383 )	2.2 %
<b>EBITDA</b>	\$ 103,144		\$ 83,512		\$ 5,581	\$ 1,621	\$ 4,760	\$ 3,755	\$ 99,229	3.9 %
Add: Stock-based compensation	1,663		1,515		-	-	-	-	1,515	9.8 %
<b>EBITDA, excluding stock-based compensation</b>	\$ 104,807		\$ 85,027		\$ 5,581	\$ 1,621	\$ 4,760	\$ 3,755	\$ 100,744	4.0 %

Six Months Ended

	Reported December 27, 2015	Impact of Harry & David Integration Costs	As Adjusted December 27, 2015	Reported December 28, 2014	Impact of Warehouse Fire	Impact of Purchase Accounting Adjustment to Deferred Revenue	Impact of Purchase Accounting Adjustment for Inventory Fair Value Step-Up	Impact of Purchase Accounting Adjustment & David Acquisition Costs	Impact of Annualization of Acquisition of Harry & David (**)	Adjusted December 28, 2014
<i>(dollars in thousands)</i>										
<b>Net revenues:</b>										
1-800-Flowers.com	\$167,774	\$-	\$167,774	\$173,998	\$-	\$-	\$-	\$-	\$-	\$173,998
Consumer Floral										
BloomNet Wire Service	41,223		41,223	40,121	250	-	-	-	-	40,371
Gourmet Food & Gift Baskets	495,910		495,910	447,028	13,596	1,621	-	-	29,393	491,638
Corporate	555		555	512	-	-	-	-	-	512
Intercompany eliminations	(1,040 )		(1,040 )	(681 )	-	-	-	-	-	(681 )
<b>Total net revenues</b>	<b>\$704,422</b>	<b>\$-</b>	<b>\$704,422</b>	<b>\$660,978</b>	<b>\$13,846</b>	<b>\$1,621</b>	<b>\$-</b>	<b>\$-</b>	<b>\$29,393</b>	<b>\$705,838</b>
<b>Gross profit:</b>										
1-800-Flowers.com	\$66,987	\$-	\$66,987	\$67,311	\$-	\$-	\$-	\$-	\$-	\$67,311
Consumer Floral										
	39.9 %		39.9 %	38.7 %	-	-	-	-	-	38.7 %
BloomNet Wire Service	22,970		\$22,970	22,151	50	-	-	-	-	22,201
	55.7 %		55.7 %	55.2 %	-	-	-	-	-	55.0 %
Gourmet Food & Gift Baskets	229,607		\$229,607	203,799	5,856	1,621	4,760	-	12,701	228,737
	46.3 %		46.3 %	45.6 %	-	-	-	-	-	46.5 %
Corporate (*)	528		\$528	477	-	-	-	-	-	477
	95.1 %		95.1 %	93.2 %	-	-	-	-	-	93.2 %
<b>Total gross profit</b>	<b>\$320,092</b>	<b>\$-</b>	<b>\$320,092</b>	<b>\$293,738</b>	<b>\$5,906</b>	<b>\$1,621</b>	<b>\$4,760</b>	<b>\$-</b>	<b>\$12,701</b>	<b>\$318,726</b>
	45.4 %		45.4 %	44.4 %	42.7 %	-	-	-	-	45.2 %
<b>EBITDA, excluding stock- based compensation</b>										

**Category****Contribution****Margin:**

1-800-Flowers.com	\$19,283	\$-	\$19,283	\$16,777	\$-	\$-	\$-	\$-	\$-	\$16,777
Consumer Floral										
BloomNet Wire	14,270		14,270	13,165	50	-	-	-	-	13,215
Service										
Gourmet Food &	95,379		95,379	88,020	5,531	1,621	4,760	-	(7,441 )	92,491
Gift Baskets										
Category										
Contribution	128,932	-	128,932	117,962	5,581	1,621	4,760	-	(7,441 )	122,483
Margin Subtotal										
Corporate (*)	(40,087 )	828	(39,259 )	(35,977 )	-	-	-	4,468	(7,397 )	(38,906 )
<b>EBITDA</b>	\$88,845	\$828	\$89,673	\$81,985	\$5,581	\$1,621	\$4,760	\$4,468	\$(14,838)	\$83,577
Add: Stock-based										
compensation	3,181		3,181	2,782	-	-	-	-	-	2,782
<b>EBITDA,</b>										
<b>excluding</b>										
<b>stock-based</b>	\$92,026	\$828	\$92,854	\$84,767	\$5,581	\$1,621	\$4,760	\$4,468	\$(14,838)	\$86,359
<b>compensation</b>										

