Express Connect Celebrate

1·800·FLOWERS.COM, INC.

2018 ANNUAL REPORT

OUR MISSION

Deliver Smiles!

1-800-FLOWERS.COM, Inc. is a leading provider of gifts designed to help our customers *express, connect and celebrate.* The Company's Celebrations Ecosystem features our all-star family of brands, including: 1-800-Flowers.com®, 1-800-Baskets.com®, Cheryl's Cookies®, FruitBouquets.com®, Harry & David®, Moose Munch®, The Popcorn Factory®, Wolferman's®, Personalization Universe®, Simply Chocolate®, and Goodsey℠. We also offer top-quality steaks and chops from Stock Yards®. Through the Celebrations Passport® loyalty program, which provides members with free standard shipping and no service charge across our family of brands, 1-800-FLOWERS.COM, Inc. strives to deepen relationships with customers. The Company also operates BloomNet®, an international floral wire service providing a broad-range of products and services designed to help professional florists grow their businesses profitably; Napco℠, a resource for floral gifts and seasonal décor; and DesignPac Gifts, LLC, a manufacturer of gift baskets and towers. 1-800-FLOWERS.COM, Inc. received the Gold award in the "Mobile Payments and Commerce" category at the Mobile Marketing Association 2018 Global Smarties Awards. In addition, Harry & David was named to the Internet Retailer 2019 "The Hot 100" list. Shares in 1-800-FLOWERS.COM, Inc. are traded on the NASDAQ Global Select Market, ticker symbol: FLWS.

OUR Vision

HELP OUR CUSTOMERS EXPRESS, CONNECT AND CELEBRATE

Financial HIGHLIGHTS

(From Continuing Operations)

	JULY 1, 2018	JULY 2, 2017	JULY 3, 2016	JUNE 28, 2015	JUNE 29, 2014
	(in millions, except percentages and per share data)				
Total Net Revenues	$1,151.9	$1,193.6	$1,173.0	$1,121.5	$756.3
Gross Profit Margin	42.5%	43.6%	44.1%	43.4%	41.7%
Operating Expense Ratio	38.9%	39.7%	40.4%	40.1%	38.6%
Adjusted EBITDA[(1)]	$ 78.9[(2)]	$ 87.2[(4)]	$ 85.7[(6)]	$ 80.7[(8)]	$ 48.6
Adjusted EPS	$ 0.44[(3)]	$ 0.43[(5)]	$ 0.43[(7)]	$ 0.34[(9)]	$ 0.22

(1) Excludes stock-based compensation and non-qualified supplementary retirement plan investment appreciation and depreciation.

(2) Adjusted EBITDA for fiscal 2018 excludes the items included in footnote (1), as well as litigation settlement costs and severance.

(3) Adjusted EPS for fiscal 2018 excludes litigation costs and severance as well as the impact of the re-valuation of the Company's deferred tax liability of $12.2 million, or $0.18 per diluted share, resulting from the Tax Cut and Jobs Act. Fiscal 2018 EPS as reported was $0.61.

(4) Adjusted EBITDA for fiscal 2017 excludes the items included in footnote (1), as well as Harry & David severance costs.

(5) Adjusted EPS for fiscal 2017 excludes Harry & David severance charges and the gain on the sale of Fannie May Confections Brands. Fiscal year 2017 EPS as reported was $0.65.

(6) Adjusted EBITDA for fiscal 2016 excludes the items included in footnote (1), as well as litigation settlement costs and integration costs, including severance, associated with Harry & David and the rightsizing of Fannie May.

(7) Adjusted EPS for fiscal 2016 excludes the gain from insurance recovery on the Fannie May warehouse fire, loss on the sale of iFlorist, the impairment of foreign equity method investment, Harry & David integration costs, litigation settlement costs, as well as severance associated with Harry & David and the rightsizing of Fannie May. Fiscal year 2016 EPS as reported was $0.55.

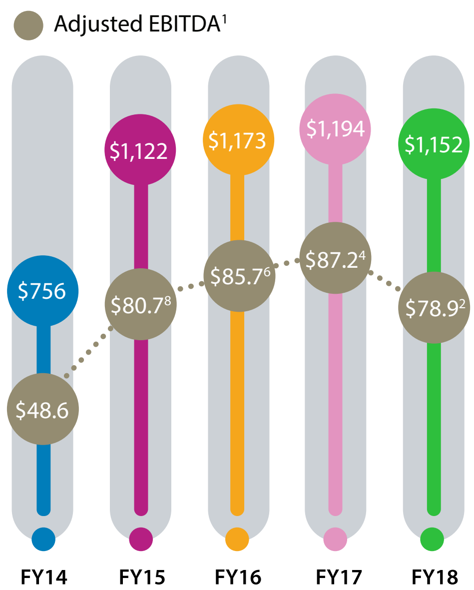
(8) Adjusted EBITDA for fiscal 2015 excludes the items in footnote (1), and includes Harry & David fiscal 2015 first quarter loss in order to present comparable full-year results and excludes one-time costs associated with the acquisition and integration of Harry & David and the impact of the Fannie May warehouse fire in November 2014.

(9) Adjusted EPS for fiscal 2015 includes Harry & David fiscal 2015 first quarter loss in order to present comparable full-year results and excludes one-time costs associated with the acquisition and integration of Harry & David and the impact of the Fannie May warehouse fire in November 2014. Fiscal year 2015 EPS, as reported, was $0.30.

(10) Comparable revenues measures GAAP revenues adjusted for the effects of acquisitions, dispositions and other items affecting period to period comparability.

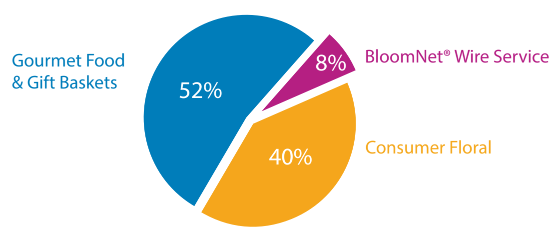
TOTAL REVENUES

(From Continuing Operations In Millions)

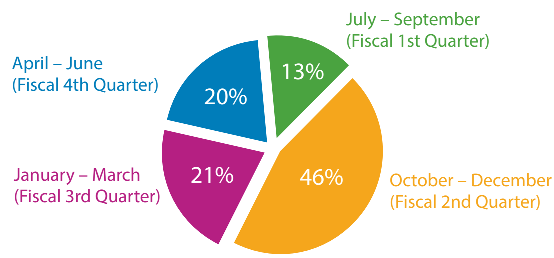


FY18 % REVENUES

by Segment



by Fiscal Quarter



FISCAL 2018 ACHIEVEMENTS

- Grew Comparable Revenues[(10)] 3.7 percent to $1.15 Billion
- Accelerated Comparable Revenue[(10)] growth to 5.8 percent in second half
- Launched latest gourmet food brand, Simply Chocolate®, a destination for chocolate lovers, featuring a curated collection of top brands and trending artisanal chocolatiers from around the world

FINANCIAL REPORT INSERT

See inside rear cover pocket

TO OUR Shareholders

We achieved a strong finish to fiscal 2018 with comparable revenue growth accelerating to nearly six percent in the second half of the fiscal year, driven by increases in all three of our business segments. For the full fiscal year, total consolidated revenues – adjusted for the sale of Fannie May Confections in May of fiscal 2017 – grew 3.7 percent to $1.15 billion. As a result, we entered fiscal 2019 with significant growth momentum in our brands:

- In Gourmet Foods and Gift Baskets, Harry & David ecommerce demand continues to accelerate driven by solid growth in everyday gifting occasions;
- In Consumer Floral, 1-800-Flowers.com is further extending its market leadership position through our focus on truly original products and continued investments in marketing, merchandising and innovative technologies to enhance our customers' experience, and;
- In BloomNet, increasing order volumes are helping to drive sustainable, double-digit revenue growth.

Fiscal 2018: A Strong Year Despite Challenges
Recapping our results for fiscal 2018; net income for the full fiscal year, on a comparable basis (adjusted primarily for the one-time benefit related to the Tax Cut and Jobs Act enacted in fiscal 2018 and the one-time benefit related to the gain on the sale of Fannie May in fiscal 2017) was $29.3 million, or $0.44 per share, essentially unchanged compared with the prior year.

Addressing Operational and Other Headwinds
Our results for the year were impacted by several headwinds, including:

- a temporary disruption to operations at Cheryl's Cookies during the key, holiday shopping period;
- a spike in transportation costs after the early fall hurricanes in Florida and Texas, combined with new federal regulations limiting how long truckers can be on the road, which led to limited available trucking capacity and higher rates, and;
- Rising labor costs associated with low unemployment and increasing minimum wages.

During the second half of fiscal 2018 we implemented several initiatives to address these factors which, when combined with the investments we continue to make across our operating platform, position us to deliver accelerated growth in fiscal 2019.

First, to address the issue at Cheryl's Cookies, we deployed a cross-functional team to leverage the experience and skill-sets from across our enterprise. As a result, by year end Cheryl's Cookies production and inventory management were stable and operating well and we are confident that Cheryl's Cookies is positioned to rebound in fiscal 2019 and return to its status as one of our top-performing brands.

Second, in terms of trucking costs, we have shifted our strategy from purchasing trucking capacity exclusively on the "spot market" to longer-term contracts that enable us to more effectively manage volatility in transportation capacity requirements and costs.

Third, to more effectively manage rising labor costs, we utilized our strong balance sheet and expanded cold storage facilities to prebuild some inventories using our core employee base during our slower periods, thereby reducing needs for seasonal hiring.

