1 800 FLOWERS COM INC
Form 10-Q
May 11, 2018

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 **April 1, 2018**

or

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

For the transition period from ___ to ___

Commission File No. **0-26841**

1-800-FLOWERS.COM, Inc.

(Exact name of registrant as specified in its charter)

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

One Old Country Road, Carle Place, New York 11514	**(516) 237-6000**
(Address of principal executive offices)(Zip code)	(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). **Yes** No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes **No**

The number of shares outstanding of each of the Registrant's classes of common stock as of May 4, 2018:

Class A common stock: 36,036,960
Class B common stock: 28,567,063

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PART I. – FINANCIAL INFORMATION

ITEM 1. – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Condensed Consolidated Balance Sheets

(in thousands, except share data)

	April 1, 2018 *(unaudited)*	July 2, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ *173,069*	$ *149,732*
Trade receivables, net	*22,514*	*14,073*
Inventories	*68,906*	*75,862*
Prepaid and other	*17,780*	*17,735*
Total current assets	*282,269*	*257,402*
Property, plant and equipment, net	*153,737*	*161,381*
Goodwill	*62,590*	*62,590*
Other intangibles, net	*60,093*	*61,090*
Other assets	*11,664*	*10,007*
Total assets	$ *570,353*	$ *552,470*
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ *19,000*	$ *27,781*
Accrued expenses	*91,941*	*90,206*
Current maturities of long-term debt	*9,344*	*7,188*
Total current liabilities	*120,285*	*125,175*
Long-term debt	*94,911*	*101,377*
Deferred tax liabilities	*20,864*	*33,868*
Other liabilities	*11,946*	*9,811*
Total liabilities	*248,006*	*270,231*

Commitments and contingencies (See Note 13)

Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued	-	-
Class A common stock, $0.01 par value, 200,000,000 shares authorized, 51,912,721 and 51,227,779 shares issued at April 1, 2018 and July 2, 2017, respectively	*519*	*513*
Class B common stock, $0.01 par value, 200,000,000 shares authorized, 33,847,063 and 33,901,603 shares issued at April 1, 2018 and July 2, 2017, respectively	*338*	*339*
Additional paid-in-capital	*340,901*	*337,726*
Retained earnings	*81,652*	*32,638*
Accumulated other comprehensive loss	*(198)*	*(187)*
Treasury stock, at cost, 15,970,246 and 14,709,731 Class A shares at April 1, 2018 and July 2, 2017, respectively, and 5,280,000 Class B shares at April 1, 2018 and July 2, 2017	*(100,865)*	*(88,790)*
Total stockholders' equity	*322,347*	*282,239*
Total liabilities and stockholders' equity	$ *570,353*	$ *552,470*

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Condensed Consolidated Statements of Income

(in thousands, except for per share data)

(unaudited)

	Three Months Ended		**Nine Months Ended**	
	April 1, 2018	**April 2, 2017**	**April 1, 2018**	**April 2, 2017**
Net revenues	$238,545	$233,715	$921,987	$954,097
Cost of revenues	145,090	140,134	525,995	532,135
Gross profit	93,455	93,581	395,992	421,962
Operating expenses:				
Marketing and sales	68,215	70,158	231,708	245,112
Technology and development	10,241	10,254	29,086	29,591
General and administrative	19,553	20,962	58,128	64,446
Depreciation and amortization	7,885	8,492	24,646	25,656
Total operating expenses	105,894	109,866	343,568	364,805
Operating income (loss)	(12,439)	(16,285)	52,424	57,157
Interest expense, net	662	1,191	2,919	4,796
Other (income) expense, net	31	(421)	(315)	(570)
Income (loss) before income taxes	(13,132)	(17,055)	49,820	52,931
Income tax expense (benefit)	(4,669)	(5,925)	806	16,903
Net income (loss)	**$(8,463)**	**$(11,130)**	**$49,014**	**$36,028**
Basic net income (loss) per common share	$(0.13)	$(0.17)	$0.76	$0.55
Diluted net income (loss) per common share	$(0.13)	$(0.17)	$0.73	$0.53
Weighted average shares used in the calculation of net income (loss) per common share:				
Basic	64,527	65,199	64,694	65,169
Diluted	64,527	65,199	66,949	67,747

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	April 1, 2018	**April 2, 2017**	**April 1, 2018**	**April 2, 2017**
Net income (loss)	$(8,463)	$(11,130)	$49,014	$36,028
Other comprehensive income (loss) (currency translation & other miscellaneous items)	(38)	(100)	(11)	(19)
Comprehensive income (loss)	$(8,501)	$(11,230)	$49,003	$36,009