**Reconciliation of net income to adjusted net income attributable to 1-800-FLOWERS.COM, Inc.:**

	Three Months Ended December 27, 2015		Six Months Ended December 27, 2014	
	December 28, 2014	December 27, 2015	December 28, 2014	December 27, 2015
	<i>(in thousands, except per share data)</i>			
Net income	\$61,484	\$45,540	\$56,048	\$40,962
Less: Net loss attributable to noncontrolling interest	(55 )	(231 )	(1,007 )	(559 )
<b>Income attributable to 1-800-FLOWERS.COM, Inc.</b>	61,539	45,771	57,055	41,521
Add back: Annualization of net loss attributable to Harry & David (**)	-	-	-	(11,668 )
Add back: Impairment of iFlorist, net of non-controlling interest, net of tax	242	-	1,169	-
Add back: Impairment of foreign equity method investment, net of tax	-	-	1,089	-
Add back: Harry & David integration costs, net of tax	-	-	522	-
Add back: Harry & David acquisition costs, net of tax	-	2,373	-	2,815
Add back: Purchase accounting adjustment to deferred revenue, net of tax	-	1,024	-	1,024
Add back: Purchase accounting adjustment for inventory fair value step-up, net of tax	-	3,008	-	3,008
Add back: Impact of warehouse fire, net of tax	-	3,527	-	3,527
Deduct: Gain from insurance recovery on warehouse fire, net of tax	-	-	(12,361)	-
<b>Adjusted income attributable to 1-800-FLOWERS.COM, Inc.</b>	\$61,781	\$55,703	\$47,474	\$40,227
<b>Income per common share attributable to 1-800-FLOWERS.COM, Inc.</b>				
Basic	\$0.95	\$0.71	\$0.88	\$0.65
Diluted	\$0.92	\$0.68	\$0.85	\$0.62
<b>Adjusted net income per common share attributable to 1-800-FLOWERS.COM, Inc.</b>				
Basic	\$0.96	\$0.86	\$0.73	\$0.63
Diluted	\$0.92	\$0.83	\$0.71	\$0.60
<b>Weighted average shares used in the calculation of net income and adjusted net income per common share attributable to 1-800-FLOWERS.COM, Inc.</b>				
Basic	64,669	64,443	64,747	64,195
Diluted	66,979	67,061	67,220	66,641



**Reconciliation of net income attributable to 1-800-Flowers.com, Inc. to Adjusted EBITDA, excluding stock-based compensation (\*\*):**

	Three Months Ended		Six Months Ended	
	December	December	December	December
	27,	28,	27,	28,
	2015	2014	2015	2014
	<i>(in thousands)</i>			
<b>Income attributable to 1-800-FLOWERS.COM, Inc.</b>	\$61,539	\$45,771	\$57,055	\$41,521
Add:				
Interest expense, net	2,162	2,638	4,519	3,391
Depreciation and amortization	8,761	8,679	16,733	13,780
Income tax expense	30,495	26,655	27,307	23,852
Impairment of iFlorist	242	-	2,121	-
Impairment of foreign equity method investment	-	-	1,728	-
Less:				
Net loss attributable to noncontrolling interest	55	231	1,007	559
Gain from insurance recovery on warehouse fire	-	-	19,611	-
<b>EBITDA</b>	103,144	83,512	88,845	81,985
Add: Stock-based compensation	1,663	1,515	3,181	2,782
EBITDA, excluding stock-based compensation	104,807	85,027	92,026	84,767
Add: Impact of warehouse fire	-	5,581	-	5,581
Add: Purchase accounting adjustment to deferred revenue	-	1,621	-	1,621
Add: Purchase accounting adjustment for inventory fair value step-up	-	4,760	-	4,760
Add: Acquisition costs	-	3,755	-	4,468
Add: Integration costs	-	-	828	-
Add: EBITDA attributable to Harry & David (pre-acquisition; three months ended 9/28/14)	-	-	-	(14,838 )
<b>Adjusted EBITDA, excluding stock-based compensation</b>	\$104,807	\$100,744	\$92,854	\$86,359

(\*) Corporate expenses consist of the Company's enterprise shared service cost centers, and include, among other items, Information Technology, Human Resources, Accounting and Finance, Legal, Executive and Customer Service Center functions, as well as Stock-Based Compensation. In order to leverage the Company's infrastructure, these functions are operated under a centralized management platform, providing support services throughout the organization. The costs of these functions, other than those of the Customer Service Center, which are allocated directly to the above categories based upon usage, are included within corporate expenses as they are not directly allocable to a specific segment.

(\*\*) Performance is measured based on segment contribution margin or segment Adjusted EBITDA, reflecting only the direct controllable revenue and operating expenses of the segments. As such, management's measure of profitability for these segments does not include the effect of corporate overhead, described above, depreciation and amortization, other income (net), nor does it include one-time charges or gains. Management utilizes

EBITDA, and adjusted financial information, as a performance measurement tool because it considers such information a meaningful supplemental measure of its performance and believes it is frequently used by the investment community in the evaluation of companies with comparable market capitalization. The Company also uses EBITDA and adjusted financial information as one of the factors used to determine the total amount of bonuses available to be awarded to executive officers and other employees. The Company's credit agreement uses EBITDA and adjusted financial information to measure compliance with covenants such as interest coverage and debt incurrence. EBITDA and adjusted financial information is also used by the Company to evaluate and price potential acquisition candidates. EBITDA and adjusted financial information have limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. Some of these limitations are: (a) EBITDA does not reflect changes in, or cash requirements for, the Company's working capital needs; (b) EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Company's debts; and (c) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA does not reflect any cash requirements for such capital expenditures. Because of these limitations, EBITDA should only be used on a supplemental basis combined with GAAP results when evaluating the Company's performance.



## Results of Operations

### Net Revenues

	Three Months Ended			Six Months Ended				
	December 27, 2015	December 28, 2014	% Change	December 27, 2015	December 28, 2014	% Change		
	<i>(dollars in thousands)</i>							
Net revenues:								
E-Commerce	\$412,261	\$409,082	0.8 %	\$516,958	\$493,120	4.8 %		
Other	136,120	125,193	8.7 %	187,464	167,858	11.7 %		
Total net revenues	\$548,381	\$534,275	2.6 %	\$704,422	\$660,978	6.6 %		

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

Net revenues increased 2.6% during the three months ended December 27, 2015, compared to the same period of the prior year as a result of growth within the Gourmet Food and Gift Baskets segment, primarily attributable to the impact on prior year revenues of the Thanksgiving Day Fannie May warehouse fire, as well as growth from Harry & David, Cheryl's and 1-800-Baskets wholesale gift basket businesses, partially offset by declines in the BloomNet segment, resulting from timing of wholesale orders which shifted into the Company's first quarter of fiscal 2016 compared to the prior year, and the Consumer Floral segment due to the impact of the sale of the iFlorist and Fine Stationery businesses during October 2015 and June 2015, respectively. On a comparable basis, adjusting for the estimated lost revenues associated with the warehouse fire in the prior year of \$13.8 million, as well as for the impact of purchase accounting adjustments which reduced the acquired value of Harry & David's deferred revenue by \$1.6 million, and the impact of the dispositions of iFlorist during October 2015, and Fine Stationery during June 2015 (which had combined net revenues of \$5.9 million in the prior year period), pro-forma net revenues during the three months ending December 27, 2015 of \$548.3 million, were favorable in comparison to prior year revenues of \$543.7 million, by 0.8%.