Expanding Floral-Gifting Leadership
In the second half of fiscal 2018, we began to increase our investments in targeted marketing and merchandising programs designed to take advantage of market conditions to accelerate growth. As a result, we achieved solid results in our 1-800-Flowers.com and BloomNet businesses, both of which recorded top *and* bottom-line growth for the period. This reflected a combination of continued, strong everyday gifting demand and robust performance during the Valentine's Day and Mother's Day holiday periods.

In the 1-800-Flowers.com brand, we also continued to leverage our experience and expertise in digital marketing, where we are increasingly using machine learning in areas such as Search, Display and Video. These efforts are focused on helping us customize our messages and enhance relevance for new customer acquisition, as well as stimulate increased frequency from existing customers.

In BloomNet, we invested to expand our suite of products and services for florists and to increase the order volumes running through the BloomNet platform. During the year, BloomNet enhanced its digital marketing programs, offering SEO and SEM capabilities to florists for their websites; introduced new digital directory features designed to help florists highlight their unique offerings, and expanded efforts to capture a growing volume of orders from local flower shops and third-party, online floral companies. Combined with increased order volume from the 1-800-Flowers.com brand, BloomNet began to accelerate its revenue growth in the second half of fiscal 2018 and is positioned to build on this momentum in fiscal 2019.

Growing Everyday Gifting in Gourmet Foods and Gift Baskets
In our Gourmet Food and Gift Baskets segment, we continued to see robust growth in everyday gifting throughout the year, particularly in our Harry & David, Cheryl's Cookies and 1-800-Baskets.com brands. Harry & David achieved strong, double-digit growth in *Birthday, Sympathy* and *Thank You* gifts by creating specific product collections for these occasions and utilizing digital marketing campaigns to create awareness among customers. We also experienced strong, everyday gifting demand in our newest gourmet food brand, Simply Chocolate, which launched just in time for the 2017 holiday season.

Focusing on Truly Original Gifts

A key element of our merchandising initiatives across our brands is our focus on expanding our offerings of truly original gifts, with broader price points at both the entry level and the luxury high-end. Throughout fiscal 2018 and into fiscal 2019, we launched:

- our expanded succulent plants line at 1-800-Flowers.com. This is a growing product category, particularly popular with millennial customers;
- our new *Wild Beauty* line, an exclusive collection of free-spirited bouquets designed specifically for customers who appreciate a fresh, natural and youthful aesthetic;
- *Harry & David Gourmet*, an inspired collection featuring fully prepared gourmet meals, desserts, wine and more – all perfect for gifting, self-consumption, and entertaining for everyday and holiday occasions;
- the new *Special Edition- Flavors* to *Love* collection from The Popcorn Factory, including, caramel apple, cookies and cream and salted caramel bourbon. The Popcorn Factory also expanded its line of single-serve package sizes for self-consumption, which is gaining good traction in wholesale channels, and;
- Cheryl's Cookies new chocolate-chip "Brookie" – a combination brownie/chocolate-chip cookie that is already becoming a customer favorite.

Investing in Innovation

We have also continued to invest in innovations designed to enhance our customers' experience.

- We launched our digital self-service portal, allowing customers to track their orders, make modifications to delivery dates, addresses and even their gift message – further enhancing our already historically high customer satisfaction metrics;
- We rolled out a new, responsive widescreen website design across our family of brands with enhanced navigation functionality;
- We launched *Smart Gift* – a digital gifting application that enables customers to send a gift even when they don't have their recipient's address. It also allows the recipient to choose their gift from our family of brands, choose their preferred delivery address and pick their delivery date – truly involving the recipient in the full gifting experience;
- We continued to build on our early adopter position in the world of conversational commerce with new applications launched on Google Assistant, Apple Business Chat, Samsung Chatbot and Google Rich Business Messaging, and;
- We deployed new PWA – Progressive Web App – technology on our category-leading mobile platform, significantly ramping up speed and functionality for our growing volume of mobile customers.

The Celebrations Ecosystem Platform

In addition to truly original products and deployment of new technology innovations, we have also continued to invest to expand our Celebrations Ecosystem. Most recently, we launched *Goodsey,* an exciting new brand featuring a selection of unique items across a broad spectrum of product categories – from children's gifts, to pets, to jewelry and much more. Joining *Simply Chocolate* and *Personalization Universe, Goodsey* is the third new brand we have added to our growing portfolio within the past year. This illustrates the strength of our Celebrations Ecosystem Platform that allows us to expand rapidly into new product categories that our customers are looking for.

Our focus on innovation and our investments in product design – in addition to the introduction of new brands on our platform – is enabling us to become our customers' go-to destination for all gifting occasions.

A Strong Start to Fiscal 2019

We kicked off our new fiscal year building on the positive trends we saw in the second half of fiscal 2018. We accelerated our consolidated revenue growth to nearly 8 percent in the first quarter, driven by double-digit growth in our Consumer Floral and BloomNet businesses, where we are expanding our market positions. In our Gourmet Foods and Gift Baskets segment, we positioned ourselves to achieve robust performance in the key holiday period with double-digit growth in Harry & David ecommerce demand and customer file, strong operational performance at Cheryl's Cookies and solid growth in our 1-800-Baskets.com direct-to-consumer and wholesale business.

Throughout fiscal 2019, we plan to build on the positive trends we are seeing in our business by increasing investments in targeted marketing and merchandising programs in our 1-800-Flowers.com brand; by expanding the suite of products and services we provide to help our BloomNet florists grow, and increasing the volume of orders processed through the BloomNet system; and by investing to expand our digital marketing footprint and to broaden our product offerings – particularly for everyday gifting occasions – in our Gourmet Foods and Gift Baskets business. As a result, we expect to accelerate our revenue growth rate to a range of 5-to-7 percent in fiscal 2019, compared with an increase of 3.7 percent in fiscal 2018.

Growing Customer Files; Passport and Multi-Brand Customers

Importantly, we are growing our customer files across the enterprise at rates equal to or faster than our revenue growth and we continue to become more sophisticated in terms of our capabilities to utilize the tremendous amount of data we have in our customer database. Our customer behavior metrics – including frequency, retention and average spend – are strong and getting stronger. This is being driven by our Multi-Brand Customer initiatives, including our Celebrations Passport loyalty program. Passport and Multi-Brand customers' purchase frequency, retention rate and average spend are all significantly higher compared with single-brand or non-Passport customers – helping to grow life-time value across our customer file. These metrics are the impetus behind our decision to invest to bring more customers into our ecosystem.

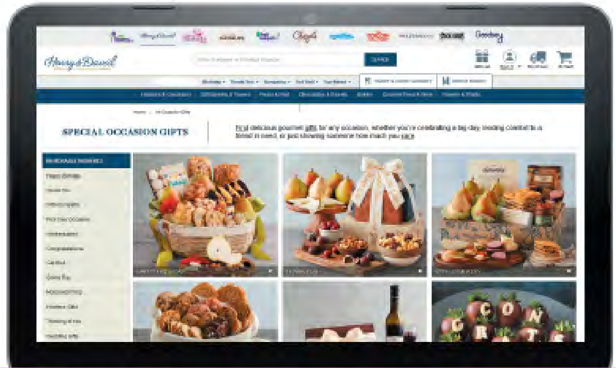
Looking ahead, we are excited by the opportunities we see to leverage our Celebrations Platform to expand the products and services we offer our customers. Our positive outlook for fiscal 2019 and the years ahead is a testament to the strength of our Company's number one asset – our people. I would like to thank all our associates for their hard work, for the way they embrace change and help us constantly innovate, and for their dedication to helping our customers express, connect, celebrate and *deliver smiles*. Thank you, also, to our shareholders for their continued support and encouragement.

Chris

Chris McCann, President & CEO

2019

January



SUNDAY	MONDAY	TUESDAY
		1 *New Year's Day*
6	7	8
13	14	15
20	21 *Martin Luther King Jr.'s Birthday (observed)*	22
27	28	29

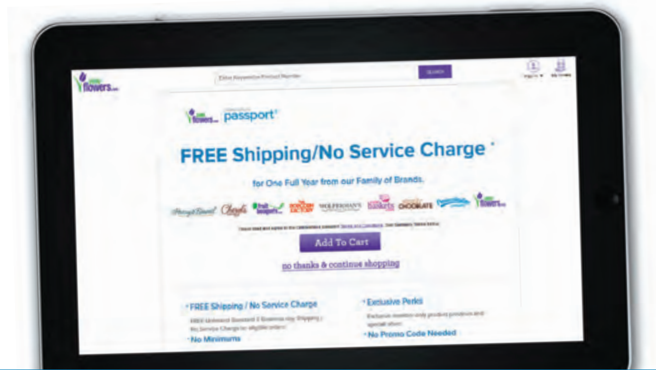
As the leading provider of gifts designed to help our customers express, connect and celebrate, 1-800-FLOWERS.COM, Inc. is committed to making it easy for customers to deliver smiles for all occasions and recipients. The cornerstone to that effort is our multi-brand strategy, through which our unique "all star" family of gifting brands are featured in a one-stop shop, including 1-800-Flowers.com®, Harry & David®, 1-800-Baskets.com®, FruitBouquets.com®, Cheryl's Cookies®, The Popcorn Factory®, Moose Munch® and Wolferman's®. We have also welcomed three new brands to our gifting portfolio: Simply Chocolate®, Personalization Universe® and, most recently, Goodsey℠. The continual expansion of our product offerings is a reflection of ongoing feedback we receive from our customers as they look to us to help solve even more of their gifting needs.


WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
2	3	4	5
9	10	11	12
16	17	18	19
23	24	25	26
30	31		

2019

February

One of the keys to our company's long-term growth is the continued evolution of our Celebrations Passport® loyalty program. Passport members enjoy exceptional value, including free standard shipping and no service charge across our family of brands. In addition, Passport® members show a high propensity to become multi-brand customers – shopping and purchasing from more than one of our brands during the year. Multi-brand customers appreciate the benefits of Celebrations Passport®, along with the ever-expanding breadth of gift selection. As a result, multi-brand customers have the best metrics in terms of purchase frequency, annual spend and retention.



SUNDAY	MONDAY	TUESDAY
3	4	5
10	11	12
17	18 *Presidents Day*	19
24	25	26


WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
		1	2 *Groundhog Day*
6	7	8	9
13	14 *Valentine's Day* DELIVER SMILES TODAY	15	16
20	21	22	23
27	28		

2019

March

BloomNet® is the floral industry's leading wire service innovator, providing products and expertise designed to help thousands of professional florists grow their businesses and enhance their profitability. During fiscal 2018, BloomNet® increased its order volume reflecting growing orders from the 1-800-Flowers.com® brand, shop-to-shop orders from BloomNet florists and third-party online floral companies. BloomNet® also expanded its suite of services for florists, including: enhanced digital marketing programs offering Search Engine Optimization (SEO) and Search Engine Marketing (SEM) capabilities to strengthen florists' brand recognition, along with new digital directory features designed to help florists highlight their unique offerings and increase incoming orders from sending florists. Another component in the BloomNet® portfolio of florist resources is the "Floriology™" collection of services, including the informative *Floriology® Magazine* as well as Floriology Institute where florists receive hands-on instruction from world-renowned floral design experts.

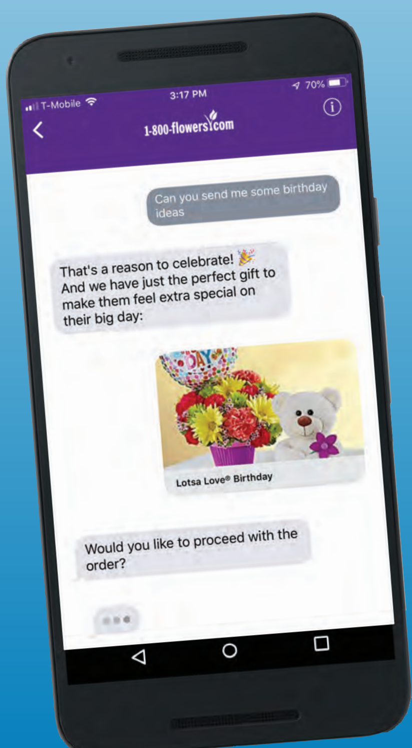
SUNDAY	MONDAY	TUESDAY
3	4	5
10	11	12
17 *Saint Patrick's Day*	18	19
24 / 31	25	26

WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
		1	2
6	7	8	9
13	14	15	16
20 *First Day of Spring*	21 *National Flower Day*	22	23
27	28	29	30

2019

April

Innovation is in the DNA of 1-800-FLOWERS.COM, Inc. and, in keeping with our ongoing mission to deliver smiles, we constantly embrace new and emerging technologies to ensure we are at the forefront of how and where today's consumers want to shop. We continue to build on our early adopter position in the world of Conversational Commerce, engaging with our customers via technologies such as Facebook Messenger bots, Amazon Alexa voice-enabled skills and our AI gift concierge "Gywn®" powered by IBM Watson – which helps customers choose the perfect gift. In addition, we offer the ease of voice or text ordering through Google Assistant, the convenience of Apple Pay and the ability for customers to search for gifts, receive assistance and place orders using Apple Business Chat.



SUNDAY	MONDAY	TUESDAY
	1 *April Fools Day*	2
7	8	9
14	15	16
21 *Easter*	22 *Administrative Professionals' Week Begins*	23
28	29	30


WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
3	4	5	6
10	11	12	13
17	18	19 *Passover Begins at Sunset*	20
24 *Administrative Professionals' Day* DELIVER SMILES TODAY	25	26	27

2019 May

Customers look to 1-800-FLOWERS.COM, Inc. for imaginative gift ideas to help them connect in very special ways with the important people in their lives. For that reason, launching a steady stream of new and truly original products is always one of our most important priorities. Among the latest offerings in our portfolio is the Wild Beauty™ collection of free-spirited, farm-fresh bouquets featuring seasonal stems in a mix of textures and rich, vibrant colors – a perfect gift for Mother's Day. Also new are single serve packages of flavorful treats from The Popcorn Factory®, ideal for office celebrations, parties at home or even school lunches. In addition, Cheryl's Cookies® has introduced the "Brookie," a rich chocolate brownie loaded with chocolate chips and topped with a delectable Cheryl's Cookies chocolate chip cookie.

SUNDAY	MONDAY	TUESDAY
5 *Cinco dé Mayo*	6	7
12 *Mother's Day*	13	14
19	20	21
26	27 *Memorial Day (observed)*	28


WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
1	2	3	4
8	9	10 *Bring Your Mom to Work Day*	11
15	16	17	18
22	23	24	25
29	30	31	

2019

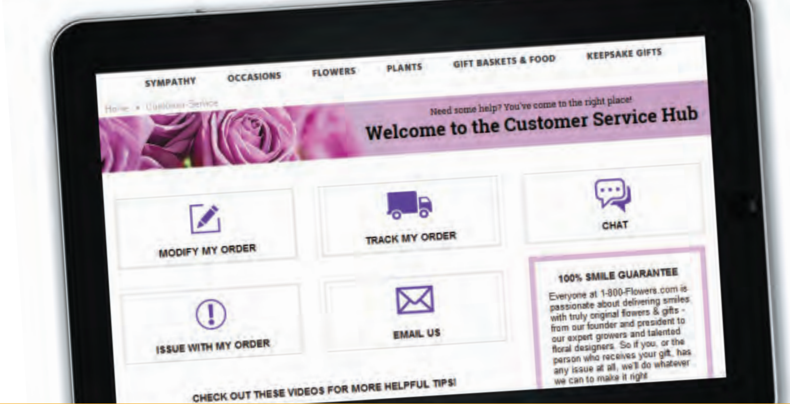
June

1-800-FLOWERS.COM, Inc. is constantly exploring and implementing new strategies to grow our business. During fiscal 2018, we broadened our universe of gift solutions, expanding our product categories. We're proud that over the past year, we've launched three exciting new brands. Goodsey℠ is the newest addition to our family, offering everything from children's gifts, to jewelry, to gifts for pets and much more. Goodsey joins two other new brands recently added to our portfolio: Simply Chocolate®, a destination for a carefully curated assortment of chocolate gifts, and Personalization Universe® featuring thousands of one-of-a-kind gifts personalized for individual recipients. The addition of these brands illustrates the strength of the Celebrations® Platform, which enables us to expand rapidly into new product categories using a "marketplace" concept to provide our customers with a wider selection of gift offerings.

SUNDAY	MONDAY	TUESDAY
2	3	4
9	10	11
16 *Father's Day* DELIVER SMILES TODAY	17	18
23 / 30	24	25

WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
			1
5	6	7	8
12	13	14 *Flag Day*	15
19	20	21 *First Day of Summer*	22
26	27	28	29

2019 July



A best-in-class customer experience is what we strive to deliver every day at 1-800-FLOWERS.COM, Inc. Our caring team of professionals is obsessed with service and we are continually seeking to innovate and enhance the way customers interact with our brands. In fiscal 2018, we added new features to our Online Customer Service Hub, enabling shoppers to view real-time order status, modify orders, schedule specific hours for order arrival and receive live chat support. We also deployed new PWA (Progressive Web App) technology on our category-leading mobile platform, significantly ramping up speed and functionality for our growing volume of mobile customers. Underscoring our commitment to the mobile customer experience, we received the Gold award in the "Mobile Payments and Commerce" category at the Mobile Marketing Association 2018 Global Smarties Awards.

SUNDAY	MONDAY	TUESDAY
	1	2
7	8	9
14 *Bastille Day*	15	16
21	22	23
28 *Parent's' Day*	29	30

DELIVER SMILES TODAY


WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
3	4 *Independence Day* DELIVER SMILES TODAY	5	6
10	11	12	13
17	18	19	20
24	25	26	27
31			

2019

August

Each summer, a beautiful countryside in Medford, Oregon comes alive as what many consider to be the world's most delicious peaches and pears ripen and are readied for harvest. Harry & David® Oregold® Peaches and Royal Riviera® Pears are cherished by millions both as thoughtful gifts and for self-consumption. There are more than 700,000 pear and peach trees in the Harry & David® orchards and approximately 15,000 tons of pears and 400 tons of peaches are harvested each year – nearly 60,000,000 pieces of fruit in total. It all began in 1914 when brothers Harry and David Holmes took over the family orchards and began selling pears as gourmet gifts. Today, the same quality the brothers had always demanded remains, and our customers and their recipients enjoy peaches and pears that are unequaled for juiciness and taste.

SUNDAY	MONDAY	TUESDAY
4	5 *National Friendship Week Begins* DELIVER SMILES TODAY	6
11	12	13
18	19	20
25	26	27



WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
	1	2	3
7	8	9	10
14	15	16	17
21	22	23	24
28	29	30	31

2019

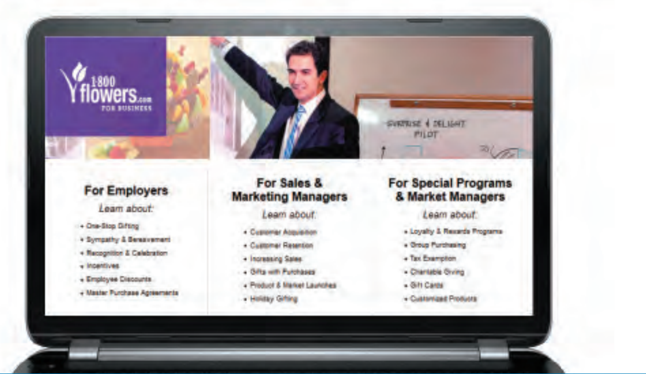
September

The breadth of product offerings within the 1-800-FLOWERS.COM, Inc. family of gift brands provides many opportunities for cross-brand marketing and merchandising for a wide-range of celebratory occasions throughout the year. We continue to leverage the strength and leadership of 1-800-Flowers.com® as a go-to source for birthdays, anniversaries, get well, new baby, thank you, sympathy and other occasions, while also educating customers about the availability of everyday gifts from our entire Celebrations Ecosystem. To that end, our gourmet food and gift baskets brands have created product collections specifically for year-round occasions and several of those brands are growing at a double-digit pace in the everyday gifting category.