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Nine Months Ended	
	April 1, 2018	**April 2, 2017**
Operating activities:		
Net income	$49,014	$36,028
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	24,646	25,656
Amortization of deferred financing costs	721	1,285
Deferred income taxes	(13,004)	(1,889)
Bad debt expense	906	935
Stock-based compensation	3,002	4,784
Other non-cash items	249	(227)
Changes in operating items:		
Trade receivables	(9,347)	(13,595)
Inventories	6,956	892
Prepaid and other	(45)	(2,030)
Accounts payable and accrued expenses	1,453	9,670
Other assets	(88)	(34)
Other liabilities	110	(267)
Net cash provided by operating activities	**64,573**	**61,208**
Investing activities:		
Working capital adjustment related to sale of business	(8,500)	-
Capital expenditures, net of non-cash expenditures	(15,809)	(18,753)
Net cash used in investing activities	**(24,309)**	**(18,753)**
Financing activities:		
Acquisition of treasury stock	(12,075)	(8,277)
Proceeds from exercise of employee stock options	179	268
Proceeds from bank borrowings	30,000	181,000
Repayment of bank borrowings	(35,031)	(185,000)
Debt issuance costs	-	(1,507)
Net cash used in financing activities	**(16,927)**	**(13,516)**

Net change in cash and cash equivalents	***23,337***	***28,939***
Cash and cash equivalents:		
Beginning of period	*149,732*	*27,826*
End of period	**$*173,069***	**$*56,765***

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note *1* – Accounting Policies

Basis of Presentation

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

The Company's quarterly results *may* experience seasonal fluctuations. Due to the seasonal nature of the Company's business, and its continued expansion into non-floral products, the Thanksgiving through Christmas holiday season, which falls within the Company's *second* fiscal quarter, is expected to generate nearly *50%* of the Company's annual revenues, and all of its earnings. Additionally, due to the number of major floral gifting occasions, including Mother's Day, Valentine's Day and Administrative Professionals Week, revenues also rise during the Company's fiscal *third* and *fourth* quarters in comparison to its fiscal *first* quarter. In fiscal *2017,* Easter was on *April 16th,* falling within the Company's fiscal *fourth* quarter, whereas, in fiscal *2018,* Easter was on *April 1st,* which resulted in the shift of Easter-related revenue and EBITDA into the Company's *third* quarter of fiscal *2018.*

Use of Estimates

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

Recent Accounting Pronouncements

In *May 2014,* the FASB issued ASU *No. 2014-09,* "Revenue from Contracts with Customers." This amended guidance will enhance the comparability of revenue recognition practices and will be applied to all contracts with customers. Expanded disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized are requirements under the amended guidance. As we continue to evaluate the impact of this ASU, we have determined that the new standard will impact the following areas: the costs of producing and distributing the Company's catalogs will be expensed upon mailing, instead of being capitalized and amortized in direct proportion to the actual sales; gift card breakage will be recognized over the expected customer redemption period, rather than when redemption is considered remote; the Company will defer revenue at the time the Celebrations Reward loyalty points are earned using a relative fair value approach, rather than accruing a liability equal to the incremental cost of fulfilling its obligations. We have further identified the timing of revenue recognition for e-commerce orders (shipping point versus destination) as a potential issue in our analysis, which is *not* expected to change the total amount of revenue recognized, but could accelerate the timing of when revenue is recognized. We plan to adopt this guidance beginning with the *first* quarter in the fiscal year ending *June 30, 2019,* on a modified retrospective basis, with a cumulative adjustment to retained earnings. We are continuing to evaluate the impact that this ASU, and related amendments and interpretive guidance, will have on our consolidated financial statements, including the related disclosures.

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

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

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

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

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

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

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

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

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

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

U.S. Tax Reform

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

On *December 22, 2017,* the SEC issued guidance under Staff Accounting Bulletin *No. 118,* Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB *118"*) directing taxpayers to consider the impact of the Tax Act as "provisional" when it does *not* have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. The changes in the Tax Act are broad and complex. The final impacts of the Tax Act *may* differ from the Company's estimates due to, among other things, changes in interpretations of the Tax Act, further legislation related to the Tax Act, changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates to estimates the Company has utilized to calculate the impacts of the Tax Act. The Securities Exchange Commission has issued rules that would allow for a measurement period of up to *one* year after the enactment date of the Tax Act to finalize the related tax impacts.