Net Revenues increased 6.6% during the six months ended December 27, 2015, compared to the same period of the prior year as a result of growth within the Gourmet Food and Gift Baskets segment, as a result of the incremental revenue generated by Harry & David, which was acquired on September 30, 2014, the impact on prior year revenues of the Thanksgiving Day Fannie May warehouse fire, as well as order growth within Cheryl's and 1-800-Baskets wholesale gift basket businesses, and increases within the BloomNet segment, partially offset by a decline within the Consumer Floral segment due to the impact of the sale of the iFlorist and Fine Stationery businesses during October 2015 and June 2015, respectively. On a comparable basis, assuming the acquisition of Harry & David and dispositions

of iFlorist and Fine Stationery occurred on June 30, 2014, and adjusting for the estimated lost revenues associated with the warehouse fire in the prior year, pro-forma net revenues during the six months ending December 27, 2015 of \$703.4 million were favorable in comparison to prior year net revenues of \$697.7 million, by 0.8%.

E-commerce revenues (combined online and telephonic) increased by 0.8% during the three months ended December 27, 2015, compared to the same period of the prior year, due to growth within the Gourmet Food & Gift Baskets segment due to the impact of the Thanksgiving Day Fannie May warehouse fire on prior year revenues, combined with e-commerce growth within Harry & David and Cheryl's, partially offset by a decline in the Consumer Floral segment as growth by the 1-800-Flowers.com brand was offset by the loss of revenue from the dispositions of iFlorist and Fine Stationery in October 2015 and June 2015, respectively. During the three months ended December 27, 2015, the Company fulfilled approximately 5,205,000 orders through its e-commerce sales channels (online and telephonic sales), compared to approximately 5,302,000 during the same period of the prior year, while the average order value increased to \$79.20 during the three months ended December 27, 2015 from \$77.16 during the same period of the prior year.

E-commerce revenues increased 4.8%, during the six months ended December 27, 2015 compared to the same period of the prior year, as a result of growth within the Gourmet Food and Gift Baskets segment, as a result of the incremental revenue generated by Harry & David, which was acquired on September 30, 2014, the impact on prior year revenues of the Thanksgiving Day Fannie May warehouse fire, as well as order growth within Cheryl's, partially offset by a decline in the Consumer Floral segment as growth by the 1-800-Flowers.com brand was offset by the loss of revenue from the dispositions of iFlorist and Fine Stationery in October 2015 and June 2015, respectively. The Company fulfilled approximately 6,672,000 orders during the six months ended December 27, 2015, compared to approximately 6,616,000 during the same period of the prior year, through its e-commerce sales channels (online and telephonic sales), while the average order value increased to \$77.48 during the six months ended December 27, 2015 from \$74.53 during the same period of the prior year.

Other revenues are comprised of the Company's BloomNet Wire Service segment, as well as the wholesale and retail channels of its 1-800-Flowers.com Consumer Floral and Gourmet Food and Gift Baskets segments. Other revenues increased by 8.7% during the three months ended December 27, 2015, compared to the same period of the prior year, due to increased revenues within the Gourmet Food & Gift Baskets segment primarily due to an increase in wholesale 1-800-Baskets/DesignPac gift basket orders, and the impact on prior year revenues of the Thanksgiving Day Fannie May warehouse fire.

Other revenues increased by 11.7% during the six months ended December 27, 2015, compared to the same period of the prior year, due to growth within the Gourmet Food and Gift Baskets segment, resulting from the incremental revenue generated by Harry & David, which was acquired on September 30, 2014, increased sales for 1-800-Baskets/DesignPac and the impact of the Thanksgiving Day Fannie May warehouse fire on prior year revenues.

The 1-800-Flowers.com Consumer Floral segment includes the operations of the 1-800-Flowers.com brand, iFlorist, through the date of its disposition in October 2015, deriving revenue from the sale of consumer floral products through their e-commerce sales channels (telephonic and online sales) and royalties from its franchise operations, and Fine Stationery, an e-commerce retailer of stationery products, through the date of its disposition in June 2015. Net revenues decreased 4.8% and 3.6%, respectively, during the three and six months ended December 27, 2015, in comparison to the same periods of the prior year, due to the dispositions of iFlorist and Fine Stationery, partially offset by growth by the 1-800-Flowers.com brand. On a comparable basis, adjusting for the impact of the dispositions of iFlorist and Fine Stationery, pro-forma net revenues during the three and six months ending December 27, 2015 increased 1.1% and 0.5% respectively.

The BloomNet Wire Service segment includes revenues from membership fees as well as other product and service offerings to florists. Net revenues decreased 2.2% during the three months ended December 27, 2015 compared to the same period of the prior year primarily as a result of a timing shift of wholesale product orders which moved to the first quarter of fiscal 2016 compared to the second quarter of fiscal 2015. Net revenues for the for the six months ended December 27, 2015, increased 2.7% compared to the same period of the prior year, due to a combination of higher wholesale volume, and BloomNet initiatives including the implementation of a new florist transaction program in the 3rd quarter of fiscal 2015.