SUNDAY	MONDAY	TUESDAY
1	2 *Labor Day*	3
8 *Grandparents Day*	9	10
15	16	17
22	23 *First Day of Fall*	24
29 *Rosh Hashanah Begins at Sunset*	30	

WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
4	5	6	7
11 *Patriot Day*	12	13	14
18	19	20	21
25	26	27	28

2019 October



During fiscal 2018, the 1-800-FLOWERS.COM, Inc. Business Gift Services group expanded its comprehensive range of year-round business gifting services designed to assist companies in recognizing employees, rewarding career achievements, thanking clients, offering condolences, celebrating holidays and conveying many other sentiments. Among the division's notable successes is the growth of its "Surprise and Delight" program, which helps corporate partners better connect with their customers and build stronger relationships. The division also enhanced its technology capabilities through co-branded corporate websites, enabling partners to more easily access the 1-800-FLOWERS.COM, Inc. family of brands and choose the right gifts with quicker completion of their order. In addition, Business Gift Services experienced substantial growth through the establishment of new relationships with leading corporations in financial services, healthcare, hospitality and retail.

SUNDAY	MONDAY	TUESDAY
		1
6	7	8 *Yom Kippur Begins at Sunset*
13	14 *Columbus Day (observed)*	15
20	21	22
27	28 *National Chocolate Day* DELIVER SMILES TODAY	29



WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
2	3	4	5
9	10	11	12
16 *National Boss's Day* DELIVER SMILES TODAY	17	18	19 *Sweetest Day* DELIVER SMILES TODAY
23	24	25	26
30	31 *Halloween* DELIVER SMILES TODAY		

2019

November

With the start of the holiday season comes the desire for people to get together and enjoy delicious foods. Of course, the allure of taste-tempting treats is not limited just to the holidays. To engage with customers year-round, Harry & David® has introduced two strategic initiatives. Harry & David® *Share More.*™ evolves the brand positioning around the power of sharing, inviting a two-way conversation with customers and cultivating meaningful relationships. Harry & David® Gourmet was also introduced, featuring a new collection of distinctive gourmet fare together with some of the brand's iconic favorites. Among the vast selection of delicious choices Harry & David® Gourmet offers is everything from lobster pot pies, apple spiced-ham and smoked salmon, to wine and truffle pairings, artisanal cheeses and Royal Riviera® Pear tarts – ideal for everyday entertaining with elegance and ease.

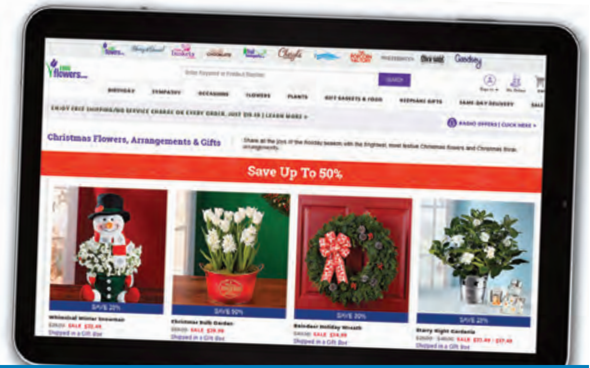
SUNDAY	MONDAY	TUESDAY
3	4	5 *Election Day*
10	11 *Veterans Day*	12
17	18	19
24	25	26

WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
		1	2
6	7	8	9
13	14	15	16
20	21	22	23
27	28 Thanksgiving Day	29	30

DELIVER SMILES TODAY

2019

December



The customer experience is the number one product at 1-800-FLOWERS.COM, Inc. Throughout fiscal 2018 and into fiscal 2019, we continued to invest in innovations designed to optimize this experience. The launch of our digital self-service portal enables customers to track their orders as well as make changes to delivery dates, addresses and gift messages, further boosting our already high customer satisfaction metrics. We also rolled out a new, responsive widescreen website design across our family of brands with enhanced navigation functionality. And we introduced SmartGift, a digital gifting application enabling customers to send a gift even when they don't have their recipient's address and allowing the recipient to select their gift from our family of brands, choose their preferred delivery address and pick their delivery date – involving the recipient in the full gifting experience.

SUNDAY	MONDAY	TUESDAY
1	2	3
8	9	10
15	16	17
22 *Hanukkah Begins at Sunset* *First Day of Winter* DELIVER SMILES TODAY	23	24
29	30	31 *New Year's Eve* DELIVER SMILES TODAY

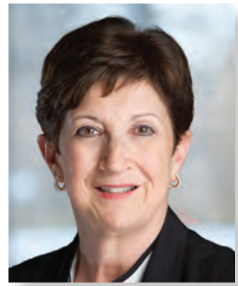
WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
4 National Cookie Day DELIVER SMILES TODAY	5	6	7
11	12	13	14
18	19	20	21
25 Christmas Day DELIVER SMILES TODAY	26 First Day of Kwanzaa	27	28

BOARD OF Directors

James F. McCann
Founder and
Executive Chairman
1-800-FLOWERS.COM, Inc.

Christopher G. McCann
President and
Chief Executive Officer
1-800-FLOWERS.COM, Inc.

Geralyn R. Breig
CEO
AnytownUSA.com



Celia R. Brown
Executive Vice President
Group HR Director
Willis Group
Retired

James A. Cannavino
IBM Company
Senior Vice President
Retired

Eugene F. DeMark C.P.A.
Area Managing Partner
KPMG, LLP, Retired
BankUnited Director

Leonard J. Elmore
Senior Lecturer
Columbia University
Retired Attorney at Law
Network TV Sports Analyst

Sean P. Hegarty
Managing Partner
Hegarty & Company

Katherine Oliver
Principal
Bloomberg Associates

Larry Zarin
Senior Vice President
Chief Marketing Officer
Express Scripts, Inc.
Retired

Fiscal Year 2018
Financial Report

1·800·FLOWERS.COM, INC.

Selected Financial Data

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

The selected consolidated statement of operations data for the years ended July 1, 2018, July 2, 2017 and July 3, 2016 and the consolidated balance sheet data as of July 1, 2018 and July 2, 2017, have been derived from the Company's audited consolidated financial statements included elsewhere in this Annual Report . The selected consolidated statement of operations data for the years ended June 28, 2015 and June 29, 2014, and the selected consolidated balance sheet data as of July 3, 2016, June 28, 2015 and June 29, 2014, are derived from the Company's audited consolidated financial statements, which are not included in this Annual Report.

The following tables summarize the Company's consolidated statement of income and balance sheet data. The Company acquired Harry & David in September 2014, acquired iFlorist in December 2013 (subsequently disposed in October 2015), Pingg Corp. in May 2013 (subsequently disposed of in June 2015), and Fine Stationery, Inc. in May 2011 (subsequently disposed of in June 2015). The following financial data reflects the results of operations of these subsidiaries since their respective dates of acquisition. In May 2017, the Company completed the disposition of its Fannie May business. The following data reflects the results of operations of these subsidiaries until their dates of disposition. During the fourth quarter of fiscal 2013, the Company made the strategic decision to divest the e-commerce and procurement businesses of its Winetasting Network subsidiary in order to focus on growth opportunities in its Gourmet Foods & Gift Baskets business segment. The Company closed on the sale of its Winetasting Network business on December 31, 2013. As a result, the Company has classified the results of Winetasting Network as discontinued operations for fiscal 2014. This information should be read together with the discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and notes to those statements included elsewhere in this Annual Report.

	Years Ended				
	July 1, 2018	July 2, 2017	July 3, 2016	June 28, 2015	June 29, 2014
Consolidated Statement of Income Data:	*(in thousands, except per share data)*				
Net revenues	**$ 1,151,921**	$ 1,193,625	$ 1,173,024	$ 1,121,506	$ 756,345
Cost of revenues	**662,896**	673,344	655,566	634,311	440,672
Gross profit	**489,025**	520,281	517,458	487,195	315,673
Operating expenses:					
Marketing and sales	**298,810**	317,527	318,175	299,801	194,847
Technology and development	**39,258**	38,903	39,234	34,745	22,518
General and administrative	**77,440**	84,116	84,383	85,908	54,754
Depreciation and amortization	**32,469**	33,376	32,384	29,124	19,848
Total operating expenses	**447,977**	473,922	474,176	449,578	291,967
Operating income	**41,048**	46,359	43,282	37,617	23,706
Interest expense, net	**3,631**	5,821	6,674	5,753	1,305
Other (income) expense, net	**(605)**	(15,471)	(14,839)	1,550	52
Income from continuing operations before income taxes	**38,022**	56,009	51,447	30,314	22,349
Income tax expense from continuing operations	**(2,769)**	11,968	15,579	10,930	8,403
Income from continuing operations	**40,791**	44,041	35,868	19,384	13,946
Income from discontinued operations, net of tax	**–**	–	–	–	729
Net income	**40,791**	44,041	35,868	19,384	14,675
Less: Net loss attributable to noncontrolling interest	**–**	–	(1,007)	(903)	(697)
Net income attributable to 1-800-FLOWERS.COM, Inc.	**$ 40,791**	$ 44,041	$ 36,875	$ 20,287	$ 15,372
Basic net income per common share attributable to 1-800-FLOWERS.COM, Inc.					
From continuing operations	**$ 0.63**	$ 0.68	$ 0.57	$ 0.31	$ 0.23
From discontinued operations	**–**	–	–	$ –	$ 0.01
Basic net income per common share	**$ 0.63**	$ 0.68	$ 0.57	$ 0.31	$ 0.24
Diluted net income per common share attributable to 1-800-FLOWERS.COM, Inc.					
From continuing operations	**$ 0.61**	$ 0.65	$ 0.55	$ 0.30	$ 0.22
From discontinued operations	**–**	–	–	$ –	$ 0.01
Diluted net income per common share	**$ 0.61**	$ 0.65	$ 0.55	$ 0.30	$ 0.23
Weighted average shares used in the calculation of net income per common share:					
Basic	**64,666**	65,191	64,896	64,976	64,035
Diluted	**66,938**	67,735	67,083	67,602	66,460