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

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

	Three Months Ended		Nine Months Ended	
	April 1, 2018	**April 2, 2017**	**April 1, 2018**	**April 2, 2017**
	(in thousands, except per share data, unaudited)			
Numerator:				
Net income (loss)	$*(8,463*)	$*(11,130*)	$*49,014*	$*36,028*
Denominator:				
Weighted average shares outstanding	*64,527*	*65,199*	*64,694*	*65,169*
Effect of dilutive securities:				
Employee stock options (1)	-	-	*1,564*	*1,511*
Employee restricted stock awards	-	-	*691*	*1,067*
	-	-	*2,255*	*2,578*
Adjusted weighted-average shares and assumed conversions	*64,527*	*65,199*	*66,949*	*67,747*
Net income (loss) per common share attributable to 1-800-FLOWERS.COM, Inc.				
Basic	$*(0.13*)	$*(0.17*)	$*0.76*	$*0.55*
Diluted	$*(0.13*)	$*(0.17*)	$*0.73*	$*0.53*

Note *3* – Stock-Based Compensation

The Company has a Long Term Incentive and Share Award Plan, which is more fully described in Note *12* and Note *13* to the consolidated financial statements included in the Company's Annual Report on Form *10*-K for the fiscal year ended *July 2, 2017,* that provides for the grant to eligible employees, consultants and directors of stock options, restricted shares, and other stock-based awards.

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

	Three Months Ended		Nine Months Ended	
	April 1, 2018	**April 2, 2017**	**April 1, 2018**	**April 2, 2017**
		(in thousands, unaudited)		
Stock options	$*108*	$*110*	$*323*	$*337*
Restricted stock	*825*	*1,176*	*2,679*	*4,447*
Total	*933*	*1,286*	*3,002*	*4,784*
Deferred income tax benefit	*254*	*387*	*846*	*1,528*
Stock-based compensation expense, net	$*679*	$*899*	$*2,156*	$*3,256*

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

	Three Months Ended		Nine Months Ended	
	April 1, 2018	**April 2, 2017**	**April 1, 2018**	**April 2, 2017**
		(in thousands, unaudited)		
Marketing and sales	$*248*	$*342*	$*804*	$*1,384*
Technology and development	*49*	*71*	*160*	*267*
General and administrative	*636*	*873*	*2,038*	*3,133*
Total	$*933*	$*1,286*	$*3,002*	$*4,784*

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

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Stock Options

The following table summarizes stock option activity during the *nine* months ended *April 1, 2018:*

	Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (years)**	**Aggregate Intrinsic Value (000s)**
Outstanding at July 2, 2017	*2,127,734*	$ *2.42*		
Granted	-	$ -		
Exercised	*(34,000*)	$ *2.67*		
Forfeited	*(17,500*)	$ *9.83*		
Outstanding at April 1, 2018	*2,076,234*	$ *2.35*	*3.1*	$ *19,612*
Options vested or expected to vest at April 1, 2018	*2,076,234*	$ *2.35*	*3.1*	$ *19,612*
Exercisable at April 1, 2018	*1,682,234*	$ *2.29*	*3.1*	$ *15,997*

As of *April 1, 2018,* the total future compensation cost related to non-vested options, *not* yet recognized in the statement of income, was *$0.5* million and the weighted average period over which these awards are expected to be recognized was *1.3* years.

Restricted Stock

The Company grants shares of Common Stock to its employees that are subject to restrictions on transfer and risk of forfeiture until fulfillment of applicable service and performance conditions and, in certain cases, holding periods (Restricted Stock). The following table summarizes the activity of non-vested restricted stock awards during the *nine* months ended *April 1, 2018:*

	Shares	**Weighted Average Grant Date Fair**

		Value
Non-vested at July 2, 2017	*1,352,873*	$ *7.44*
Granted	*921,473*	$ *9.50*
Vested	*(596,402*)	$ *7.76*
Forfeited	*(633,404*)	$ *9.50*
Non-vested at April 1, 2018	*1,044,540*	$ *7.83*

The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of *April 1, 2018,* there was *$5.4* million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over the weighted-average remaining period of *2.0* years.