The Gourmet Food & Gift Baskets segment includes the operations of Harry & David, Wolferman's, Stockyards, Cheryl's, Fannie May, Harry London, The Popcorn Factory and 1-800-Baskets/DesignPac. Revenue is derived from the sale of gourmet fruits, cookies, baked gifts, premium chocolates and confections, gourmet popcorn, gift baskets, and prime steaks and chops through the Company's e-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Harry & David, Cheryl's and Fannie May brand names, as well as wholesale operations. Net revenues increased 4.7% during the three months ended December 27, 2015 compared to the same period of the prior year, due to the impact on prior year revenues of the Thanksgiving Day Fannie May warehouse fire, as well as e-commerce growth from Harry & David, Cheryl's and 1-800-Baskets/DesignPac wholesale gift basket business. On a comparable basis, adjusting for the estimated lost revenues associated with the warehouse fire in the prior year of \$13.6 million, as well as for the impact of purchase accounting adjustments which reduced the

acquired value of Harry & David's deferred revenue by \$1.6 million, pro-forma net revenues during the three months ending December 27, 2015 of \$434.3 million, were favorable in comparison to prior year revenues of \$429.9 million, by 1.0%. Net revenues for the six months ended December 27, 2015 increased 10.9% compared to the same period of the prior year, as a result of the incremental revenue generated by Harry & David, which was acquired on September 30, 2014, the impact on prior year revenues of the Thanksgiving Day Fannie May warehouse fire, as well as order growth within Cheryl's and 1-800-Baskets/DesignPac wholesale gift basket business. On a comparable basis, assuming the acquisition of Harry & David occurred on June 30, 2014, and adjusting for the estimated lost revenues associated with the warehouse fire in the prior year, net revenues during the six months ending December 27, 2015 of \$495.9 million were favorable in comparison to prior year pro-forma net revenues of \$491.6 million, by 0.9%.

**Gross Profit**

	Three Months Ended			Six Months Ended		
	December 27, 2015	December 28, 2014	% Change	December 27, 2015	December 28, 2014	% Change
	<i>(dollars in thousands)</i>					
Gross profit	\$252,583	\$240,425	5.1 %	\$320,092	\$293,738	9.0 %
Gross margin %	46.1 %	45.0 %		45.4 %	44.4 %	

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

Gross profit increased 5.1% during the three months ended December 27, 2015, compared to the same period of the prior year, as a result of the aforementioned revenue growth, primarily related to the recovery from the Thanksgiving Day Fannie May warehouse fire, as well as from Harry & David, Cheryl's and 1-800-Baskets/DesignPac wholesale business, partially offset by the impact of the dispositions of iFlorist and Fine Stationery in October 2015 and June 2015, respectively. Gross margin percentage increased 110 basis points to 46.1% during the three months ended December 27, 2015, in comparison to the same period of the prior year due to the mix of sales associated with the recovery from the warehouse fire and the dispositions of iFlorist and Fine Stationery businesses which carried lower gross margins. On a comparable basis, adjusting for the estimated lost gross profit associated with the warehouse fire in the prior year of \$5.9 million, as well as for the impact of Harry & David purchase accounting adjustments which reduced prior year gross profit by \$6.4 million, and the impact of the dispositions of iFlorist and Fine Stationery (which had combined gross profit of \$2.2 million in the prior year), pro-forma gross profit during the three months ending December 27, 2015 of \$252.6 million was favorable in comparison to prior year gross profit of \$250.5 million, by 0.8%, and gross margin percentage was consistent with prior year at 46.1%.

Gross profit increased 9.0% during the six months ended December 27, 2015, compared to the same period of the prior year, primarily as a result of the incremental revenue and associated gross margins generated by Harry & David, which was acquired on September 30, 2014, the recovery from the Thanksgiving Day Fannie May warehouse fire, as well as Cheryl's and 1-800-Baskets/DesignPac wholesale business, partially offset by the impact of the dispositions of iFlorist and Fine Stationery in October 2015 and June 2015, respectively. Gross margin percentage increased 100 basis points to 45.4% during the six months ended December 27, 2015, in comparison to the same period of the prior year due to the mix of sales associated with the recovery from the warehouse fire, higher margins earned by Harry & David, and the dispositions of iFlorist and Fine Stationery businesses which carried lower gross margins. On a comparable basis, assuming the acquisition of Harry & David and dispositions of iFlorist and Fine Stationery occurred on June 30, 2014, and adjusting for the estimated lost gross profit associated with the warehouse fire in the prior year,

pro-forma gross profit during the six months ending December 27, 2015 of \$319.7 million was favorable in comparison to prior year gross profit of \$315.7 million, by 1.3%, and gross margin percentage increased 20 basis points to 45.5%.

The 1-800-Flowers.com Consumer Floral segment gross profit decreased by 0.9% and 0.5%, respectively, during the three and six months ended December 27, 2015, in comparison to the same periods of the prior year, due to the aforementioned decrease in revenues as a result of the dispositions of iFlorist and Fine Stationery in October 2015 and June 2015, respectively. At the same time, gross margin percentage increased 160 basis points to 40.3% during the three months ended December 27, 2015, and 120 basis points to 39.9% during the six months ended December 27, 2015 in comparison to the same periods of the prior year, due to lower promotions, sourcing and shipping savings, as well as the dispositions of iFlorist and Fine Stationery which carried lower overall gross margins. On a comparable basis, adjusting for the impact of the dispositions of iFlorist and Fine Stationery, pro-forma gross profit during the three months ending December 27, 2015 of \$38.2 million was favorable in comparison to prior year gross profit of \$36.4 million, by 4.8%, and gross margin percentage increased 140 basis points to 40.3% in the current period, while pro-forma gross profit during the six months ending December 27, 2015 of \$66.7 million was favorable in comparison to prior year gross profit of \$64.2 million by 3.9%, and gross margin percentage increased 130 basis points to 40.0%.