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

	As of				
	July 1, 2018	July 2, 2017	July 3, 2016	June 28, 2015	June 29, 2014
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	**$ 147,240**	$ 149,732	$ 27,826	$ 27,940	$ 5,203
Working capital	**148,222**	132,227	45,798	36,361	17,511
Total assets	**570,889**	552,470	502,941 *	501,946	267,569
Long-term liabilities	**131,186**	145,056	139,494 *	168,083	7,144
Total 1-800-FLOWERS.COM, Inc. stockholders' equity	**314,904**	282,239	242,586	208,449	183,228

**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." The Company adopted this ASU in fiscal 2017, and the impact of the adoption of the new guidance was to reclassify $3.6 million of deferred financing costs previously included within "Other Assets" to "Long-term debt" in the consolidated balance sheets as of July 2, 2017 – see Note 2 . in Item 15 below for details. We have not reclassified other fiscal years for the purposes of this presentation.*

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Business Overview

1-800-FLOWERS.COM, Inc. and its subsidiaries (collectively, the "Company") is a leading provider of gifts for all celebratory occasions. For more than 40 years, 1-800-Flowers.com® has been delivering smiles to customers with gifts for every occasion, including fresh flowers and the best selection of plants, gift baskets, gourmet foods, confections, jewelry, candles, balloons and plush stuffed animals. As always, our 100% Smile Guarantee® backs every gift. The Company's Celebrations suite of services, including its Passport Free Shipping and Reminders programs, are all designed to engage with customers and deepen relationships as a one-stop destination for all celebratory and gifting occasions. In 2017, 1-800-FLOWERS.COM, Inc. was named to the *Stores* ® 2017 Hot 100 Retailers list. This prestigious list, compiled annually by the National Retail Federation (NRF), ranks the nation's fastest-growing retailers by year-over-year domestic sales growth. The Company also received the Gold award in the "Best Artificial Intelligence" category at the Data & Marketing Association's 2017 International ECHO Awards.

The Company's BloomNet® international floral wire service provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably. The 1-800-FLOWERS.COM, Inc. family of brands also includes everyday gifting and entertaining products such as premium, gift-quality fruits and other gourmet items from Harry & David®, popcorn and specialty treats from The Popcorn Factory® and Moose Munch®; cookies and baked gifts from Cheryl's®; gift baskets and towers from 1-800-Baskets.com® and DesignPac Gifts; premium English muffins and other breakfast treats from Wolferman's®; artisan chocolate and confections from Simply Chocolate®, carved fresh fruit arrangements from FruitBouquets.com (www.fruitbouquets.com); top quality steaks and chops from Stock Yards® and unique gifts from Personalization Universe® and Goodsey℠.

As a provider of gifts to consumers and wholesalers for resale to consumers, the Company is subject to changes in consumer confidence and the economic conditions that impact our customers. Demand for the Company's products is affected by the financial health of our customers, which, in turn, is influenced by macro economic issues such as unemployment, fuel and energy costs, trends in the housing market and availability of consumer credit. As such, the Company expects that its revenues will continue to be closely tied to changes in consumer sentiment.

The Company has organized its operations into three categories, or segments: Consumer Floral, BloomNet Wire Service and Gourmet Foods & Gift Baskets, reflecting the way the Company evaluates its business performance and manages its operations.

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. The Company recovered the retail value of its inventory lost to the fire through its property and business interruption policies, recognizing a gain of $19.6 million upon settlement of the claim in fiscal 2016.

On May 30, 2017, the Company completed the sale of the outstanding equity of Fannie May Confections Brands, Inc., including its subsidiaries, Fannie May Confections, Inc. and Harry London Candies, Inc. ("Fannie May") to Ferrero International S.A., a Luxembourg corporation ("Ferrero"). 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 related to the business of Fannie May and a commercial agreement with respect to the distribution of certain Ferrero and Fannie May products. The operations of Fannie May were previously included within the Company's Gourmet Foods & Gift Baskets segment.

In fiscal 2015, the Company acquired Harry & David, whose iconic brands transformed the Company into a destination for premier gifting. Having successfully completed the integration of Harry & David, and generating synergistic operating cost savings in fiscal 2016 and 2017, in fiscal 2018, the Company turned its focus towards unlocking the revenue growth potential of its family of brands. During fiscal 2018, the 1-800-Flowers.com and BloomNet brands increased their marketing and promotional spending to take advantage of favorable competitive circumstances, knowing that efforts to take market share would hurt short term earnings performance, but improve their customer file, and ultimately their respective longer-term earnings outlooks. While these efforts were successful in accelerating annual comparable revenue growth to 3.7%, highlighted by second half growth of 5.8%, and positioned the Company for continued future growth, operational and macro issues, in addition to this increase in marketing spending, negatively impacted the Company's earnings during fiscal 2018. During our busy December holiday season, a temporary operational disruption at our Cheryl's brand, related to the implementation of a new production and warehouse management system, led to our decision to stop taking orders eight days prior to the Christmas holiday so that we could focus on fulfilling our backlog of orders. In addition, the Company incurred incremental labor and expedited shipping costs to meet our customer's delivery expectations on those orders that we accepted prior to shutting down the Cheryl's site. While the operational issues have since been resolved, the effects of this issue continued after the holiday as liquidation of inventory depressed our Valentine's Day, Easter and "everyday" full priced sales. Additionally, increases in health insurance costs and higher transportation costs, across our businesses, further compounded our unfavorable year-over-year performance. As a result, Adjusted EBITDA declined from $85.9 million in fiscal 2017 to $78.9 million in fiscal 2018. Although our Adjusted EBITDA was below our expectations, the Company believes that it is well positioned, and plans to take advantage of current conditions to increase its share across all markets that we operate in. During fiscal 2018, the Company:

- *Strengthened its balance sheet* – the Company continued its responsible stewardship of shareholders' capital. Following the sale of its Fannie May and Harry London brands in May of 2017, which resulted in a gain of $14.6 million, and added approximately $103.6 million of cash to its balance sheet, the Company was able to fund its Christmas holiday working capital requirements primarily through the use of cash on hand. In fiscal 2018, the Company continued to pay down its outstanding term loan, repurchase shares, and invest in capital to grow its businesses utilizing cash generated from operations. When combined with the Company's amended credit facility, the Company believes that its strong balance sheet, and growing cash flows, provide it with significant liquidity and flexibility to invest and enhance future growth, both organically, as well as through potential acquisitions.
- *Invested in business operations* – the Company continued to invest in the key areas that will allow for accelerated growth in the future, including:
  - Manufacturing, production and distribution – expanded production capacity for Cheryl's, including the automation of cookie frosting; expanded its fulfillment capabilities for Harry & David, Cheryl's and 1-800-Flowers brands; invested in Harry & David orchard plantings, as well as manufacturing and fulfillment technology upgrades,
  - Technology – improved multi-brand responsive wide-screen web design and industry award winning mobile transactional progressive web application platforms, and
  - Business Intelligence – customer database mining to effectively market and target key demographics.
- *Multi-Brand Customer Initiatives* – The Company continued to expand its multi-brand customer initiatives, a key ingredient in our strategy to enhance customer engagement and facilitate long-term growth. The multi-brand website provides the customer with an enriched shopping experience using cross-brand marketing and merchandising programs and by providing access to the Company's Celebrations suite of services, including Passport free shipping and Reminders membership programs, as well as our digital self-service portal.
- *Innovation and positioning for emerging technologies* – The Company has built a reputation as an innovator and an early adopter of new technologies. This was illustrated by the Company's initiatives in Conversational Commerce, including:
  - Floral industry-first applications on Facebook's Messenger platform
  - Voice enabled skill on Amazon's Alexa platform
  - Google Assistant applications,
  - Apple Business Chat applications,
  - Samsung Chatbot applications, and
  - Google Rich Business Messaging

Recognizing the need to balance the Company's short and long-term operating and financial objectives, a key tenet of the Company's fiscal 2019 strategy is to accelerate revenue growth through strategic investments in marketing and merchandising programs designed to take advantage of market conditions and build on the momentum gained in the second half of fiscal 2018 across all three of its business segments. In addition, the Company is assuming the restoration of 100 percent bonus payout compared with minimal payout in fiscal 2018. As a result, in fiscal 2019, the Company anticipates:

- Consolidated revenue growth of 5.0%-to-7.0% compared with fiscal 2018;
- EPS in a range of $0.38-to-$0.42 (anticipating a normalized effective tax rate of 26 percent); and
- Adjusted EBITDA in a range of $77.0 million-to-$80.0 million.