Note *4* – Disposition

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

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

Operating results of Fannie *May* are reflected in the Company's consolidated financial statements through *May 30, 2017,* the date of its disposition, within its Gourmet Food & Gift Baskets segment. During fiscal *2017,* Fannie *May* contributed net revenues of *$85.6* million. Operating and pre-tax income during such period were *not* material.

Note *5* – Inventory

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

	April 1, 2018	July 2, 2017
	(in thousands)	
Finished goods	$*29,716*	$*34,476*
Work-in-process	*8,784*	*11,933*
Raw materials	*30,406*	*29,453*
Total inventory	$*68,906*	$*75,862*

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Note *6* – Goodwill and Intangible Assets

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

	1-800-Flowers.com Consumer Floral	BloomNet Wire Service	Gourmet Food & Gift Baskets	Total
	(in thousands)			
Balance at April 1, 2018 and July 2, 2017	$*17,441*	$ -	$*45,149*	$*62,590*

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

	Amortization Period	April 1, 2018 Gross Carrying Amount	Accumulated Amortization	Net	July 2, 2017 Gross Carrying Amount	Accumulated Amortization	Net
	(in years)	*(in thousands)*					
Intangible assets with determinable lives:							
Investment in licenses	*14-16*	$*7,420*	$ *6,016*	$*1,404*	$*7,420*	$ *5,937*	$*1,483*
Customer lists	*3-10*	*12,184*	*9,146*	*3,038*	*12,184*	*8,227*	*3,957*
Other	*5-14*	*2,946*	*2,137*	*809*	*2,946*	*2,045*	*901*
Total intangible assets with determinable lives		*22,550*	*17,299*	*5,251*	*22,550*	*16,209*	*6,341*
Trademarks with indefinite lives		*54,842*	-	*54,842*	*54,749*	-	*54,749*
Total identifiable intangible assets		$*77,392*	$ *17,299*	$*60,093*	$*77,299*	$ *16,209*	$*61,090*

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group *may not* be recoverable. Future estimated amortization expense is as follows: remainder of fiscal *2018* - *$0.3* million, fiscal *2019* - *$0.7* million, fiscal *2020* - *$0.6* million, fiscal *2021* - *$0.6* million, fiscal *2022* - *$0.5* million and thereafter - *$2.6million.*

Note *7* – Investments

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

The Company's equity method investment is comprised of an interest in Flores Online, a Sao Paulo, Brazil based internet floral and gift retailer, that the Company originally acquired on *May 31, 2012.* The Company currently holds *24.9%* of the outstanding shares of Flores Online. The book value of this investment was *$0.6* million as of *April 1, 2018* and *$1.0* million as of *July 2, 2017,* and is included in the "Other assets" line item within the Company's consolidated balance sheets. The Company's equity in the net loss of Flores Online for the *three* and *nine* months ended *April 1, 2018* and *April 2, 2017* was less than *$0.1* million. During the quarter ended *December 31, 2017,* Flores Online entered into a share exchange agreement with Isabella Flores, whereby among other changes, the Company exchanged *5%* of its interest in Flores Online for a *5%* interest in Isabella Flores. This new investment of approximately *$0.1* million is currently being accounted as a cost method investment. In conjunction with this share exchange, the Company determined that the fair value of its investment in Flores Online was below its carrying value and that this decline was other-than-temporary. As a result, during the quarter ended *December 31, 2017,* the Company recorded an impairment charge of *$0.2* million, which is included within the "Other (income) expense, net" line item in the Company's consolidated statement of income.

Investments in non-marketable equity instruments of private companies, where the Company does *not* possess the ability to exercise significant influence, are accounted for under the cost method. Cost method investments are originally recorded at cost, and are included within "Other assets" in the Company's consolidated balance sheets. The aggregate carrying amount of the Company's cost method investments was *$1.8* million as of *April 1, 2018* and *$1.7* million as of *July 2, 2017.*

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

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Note *8* –Debt

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

	April 1, 2018	July 2, 2017
	(in thousands)	
Revolver (1)	$-	$-
Term Loan (1)	*107,094*	*112,125*
Deferred financing costs	*(2,839*)	*(3,560*)
Total debt	*104,255*	*108,565*
Less: current debt	*9,344*	*7,188*
Long-term debt	$*94,911*	$*101,377*

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

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

Future principal payments under the term loan are as follows: *$2.2* million – remainder of fiscal *2018, $10.1* million – fiscal *2019, $12.9* million – fiscal *2020, $15.8* million - fiscal *2021,* and *$66.1* – fiscal *2022.*

Note *9* - Property, Plant and Equipment