The BloomNet Wire Service segment gross profit increased by 1.2% and 3.7%, respectively, and gross margin percentage increased 180 basis points and 50 basis points, to 56.9% and 55.7%, respectively, during the three and six months ended December 27, 2015, in comparison to the same periods of the prior year, primarily due to revenue mix, including an increase in higher margin membership fees.

The Gourmet Food & Gift Baskets segment gross profit increased 6.5% and 70 basis points to 46.7% during the three months ended December 27, 2015, compared to the same period of the prior year, due to the recovery from the prior year Thanksgiving Day Fannie May warehouse fire and purchase accounting adjustments relating to the H&D acquisition. On a comparable basis, adjusting for the estimated lost gross profit associated with the Thanksgiving 2014 Fannie May warehouse fire of \$5.9 million, and the impact of purchase accounting adjustments of \$6.4 million, gross profit (\$203.0 million) was favorable in comparison to pro-forma prior year gross profit (\$202.8 million) by 0.1%, while gross margin percentage decreased 50 basis points to 46.7%. During the six months ended December 27, 2015, Gourmet Food & Gift Baskets segment gross profit increased 12.7% and 70 basis points to 46.3%, compared to the same period of the prior year as a result of the incremental revenue and associated gross margins generated by Harry & David, which was acquired on September 30, 2014, the recovery from the Thanksgiving Day Fannie May warehouse fire, as well as Cheryl's and 1-800-Baskets/DesignPac wholesale business. On a comparable basis, assuming the acquisition of Harry & David occurred on June 30, 2014, and adjusting for the estimated lost gross profit associated with the warehouse fire in the prior year, gross profit of \$229.6 million during the six months ending December 27, 2015 was favorable in comparison to prior year pro-forma gross profit of \$228.7 million by 0.4%, while gross margin percentage decreased 20 basis points to 46.3%.

### *Marketing and Sales Expense*

	Three Months Ended			Six Months Ended			
	December	December		December	December		
	27,	28,	%	27,	28,	%	
	2015	2014	Change	2015	2014	Change	
	<i>(dollars in thousands)</i>						
Marketing and sales	\$ 119,539	\$ 122,026	-2.0	\$ 172,065	\$ 157,598	9.2	%
Percentage of net revenues	21.8	% 22.8	%	24.4	% 23.8	%	

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

Marketing and sales expense decreased 2.0% during the three months ended December 27, 2015, compared to the same period of the prior year, primarily due to the improved spend ratio across all segments as a result of efficiencies gained in the marketing campaigns as well as the dispositions of iFlorist and Fine Stationery in October 2015 and June 2015, respectively, both of which carried a higher marketing spend ratio. On a comparable basis, assuming the acquisition of Harry & David occurred on June 30, 2014 and adjusting for the estimated lost revenues from the Fannie May warehouse fire, marketing and sales expense as a percentage of net revenues, would have been 21.8% during the three months ending December 27, 2015 compared to 22.3% during the three months ending December 28, 2014.

Marketing and sales expense increased 9.2% during the six months ended December 27, 2015, compared to the same period of the prior year, primarily as a result of the incremental marketing expenses of Harry & David, which was acquired on September 30, 2014. Similarly, as a percentage of net revenues, marketing and selling expenses increased from 23.8% during the six months ended September 28, 2014 to 24.4% during the six months ended December 27, 2015 as a result of the seasonality of the Harry & David business which is heavily weighted towards the Company's fiscal second quarter. On a comparable basis, assuming the acquisition of Harry & David occurred on June 30, 2014 and adjusting for the estimated lost revenues from the Fannie May warehouse fire, marketing and sales expense as a percentage of net revenues, would have been 24.4% during the six months ending December 27, 2015 compared to 24.6% during the six months ending December 28, 2014.



**Technology and Development Expense**

	Three Months Ended			Six Months Ended		
	December 27, 2015	December 28, 2014	% Change	December 27, 2015	December 28, 2014	% Change
	<i>(dollars in thousands)</i>					
Technology and development	\$9,845	\$ 9,329	5.5 %	\$19,156	\$ 14,929	28.3 %
Percentage of net revenues	1.8 %	1.7 %		2.7 %	2.3 %	

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 5.5% during the three months ended December 27, 2015, compared to the same period of the prior year, as a result of increased license and maintenance costs to support the Company's IT infrastructure.

Technology and development expenses increased 28.3% during the six months ended December 27, 2015, compared to the same period of the prior year, primarily due to the technology and development costs of Harry & David, which was acquired on September 30, 2014, as well as increased license and maintenance costs to support the Company's IT infrastructure. On a comparable basis, assuming the acquisition of Harry & David occurred on June 30, 2014 and adjusting for the estimated lost revenues from the Fannie May warehouse fire, technology and development expense as a percentage of net revenues, would have been 2.7% during the six months ending December 27, 2015 compared to 2.6% during the six months ending December 28, 2014.