The Company anticipates that it will return to double-digit EBITDA and EPS growth by fiscal 2020.

Definitions of non-GAAP financial measures:

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

Adjusted /comparable revenues

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

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

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

Adjusted gross profit and adjusted gross profit percentage

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

We believe that these measures provide management and investors with a more complete understanding of underlying gross profit trends of established, ongoing operations by excluding the effect of activities which are subject to volatility and can obscure underlying trends.

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

EBITDA and adjusted EBITDA

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

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

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

Segment contribution margin and adjusted segment contribution margin

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

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

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

Adjusted net income and adjusted net income per common share

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

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

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

Segment Information

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

	Years Ended								
	July 1, 2018	Severance Costs	Litigation Settlement	As Adjusted (non-GAAP) July 1, 2018	July 2, 2017	Exclude Operating Results of Fannie May	Severance Costs	As Adjusted (non-GAAP) July 2, 2017	As Adjusted (non-GAAP) % Change
				(dollars in thousands)					
Net revenues:									
1-800-Flowers.com Consumer Floral	$ 457,460	$ –	$ –	$ 457,460	$ 437,132	$ –	$ –	$ 437,132	4.7%
BloomNet Wire Service	89,569			89,569	87,700			87,700	2.1%
Gourmet Foods & Gift Baskets	605,523			605,523	670,677	(83,917)		586,760	3.2%
Corporate	1,114			1,114	1,102			1,102	1.1%
Intercompany eliminations	(1,745)			(1,745)	(2,986)	1,341		(1,645)	-6.1%
Total net revenues	$ 1,151,921	$ –	$ –	$ 1,151,921	$ 1,193,625	$ (82,576)	$ –	$ 1,111,049	3.7%
Gross profit:									
1-800-Flowers.com Consumer Floral	$ 181,601	$ –	$ –	$ 181,601	$ 177,488	$ –	$ –	$ 177,488	2.3%
	39.7%			39.7%	40.6%		–	40.6%	
BloomNet Wire Service	48,604			48,604	49,562		–	49,562	-1.9%
	54.3%			54.3%	56.5%		–	56.5%	
Gourmet Foods & Gift Baskets	257,803			257,803	292,199	(32,571)	–	259,628	-0.7%
	42.6%			42.6%	43.6%		–	44.2%	
Corporate (a)	1,017			1,017	1,032		–	1,032	-1.5%
	91.3%			91.3%	93.6%		–	93.6%	
Total gross profit	$ 489,025	$ –	$ –	$ 489,025	$ 520,281	$ (32,571)	$ –	$ 487,710	0.3%
	42.5%	–	–	42.5%	43.6%	–		43.9%	
EBITDA (non-GAAP): Segment Contribution Margin (non-GAAP) (b) :									
1-800-Flowers.com Consumer Floral	$ 50,808	$ –	$ –	$ 50,808	$ 51,860	$ –	$ –	$ 51,860	-2.0%
BloomNet Wire Service	31,683			31,683	32,383	–	–	32,383	-2.2%
Gourmet Foods & Gift Baskets	70,927			70,927	77,312	(2,575)	756	75,493	-6.0%
Segment Contribution Subtotal	153,418	–	–	153,418	161,555	(2,575)	756	159,736	-4.0%
Corporate (a)	(79,901)	429	426	(79,046)	(81,820)	1,310		(80,510)	1.8%
EBITDA (non-GAAP)	73,517	429	426	74,372	79,735	(1,265)	756	79,226	-6.1%
Add: Stock-based compensation	3,726			3,726	5,694			5,694	-34.6%
Add: Comp charge related to NQ Plan investment appreciation	797			797	987			987	-19.4%
Adjusted EBITDA (non-GAAP)	$ 78,040	$ 429	$ 426	$ 78,895	$ 86,416	$ (1,265)	$ 756	$ 85,907	-8.2%

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

	Years Ended	
	July 1, 2018	July 2, 2017
	(in thousands, except per share data)	
Net income	**$ 40,791**	$ 44,041
Adjustments to reconcile net income to adjusted net income (non-GAAP)		
Add back: Litigation Settlement	**426**	–
Add back: Severance costs	**429**	756
Deduct: Fannie May operating losses	**–**	(1,036)
Deduct: Gain from Sale of Fannie May	**–**	14,607
Deduct: Income tax benefit on adjustments	**211**	1,344
Deduct: U.S. tax reform benefit on deferred taxes (c)	**12,158**	–
Adjusted net income (non-GAAP)	**$ 29,277**	$ 29,882
Basic and diluted net income per common share		
Basic	**$ 0.63**	$ 0.68
Diluted	**$ 0.61**	$ 0.65
Basic and diluted adjusted net income per common share (non-GAAP)		
Basic	**$ 0.45**	$ 0.46
Diluted	**$ 0.44**	$ 0.44
Weighted average shares used in the calculation of net income and adjusted net income (non-GAAP) per common share		
Basic	**64,666**	65,191
Diluted	**66,938**	67,735

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

	Years Ended	
	July 1, 2018	July 2, 2017
Net income	**$ 40,791**	$ 44,041
Add:		
Interest expense, net	**3,026**	4,957
Depreciation and amortization	**32,469**	33,376
Income tax expense (benefit)	**(2,769)**	11,968
Less:		
Gain from sale of Fannie May		14,607
EBITDA (non-GAAP)	**73,517**	79,735
Add:		
Severance costs	**429**	756
Litigation Settlement	**426**	–
Compensation charge related to NQ plan investment appreciation	**797**	987
Stock-based compensation	**3,726**	5,694
Less:		
Fannie May EBITDA	**–**	1,265
Adjusted EBITDA (non-GAAP)	**$ 78,895**	$ 85,907

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

(b) Segment performance is measured based on segment contribution margin or segment Adjusted EBITDA, reflecting only the direct controllable revenue and operating expenses of the segments, both of which are non-GAAP measurements. As such, management's measure of profitability for these segments does not include the effect of corporate overhead, described above, depreciation and amortization, other income (net), and other items that we do not consider indicative of our core operating performance.

(c) The adjustment to deduct the impact of the U.S. tax reform from net income, for the year ended July 1, 2018, includes the impact of the re-valuation of the Company's deferred tax liability of $12.2 million or $0.18 per diluted share, but does not include the ongoing impact of the lower federal corporate tax rate.

Results of Operations

The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to June 30. Fiscal years 2018 and 2017, which ended on July 1, 2018 and July 2, 2017, respectively, consisted of 52 weeks. Fiscal year 2016, which ended on July 3, 2016, consisted of 53 weeks.

Net Revenues

	Years Ended				
	July 1, 2018	% Change	July 2, 2017	% Change	July 3, 2016
	(dollars in thousands)				
Net revenues:					
E-Commerce	**$ 921,848**	2.8%	$ 896,762	1.6%	$ 882,782
Other	**230,073**	-22.5%	296,863	2.3%	290,242
	$1,151,921	-3.5%	$1,193,625	1.8%	$1,173,024

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

During the year ended July 1, 2018, net revenues decreased 3.5% in comparison to the prior year. On a comparable basis, adjusting fiscal 2017 net revenues to reflect the May 30, 2017 disposition of Fannie May, net revenues increased 3.7% during fiscal 2018, driven by second half growth which improved 5.8%. This growth came from all business segments, with the Consumer Floral and BloomNet Segments benefiting from investments in strategic marketing and merchandising programs designed to accelerate growth and extend our market leadership in the floral space, while the Gourmet Foods & Gift Baskets segment growth reflected strong e-commerce growth in our Harry & David and 1-800-Baskets brands.

During the year ended July 2, 2017, net revenues increased 1.8% in comparison to the prior year, as a result of growth within the Company's Consumer Floral and BloomNet segments, with the 1-800-Flowers.com brand continuing to extend its market leadership position, driven by increased demand throughout the year, particularly during the Valentine's Day holiday. The increases above were partially offset by a decline in Harry & David revenues, due to the closure of a number of underperforming retail locations, and a reduction in e-commerce demand, primarily during the Christmas holiday selling season, and the timing of certain factors including: (i) the closing of the Company's sale of the Fannie May Confection Brands business on May 30, 2017, (ii) a 52-week fiscal year in fiscal 2017 versus 53-week fiscal year in fiscal 2016, reflecting the Company's retail calendar, and (iii) the shift of Harry & David's Fruit of the Month Club® cherries shipment out of the Company's fiscal fourth quarter in fiscal 2017, due to a late harvest, into the first quarter of fiscal 2018. On a comparable basis, adjusting fiscal year 2016 GAAP revenues to remove: (i) the 53rd week ($8.0 million), (ii) Fannie May's June 2016 revenues ($4.8 million), and (iii) the June 2016 Harry & David Fruit of the Month Club® cherry shipment ($2.4 million), net revenues during fiscal 2017 increased 3.1% in comparison to fiscal 2016.

E-commerce revenues (combined online and telephonic sales channels) increased 2.8% during the year ended July 1, 2018 compared to the prior year. On a comparable basis, adjusting fiscal 2017 e-commerce revenues to exclude the revenues of Fannie May, e-commerce revenues increased 4.3% during fiscal 2018, due to the aforementioned e-commerce growth within the Company's Consumer Floral segment, as well as growth in the Gourmet Foods & Gift Baskets segment, reflecting year-over-year growth by Harry & David and 1-800-Baskets. During the year ended July 1, 2018, the Company fulfilled approximately 12.4 million e-commerce orders, at an average order value of $74.04, representing increases of 2.4% and 0.4%, respectively, compared to fiscal 2017. Adjusted to exclude Fannie May's revenue and orders, in fiscal 2018, orders increased 5.2%, while average order value decreased 0.9%, in comparison to fiscal 2017.

E-commerce revenues increased 1.6% during the year ended July 2, 2017 compared to the prior year, as a result of the aforementioned e-commerce growth within the Company's Consumer Floral segment, partially offset by unfavorable e-commerce growth within the Gourmet Foods & Gift Baskets segment due to the Company's sale of the Fannie May Confection Brands business on May 30, 2017, a decrease in demand within the Harry & David brand during the Christmas Holidays, and the shift of Harry & David's Fruit of the Month Club® cherries shipment out of the Company's fiscal fourth quarter in fiscal 2017, due to a late harvest, into the first quarter of fiscal 2018, as well as the impact of the 53rd week in fiscal 2016.

Other revenues, comprised of the Company's BloomNet Wire Service segment, as well as the wholesale and retail sales channels of the 1-800-Flowers.com Consumer Floral and Gourmet Foods & Gift Baskets segments decreased 22.5% during fiscal 2018, primarily as a result of the May 2017 disposition of Fannie May, which generated most of its revenues through its retail and wholesale operations. On a comparable basis, adjusting fiscal 2017 to exclude the revenues of Fannie May, other revenues increased 2.0% during fiscal 2018, as a result of growth within the Bloomnet segment as well as the Gourmet Foods & Gift Baskets segment, driven by 1-800-Baskets and Cheryl's wholesale growth, partially offset by declines in Harry & David retail store volume due to a reduction in store count and a decline in customer traffic. Other revenues increased by 2.3% during fiscal 2017, attributable to the BloomNet segment which increased revenues through improvements in membership, transaction and ancillary service fees, as well as from the Gourmet Foods & Gift Baskets segment, resulting from wholesale growth within the Fannie May, Harry & David and 1-800-Baskets wholesale gift businesses. This favorability was partially offset by a decrease in retail store sales within Fannie May, due to a decline in customer traffic, as well as a decline in Harry & David retail store sales due to the closure of several underperforming locations.

The 1-800-Flowers.com Consumer Floral segment includes the operations of the 1-800-Flowers.com brand, which derives revenue from the sale of consumer floral products through its e-commerce sales channels (telephonic and online sales) and royalties from its franchise operations. Net revenues during the fiscal year ended July 1, 2018 increased 4.7% due to strength in everyday gifting driven by the Company's investments in strategic marketing and merchandising programs designed to accelerate growth and increase market share, while also expanding its offerings of original gifts, with broader price points at both the entry level and the luxury high-end. The brand continued its strong Valentine's Day growth trend, driven in part by the brand's ability to take advantage of a Wednesday date placement, building off fiscal 2017's Tuesday date placement, compared to Fiscal 2016's Sunday Valentine's Day date placement, which is the lowest performing date placement within the week for the Company. While Mother's Day growth was also strong, annual growth was negatively impacted by hurricanes Harvey and Irma. Net revenues during the fiscal year ended July 2, 2017 increased 4.5%, as a result of increased order demand throughout the year, and during the Valentine's Day holiday in particular, when the Company was able to leverage the holiday's Tuesday date placement, in comparison to the prior year when Valentine's Day fell on a Sunday. The brand was successful at growing its "everyday" business, including birthdays, anniversaries, sympathy and "just because," due to expanded merchandise assortments, including the Flirty Feline® floral arrangement, and efforts to capitalize on its same day/next day delivery capabilities. These increases were partially offset by the impact of the 53 rd week in fiscal 2016, reflecting the Company's retail calendar. On a comparable basis, adjusting fiscal 2016 GAAP revenues to remove the 53rd week ($4.8 million), fiscal 2017 net revenues increased 5.7% in comparison to fiscal 2016.

The BloomNet Wire Service segment includes revenues from membership fees as well as other product and service offerings to florists. Net revenues during fiscal 2018 increased 2.1% in comparison to the prior year due to higher wholesale product revenues, and higher transaction fees due to fee increases, partially offset by lower membership and ancillary fees resulting from an unfavorable network shop count. During fiscal 2018, the Company made investments in Bloomnet where it enhanced its digital marketing programs, offering Search Engine Optimization ("SEO") and Search Engine Marketing ("SEM") capabilities to our florists for their websites, introduced new digital directory features designed to help florists highlight their unique offerings and drive additional incoming orders from sending florists, and in the second half of the year, expanded efforts to capture a growing volume of orders from local flower shops and third-party, online floral companies, resulting in improved second half growth. Net revenues during fiscal 2017 increased 2.6% in comparison to the prior year due to an increase in order volume processed through the network, driven primarily by the increase in 1-800-Flowers volume noted above, which enabled BloomNet to generate increased membership, transaction and ancillary revenue improvements. These improvements were partially offset by lower wholesale product revenue as a result of decreased demand and network shop count.

The Gourmet Foods & Gift Baskets segment includes the operations of Harry & David, Wolferman's, Stockyards, Cheryl's, Fannie May (through the date of its disposition on May 30, 2017), The Popcorn Factory, and 1-800-Baskets/DesignPac Gifts. Revenue is derived from the sale of gourmet fruits, cookies, baked gifts, premium chocolates and confections, gourmet popcorn, gift baskets, and prime steaks and chops through the Company's e-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Harry & David, Cheryl's and Fannie May (through the date of its disposition) brand names, as well as wholesale operations. Net revenues during fiscal 2018 were unfavorable by 9.7%, in comparison to prior year, due to the disposition of Fannie May on May 30, 2017. On a comparable basis, adjusting fiscal 2017 to exclude Fannie May results, fiscal 2018 net revenues were favorable in comparison to adjusted prior year revenues by 3.2%, driven primarily by continued growth in everyday gifting in Harry & David and 1-800-Baskets. Comparable segment revenue growth was attributable to several initiatives implemented during the year, including: (i) the Company's successful efforts to grow the "everyday" volume of its Gourmet Foods & Gift Baskets brands through expanded Birthday , Sympathy and Thank You merchandise, (ii) development of merchandising assortments and digital marketing programs that helped to broaden the demographic reach of the brands within the segment, and, (iii) the launch of the Simply Chocolates product line, which is managed by 1-800-Baskets. Comparable revenue growth was negatively impacted by a temporary disruption in operations at our Cheryl's brand, related to the implementation of a new production and warehouse management system, which, in turn, led to the brand's decision to stop taking orders eight days prior to the Christmas holiday. Net revenue during fiscal 2017 was consistent with fiscal 2016, as revenue growth within the Popcorn Factory, 1-800-Baskets/DesignPac, Fannie May and Cheryl's brands was offset by a decline in Harry & David revenues, due to the closure of a number of underperforming retail locations, and a reduction in e-commerce demand, primarily during the Christmas holiday selling season, and the timing of certain factors including: (i) the Company's sale of the Fannie May Confection Brands business on May 30, 2017, (ii) a 52-week fiscal year in fiscal 2017 versus 53-week fiscal year in fiscal 2016, reflecting the Company's retail calendar, and (iii) the shift of Harry & David's Fruit of the Month Club® cherries shipment out of the Company's fiscal fourth quarter in fiscal 2017, due to a late harvest, into the first quarter of fiscal 2018. On a comparable basis, adjusting fiscal year 2016 GAAP revenues to remove: (i) the 53rd week ($3.2 million), (ii) Fannie May's June 2016 revenues ($4.8 million), and (iii) the June 2016 Harry & David Fruit of the Month Club® cherry shipment ($2.4 million), net revenues during fiscal 2017 increased 1.6% in comparison to fiscal 2016.

In fiscal 2019, the Company plans to increase investments in strategic marketing and merchandising programs to take advantage of current competitive market conditions. The Company expects to grow revenues across all three of its business segments with consolidated revenue growth of 5.0%-to-7.0% compared with fiscal 2018.

Gross Profit

	Years Ended				
	July 1, 2018	% Change	July 2, 2017	% Change	July 3, 2016
	(dollars in thousands)				
Gross profit	**$489,025**	-6.0%	$520,281	0.5%	$517,458
Gross margin %	**42.5%**		43.6%		44.1%

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

Gross profit decreased 6.0% while gross profit percentage decreased 110 basis points during the fiscal year ended July 1, 2018 in comparison to the prior year. On a comparable basis, adjusting prior year to exclude the gross profit of Fannie May, which was disposed of on May 30, 2017, gross profit increased 0.3%, while gross profit percentage decreased 140 basis points. The higher comparable gross profit is due to the increase in comparable revenues noted above, partially offset by a lower gross profit percentage, primarily reflecting the growth of the Company's Passport free-shipping program, higher promotional competitive landscape during particularly Valentine's Day and Mother's Day, and higher transportation and hourly labor costs. Gross profit during fiscal 2018 was also negatively impacted by the operational issue at Cheryl's during the Christmas holiday season. Gross profit increased 0.5% during the fiscal year ended July 1, 2017 in comparison to the prior year, primarily as a result of the incremental revenue noted above, partially offset by a decline in gross profit margin as a result of annual shipping rate increases, product mix, and increased promotions during the year.

The 1-800-Flowers.com Consumer Floral segment gross profit increased by 2.3% during fiscal 2018, in comparison to the prior year, due to the aforementioned revenue growth, partially offset by a decrease in gross profit percentage of 90 basis points, to 39.7%. The lower gross profit percentages reflect increased promotional activity in order to increase market share, especially during the critical Valentine's Day and Mother's Day holidays, and the growth of the Company's Passport free-shipping program, which has been driving improved customer loyalty and purchase frequency. The 1-800-Flowers.com Consumer Floral segment gross profit increased by 4.1% during the fiscal year ended July 2, 2017, in comparison to the prior year, as a result of the increase in revenues noted above, partially offset by a 20 basis point decrease in gross profit margin, from 40.8% to 40.6%. This decrease in gross profit margin was primarily due to annual shipping rate increases, as well as increased promotional activity during the year.