**General and Administrative Expense**

	Three Months Ended			Six Months Ended		
	December 27, 2015	December 28, 2014	% Change	December 27, 2015	December 28, 2014	% Change
	<i>(dollars in thousands)</i>					

General and administrative	\$20,055	\$ 25,558	-21.5	%	\$40,026	\$ 39,226	2.0	%
Percentage of net revenues	3.7	%	4.8	%	5.7	%	5.9	%

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

General and administrative expense decreased 21.5% during the three months ended December 27, 2015 compared to the same period of the prior year, as a result of transaction expenses related to the Harry & David acquisition of \$3.8 million incurred during the three months ended December 28, 2014, as well as integration, synergy and performance bonus cost reductions. On a comparable basis, assuming the acquisition of Harry & David occurred on June 30, 2014 and adjusting for the estimated lost revenues from the Fannie May warehouse fire, general and administrative expense as a percentage of net revenues, would have been 3.7% during the three months ending December 27, 2015 compared to 3.9% during the three months ending December 28, 2014.

General and administrative expense increased 2.0% during the six months ended December 27, 2015 compared to the same period of the prior year, as result of the incremental general and administrative expense of Harry & David, which was acquired on September 30, 2014. General and administrative expenses as a percentage of revenues decreased to 5.7% in the six months ended December 27, 2015 from 5.9% during the same period of the prior year, due to a decrease in acquisition and integration expenses related to the Harry & David acquisition (\$0.8 million in the six months ended December 27, 2015, and \$4.5 million incurred in the six months ended December 28, 2014), as well as integration, synergy and performance bonus cost reductions. On a comparable basis, assuming the acquisition of Harry & David occurred on June 30, 2014 and adjusting for the estimated lost revenues from the Fannie May warehouse fire, general and administrative expense as a percentage of net revenues, would have been 5.7% during the six months ending December 27, 2015 compared to 6.1% during the six months ending December 28, 2014.

**Depreciation and Amortization Expense**

	Three Months Ended			Six Months Ended		
	December 27, 2015	December 28, 2014	% Change	December 27, 2015	December 28, 2014	% Change
	<i>(dollars in thousands)</i>					
Depreciation and amortization	\$8,761	\$ 8,679	0.9 %	\$16,733	\$ 13,780	21.4 %
Percentage of net revenues	1.6 %	1.6 %		2.4 %	2.1 %	

Depreciation and amortization expense increased by 0.9% the three months ended December 27, 2015, in comparison to the same period of the prior year due to the Company's technology improvements. Depreciation and amortization expense increased 21.4% during the six months ended December 27, 2015, in comparison to the same period of the prior year, as a result of the incremental depreciation and amortization expenses of Harry & David, acquired on September 30, 2014, including the impact of the additional intangibles amortization, as well as a result of the Company's technology improvements.

**Interest Expense, net**

	Three Months Ended			Six Months Ended		
	December 27, 2015	December 28, 2014	% Change	December 27, 2015	December 28, 2014	% Change
	<i>(dollars in thousands)</i>					
Interest expense and other, net	\$2,162	\$ 2,489	-13.1 %	\$4,053	\$ 2,809	44.3 %

Interest expense, net consists primarily of interest expense and amortization of deferred financing costs attributable to the Company's credit facility, net of income earned on the Company's available cash balances.

Interest expense, net decreased during the three months ended December 27, 2015 in comparison to the same period of the prior year, as a result of scheduled repayments of the Term Loan used to finance the Harry & David acquisition.

Interest expense, net increased during the six months ended December 27, 2015 in comparison to the same period of the prior year, as a result of the additional interest expense and deferred financing costs associated with the Term Loan used to finance the Harry & David acquisition, entered into on September 30, 2014 and the additional interest expense on the Company's revolver to fund the working capital requirements of Harry & David during the first quarter of the current fiscal year.

*Other (income) expense, net*

	Three Months Ended			Six Months Ended		
	December 27, 2015	December 28, 2014	% Change	December 27, 2015	December 28, 2014	% Change
Other (income) expense, net	\$242	\$ 149	62.4	% \$(15,296)	\$ 582	(2728.2%)

*(dollars in thousands)*

Other (income) expense, net for the three months ended December 27, 2015 consists primarily of a \$0.2 million loss on the sale of iFlorist (see Note 4 above).

Other (income) expense, net for the six months ended December 27, 2015 consists primarily of a \$19.6 million gain on insurance recoveries related to the Fannie May warehouse fire, offset by a \$2.1 million impairment of iFlorist assets held for sale and loss on sale, a \$1.7 million impairment of the Flores Online investment, and a decline in the value of Non-qualified deferred compensation investments.

### ***Income Taxes***

The Company recorded income tax expense of \$30.5 million and \$27.3 million, respectively, during the three and six months ended December 27, 2015, compared to income tax expense of \$27.3 million and \$23.9 million, respectively for the same periods of the prior year. The Company's effective tax rate from operations for the three months and six months ended December 27, 2015 was 33.2% and 32.8% respectively, compared to 36.9% and 36.8% in the same periods of the prior year. The effective rate for fiscal 2016 differed from the U.S. federal statutory rate of 35% primarily due to the domestic production deduction and various tax credits such as employment credits and research and development credits that were recently renewed by U.S. Congress in December 2015, as well as the impact of the Company's reduced effective foreign tax rate in the UK resulting from the recent sale of iFlorist in October 2015, partially offset by state income taxes. The effective rate for fiscal 2015 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, and other permanent differences, partially offset by tax credits. At December 27, 2015 the Company has remaining unrecognized tax positions of approximately \$0.6 million, including accrued interest and penalties of \$0.1 million. The Company believes that none of its unrecognized tax positions will be resolved over the next twelve months.

### **Liquidity and Capital Resources**

#### *Cash Flows*

At December 27, 2015, the Company had working capital of \$76.4 million, including cash and cash equivalents of \$108.4 million, compared to working capital of \$31.5 million, including cash and cash equivalents of \$27.9 million, at June 28, 2015. Note that the June 28, 2015 working capital balance has been restated due to the adoption of ASU No. 2015-17, which reclassified \$4.9 million of current deferred tax assets within long-term deferred tax liabilities, resulting in a corresponding reduction in working capital.

Net cash provided by operating activities of \$111.6 million for the six months ended December 27, 2015, was primarily attributable to the Company's net income during the period, adjusted by non-cash charges for depreciation/amortization, stock based compensation and the impairments/sale of iFlorist and a foreign equity investment, as well as seasonal changes in working capital, including holiday related increases in accounts payable and accrued expenses, and collection of the Fannie May fire insurance settlement, partially offset by increases in receivables related to holiday season sales.

Net cash used in investing activities of \$13.1 million for the six months ended December 27, 2015, was primarily attributable to capital expenditures related to the Company's technology infrastructure, as well as improvements and equipment purchases within the Gourmet Food & Gift Baskets segment.

Net cash used in financing activities of \$18.1 million for the six months ended December 27, 2015 was primarily for term debt repayments of \$7.1 million and the acquisition of \$11.2 million of treasury stock. All borrowings under the Company's revolving credit facility during the six months ended December 27, 2015 were repaid by the end of the period.

### *Credit Facility*

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

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

Despite the current challenging economic environment, the Company believes that cash flows from operations along with available borrowings from its 2014 Credit Facility will be a sufficient source of liquidity. Due to the seasonal nature of the Company's business, and its continued expansion into non-floral products, including the acquisition of Harry & David, the Thanksgiving through Christmas holiday season, which falls within the Company's second fiscal quarter, is expected to generate nearly 50% of the Company's annual revenues, and all of its earnings. As a result, the Company generated significant cash from operations during its second quarter, which it will then utilize for operating needs during its fiscal third and fourth quarters, after which time the Company expects to borrow against its Revolver to fund pre-holiday manufacturing and inventory purchases during the first quarter of fiscal 2017. Borrowings under the Revolver will typically peak in November, at which time cash generated from operations during the Christmas holiday shopping season are expected to again enable the Company to repay working capital borrowings prior to the end of its second quarter of fiscal 2017.

#### *Stock Repurchase Program*

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. In June 2015, the Company's Board of Directors authorized an increase of \$25 million to its stock repurchase plan. As of December 27, 2015, \$16.0 million remains authorized under the plan.

#### *Contractual Obligations*

There have been no material changes outside the ordinary course of business related to the Company's contractual obligations as discussed in the Annual Report on Form 10-K for the year ended June 28, 2015.

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

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 2015, the discussion and analysis of the Company's financial condition and results of operations are based upon the consolidated financial statements of 1-800-FLOWERS.COM, Inc., which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Management bases its estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances, and management evaluates its estimates and assumptions on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions. The Company's most critical accounting policies relate to revenue recognition, accounts receivable, inventory, goodwill, other intangible assets and long-lived assets and income taxes. There have been no

significant changes to the assumptions and estimates related to the Company's critical accounting policies, since June 28, 2015.

*Recent Accounting Pronouncements*

In April 2015, the FASB issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This standard provides guidance to help entities determine whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software or as a service contract. Upon adoption, an entity has the option to apply the provisions of ASU 2015-05 either prospectively to all arrangements entered into or materially modified, or retrospectively. This standard is effective for the Company's fiscal year ending July 2, 2017. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which amends ASC 835-30, "Interest – Imputation of Interest." In order to simplify the presentation of debt issuance costs, ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability, consistent with the presentation of a debt discount. This presentation is consistent with the guidance in Concepts Statement 6, which states that debt issuance costs are similar to a debt discount and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. Concepts Statement 6 further states that debt issuance costs are not assets because they provide no future economic benefit. This new guidance is effective for the Company's fiscal year ending July 2, 2017 and should be applied retrospectively.



In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This amended guidance will enhance the comparability of revenue recognition practices and will be applied to all contracts with customers. Expanded disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized are requirements under the amended guidance. This guidance will be effective for the Company's fiscal year ending June 30, 2019 and may be applied retrospectively. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In November 2015 the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes," which will require entities to present deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") as noncurrent in a classified balance sheet. The ASU simplifies the current guidance (ASC 740-10-45-4), which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet. The ASU is effective for the Company's fiscal year ending July 1, 2018, and interim periods within those annual periods. The FASB decided to allow all entities to early adopt the ASU for financial statements that had not been issued. Therefore, we adopted this ASU at December 27, 2015, and have reclassified all prior periods to be consistent with the requirements outlined in the ASU. The impact of the adoption was to reclassify and net \$4.9 million of current deferred tax assets within long-term deferred tax liabilities, as of June 28, 2015.

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

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

the Company's ability:

to achieve revenue and profitability;

to leverage its operating platform and reduce operating expenses;

to manage the increased seasonality of its business;

to cost effectively acquire and retain customers;

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

to reduce working capital requirements and capital expenditures;

to compete against existing and new competitors;

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

to cost efficiently manage inventories;

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

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

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

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Forms 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission. Our Annual Report on Form 10-K filing for the fiscal year ended June 28, 2015 listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them in Part I, Item 1A, of that filing under the heading “Cautionary Statements Under the Private Securities Litigation Reform Act of 1995”. We incorporate that section of that Form 10-K in this filing and investors should refer to it.

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

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

#### *Interest Rate Risk*

The Company’s exposure to market risk for changes in interest rates relates primarily to the Company’s investment of available cash balances and its long-term debt. The Company generally invests its cash and cash equivalents in investment grade corporate and U.S. government securities. Due to the currently low rates of return the Company is receiving on its cash equivalents, the potential for a significant decrease in short-term interest rates is low and, therefore, a further decrease would not have a material impact on the Company’s interest income. Borrowings under the Company’s credit facility bear interest at a variable rate, plus an applicable margin, and therefore 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 \$0.3 million and \$0.5 million during the three and six months ended December 27, 2015.

#### *Investment Risk*

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

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### *Evaluation of Disclosure Controls and Procedures*

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 27, 2015. 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 27, 2015.

##### *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 27, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. – OTHER INFORMATION**

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

#### *Legal Proceedings*

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

#### *Edible Arrangements:*

On November 20, 2014, a complaint was filed in the United States District Court for the District of Connecticut by Edible Arrangements LLC and Edible Arrangements International, LLC, alleging that the Company's use of the terms "Fruit Bouquets," "Edible," "Bouquet," "Edible Fruit Arrangements," "Edible Arrangements," and "DoFruit" and its use of a six-petal pineapple slice design in connection with marketing and selling edible fruit arrangements constitutes trademark infringement, false designation of origin, dilution, and contributory infringement under the federal Lanham Act, 29 USC § 1114 and 1125(a), common law unfair competition, and a violation of the Connecticut Unfair Trade Practices Act, Connecticut General Statutes § 42-110b (a). The Complaint alleges Edible Arrangements has been damaged in the amount of \$97,411,000. The Complaint requests a declaratory judgment in favor of Edible Arrangements, an injunction against the Company's use of the terms and design, an accounting and payment of the Company's profits from its sale of edible fruit arrangements, a trebling of the Company's profits from such sales or of any damages sustained by Edible Arrangements, punitive damages, and attorneys' fees. On November 24, 2014, the Complaint was amended to add a breach of contract claim for use of these terms and the design, based on a contract that had been entered by one of the Company's remote subsidiaries prior to its acquisition by the Company.

On January 29, 2015, the Plaintiffs amended the Complaint to add one of the Company's subsidiaries and to claim its damages were \$ 101,436,000. The Company filed an Answer and a Counterclaim on February 27, 2015. The Answer asserts substantial defenses, including fair use by the Company of generic and descriptive terms, as expressly permitted under the Lanham Act, invalidity of Edible Arrangements' trademark registrations on grounds of fraud and trademark misuse, lack of exclusive rights on the part of Edible Arrangements, functionality of the claimed design mark, acquiescence, estoppel, and Edible Arrangements' use of the claimed trademarks in violation of the antitrust laws.

The Counterclaim seeks a declaratory judgment of lack of infringement and invalidity of claimed marks, cancellation of Edible Arrangements' registrations due to its fraud and misuse, genericism, and lack of secondary meaning as to any

terms deemed descriptive, and damages in an amount to be determined for violation of the antitrust provisions of the federal Sherman Act and the Connecticut Unfair Trade Practices Act.

By Order dated May 4, 2015, the court ordered a phasing of the case and bifurcated the antitrust Counterclaim from the infringement claims. Discovery has begun and is continuing.

Edible Arrangements filed a motion to dismiss the Company's Sherman Act and Connecticut Unfair Trade Practices Act claims. The Company filed its brief in opposition to the motion to dismiss on July 10, 2015. On November 12, 2015, following oral argument before the Court, the Court denied Edible Arrangements' motion seeking to dismiss the Company's federal Sherman Act and Connecticut Unfair Trade Practices Act claims.

The Company believes its Counterclaims to the Edible Arrangements' claims are meritorious and that there are substantial defenses to all of the Edible Arrangements' claims and expects to defend the claims vigorously.

At this time, we are unable to estimate a possible loss or range of possible loss for the aforementioned action for various reasons, including, among others: (i) the damages sought are indeterminate, (ii) the proceeding is in the early stages, and (iii) there is uncertainty as to the outcome of the pending motion. As a result of the foregoing, we have determined that the amount of possible loss or range of loss is not reasonably estimable. However, legal matters are inherently unpredictable and subject to significant uncertainties, some of which may be beyond our control.

**ITEM 1A. RISK FACTORS.**

There were no material changes to the Company's risk factors as discussed in Part 1, Item 1A-Risk Factors in the Company's Annual Report on Form 10-K for the year ended June 28, 2015.

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

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. In June 2015, the Company's Board of Directors authorized an increase of \$25 million to its stock repurchase plan. As of December 27, 2015, \$16.0 million remains authorized under the plan.

The following table sets forth, for the months indicated, the Company's purchase of common stock during the first six months of fiscal 2016, which includes the period June 29, 2015 through December 27, 2015:

<b>Period</b>	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)</b>
<i>(in thousands, except average price paid per share)</i>				
6/29/15 – 7/26/15	69.8	\$ 10.40	69.8	\$ 26,543
7/27/15 – 8/30/15	125.0	\$ 9.86	125.0	\$ 25,307
8/31/15 – 9/27/15	320.6	\$ 8.56	320.6	\$ 22,554
9/28/15 – 10/25/15	137.4	\$ 9.50	137.4	\$ 21,244

10/26/15 – 11/29/15	454.5	\$ 9.87	454.5	\$ 16,753
11/30/15 – 12/27/15	89.6	\$ 7.95	89.5	\$ 16,039

Total 1,196.9 \$ 9.36 1,196.9

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

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.



**ITEM 6. EXHIBITS**

31.1 Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*

31.2 Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*

32.1 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Document

101.PREXBRL Taxonomy Definition Presentation Document

\* Filed herewith.

**SIGNATURES**

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

**1-800-FLOWERS.COM, Inc.**  
(Registrant)

Date: February 5, 2016

/s/ James F. McCann  
James F. McCann  
Chief Executive Officer  
Chairman of the Board of Directors  
(Principal Executive Officer)

Date: February 5, 2016

/s/ William E. Shea  
William E. Shea  
Senior Vice President, Treasurer and  
Chief Financial Officer (Principal  
Financial and Accounting Officer)