BloomNet Wire Service segment's gross profit during the year ended July 1, 2018 decreased 1.9%, in comparison to the prior year, due to a decline in gross profit percentage which declined 220 basis points to 54.3%, partially offset by the increase in revenues noted above. The lower gross profit percentage was due to sales mix, with a decline in higher margin membership and related services, offset by an increase in lower margin wholesale product sales, as well as increased transportation costs, and higher rebates as a result of the Company's strategy to capture market share. BloomNet Wire Service segment's gross profit increased by 2.9% during the fiscal year ended July 2, 2017 in comparison to the prior year, as a result of the increase in sales noted above, as well as a 20 basis point increase in gross margin percentage, from 56.3% to 56.5%, related to sales mix.

The Gourmet Foods & Gift Baskets segment gross profit decreased by 11.8% during the year ended July 1, 2018, in comparison to the prior year, while gross profit percentage decreased 100 basis points to 42.6%, over the same period. On a comparable basis, adjusting prior year to exclude the gross profit of Fannie May, which was disposed of on May 30, 2017, gross profit declined 0.7% and gross profit percentage decreased 160 basis points, to 42.6%, during fiscal 2018 in comparison to fiscal 2017. The lower gross profit percentage was due to the impact of the operational issue at Cheryl's during the second quarter, which caused increased labor, expedited shipping and product write-downs, but also due to the lingering effects experienced in the third quarter as a result of customer "win-back" promotional programs and liquidation of inventory which was sold in place of full margin product. In addition, although revenue growth provided for improved gross profit at Harry & David, higher transportation costs at our Harry & David and wholesale 1-800-Baskets brand, negatively impacted gross profit percentage. The Gourmet Foods & Gift Baskets segment gross profit decreased by 1.9% during the fiscal year ended July 2, 2017, in comparison to the prior year, due to a decrease of 80 basis points in gross profit margins, from 44.4% to 43.6%, as revenues were consistent with the prior year. The decrease in gross profit margin percentage was due to declines at Harry & David and Fannie May as a result of product mix and unfavorable volume-related absorption, partially offset by favorable gross profit margins at Cheryl's and DesignPac due to production process improvements and reduced shipping expenses due to improved ground shipping conversion rates.

In fiscal 2019, the Company expects its gross profit to improve due to sales growth and slightly stronger gross profit margin driven by manufacturing productivity and automation improvements, targeted price increases and correction of fiscal 2018 operational issues, offset by higher labor and transportation costs.

Marketing and Sales Expense

	Years Ended				
	July 1, 2018	% Change	July 2, 2017	% Change	July 3, 2016
	(dollars in thousands)				
Marketing and sales	**$298,810**	-5.9%	$317,527	-0.2%	$318,175
Percentage of sales	**25.9%**		26.6%		27.1%

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

Marketing and sales expense decreased 5.9% during the year ended July 1, 2018, compared to the prior year, due to the disposition of Fannie May on May 30, 2017. On a comparable basis, adjusting prior year to exclude Fannie May's marketing and sales expenditures, marketing and sales expense increased 2.0% during fiscal 2018, but decreased as a percentage of net revenue to 25.9% compared to 26.4% during fiscal year 2017. On a comparable basis, the increase in spend came from the Consumer Floral and Gourmet Foods & Gift Baskets segments, commensurate with revenue growth, as a result of the Company's incremental marketing efforts designed to accelerate revenue growth and capture market share during the highly competitive and promotional Valentine's Day and Mother's Day holidays. This increased marketing spend was partially offset by a reduction in performance based bonuses, resulting in an overall reduction in total marketing and sales spend ratios, as a percentage of net revenues.

Marketing and sales expenses declined slightly and decreased as a percentage of revenues (26.6% in fiscal 2017 vs. 27.1% in fiscal 2016), as a result of a decrease in labor costs due to a reduction in performance based bonuses, as well as reductions in labor and facility costs associated with closure of a number of underperforming Harry & David retail locations, partially offset by higher marketing spend within the Consumer Floral segment, primarily around the Mother's Day holiday.

During the fiscal year ended July 1, 2018, the Company added approximately 2.8 million new e-commerce customers, an increase of 6.6% over the prior year. Approximately 59% of customers who placed e-commerce orders during fiscal 2018 were repeat customers compared to approximately 58 % in fiscal 2017.

Technology and Development Expense

	Years Ended				
	July 1, 2018	% Change	July 2, 2017	% Change	July 3, 2016
	(dollars in thousands)				
Technology and development	**$ 39,258**	0.9%	$38,903	-0.8%	$39,234
Percentage of sales	**3.4%**		3.3%		3.3%

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 0.9% during the fiscal year ended July 1, 2018, compared to the prior year, primarily due to increased license and maintenance costs related to cloud based contact center telecommunications support, payment gateways, order management systems, and security software, partially offset by a decrease in labor and consulting costs due to reductions in headcount and performance based bonuses.

Technology and development expenses decreased 0.8% during the fiscal year ended July 2, 2017 compared to the prior year primarily due to lower labor costs, related to reduced headcount and a reduction in performance based bonuses, partially offset by increased license and maintenance costs related to system security, and platform improvements.

During the fiscal years ended July 1, 2018, July 2, 2017 and July 3, 2016, the Company expended $61.2 million, $59.2 million and $60.6 million, respectively, on technology and development, of which $21.8 million, $20.3 million and $21.4 million, respectively, has been capitalized.

General and Administrative Expense

	Years Ended				
	July 1, 2018	% Change	July 2, 2017	% Change	July 3, 2016
	(dollars in thousands)				
General and administrative	**$ 77,440**	-7.9%	$ 84,116	-0.3%	$ 84,383
Percentage of sales	**6.7%**		7.0%		7.2%

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 7.9% during the fiscal year ended July 1, 2018, compared to the prior year, primarily due to the disposition of Fannie May on May 30, 2017. On a comparable basis, adjusting prior year to exclude Fannie May's general and administrative expenditures, general and administrative expense during fiscal 2018, was consistent with the prior year as higher health insurance costs due to unfavorable medical claims, as well as an increase in legal fees and bad debt expense, due to the bankruptcy of a wholesale customer, was offset by lower labor due to a reduction in performance based bonuses.

General and administrative expense decreased 0.3% during the fiscal year ended July 2 2017 in comparison to the prior year, as a result of lower labor costs due to decreases in performance based bonuses, as well as certain prior year expenses that were not incurred in the current year, including Harry & David integration costs and the Edible Arrangements litigation settlement. These decreases were partially offset by increased health insurance costs, headcount and expense related to the Company's Non-Qualified Deferred Compensation Plan ("NQDC"). The Company has established an NQDC for certain members of senior management. The plan assets are classified as trading securities - see Note 10. in Item 15 for details – in fiscal 2017, the Company recorded labor expense of approximately $1.0 million, compared to a benefit of $0.1 million during fiscal 2016, within "General and administrative" expenses, associated with an increase in amounts owed to participants due to the appreciation of the fair value of participant directed investments. The corresponding offset to this expense is an equivalent amount of investment income, which is recorded in "Other (income) expense, net". Trading securities held in the NQDC are measured using quoted market prices at the reporting date and are included in "Other assets," with the corresponding liability to participants included in "Other liabilities" within the consolidated balance sheets.

Depreciation and Amortization

	Years Ended				
	July 1, 2018	% Change	July 2, 2017	% Change	July 3, 2016
	(dollars in thousands)				
Depreciation and amortization	**$ 32,469**	-2.7%	$ 33,376	3.1%	$ 32,384
Percentage of sales	**2.8%**		2.8%		2.8%

Depreciation and amortization expense decreased 2.7% during the fiscal year ended July 1, 2018 in comparison to the prior year, due to the disposition of Fannie May. On a comparable basis, adjusting prior year to exclude Fannie May's depreciation and amortization expense, depreciation and amortization expense increased 4.5% during fiscal 2018, in comparison to the prior year as a result of recent shorter-lived IT capital expenditures.

Depreciation and amortization expense increased by 3.1% during the fiscal year ended July 2, 2017 in comparison to the prior year, as a result of recent increases in capital expenditures, primarily in support of the Company's technology infrastructure, partially offset by the impact of the disposition of Fannie May.

Interest Expense, net

	Years Ended				
	July 1, 2018	% Change	July 2, 2017	% Change	July 3, 2016
	(dollars in thousands)				
Interest expense, net	**$ 3,631**	-37.6%	$ 5,821	-12.8%	$ 6,674

Interest expense, net consists primarily of interest expense and amortization of deferred financing costs attributable to the Company's credit facility (See Note 9. in Item 15 for details regarding the 2016 Credit Facility), net of income earned on the Company's available cash balances.

Interest expense, net decreased 37.6% during the year ended July 1, 2018 in comparison to the prior year, due to the scheduled repayment of term loan borrowings, the funding of Christmas holiday working capital requirements primarily through the use of cash on hand from the sale of Fannie May, in comparison to fiscal 2017, when the Company funded working capital requirements through its revolving credit facility, as well as higher interest income on the Company's outstanding cash balances (associated with cash received from the sale of Fannie May in the prior year).

Interest expense, net decreased 12.8% during the year ended July 2, 2017 in comparison to the prior year, due to the reduction in the outstanding Term Debt due to principal payments during the year, partially offset by a $0.3 million write-off of deferred financing costs as a result of amending the Company's credit facility in December 2016, and an overall increase in interest rates.

Other (income) Expense, net

	Years Ended				
	July 1, 2018	% Change	July 2, 2017	% Change	July 3, 2016
	(dollars in thousands)				
Other (income) expense, net	**$(605)**	-96.1%	$(15,471)	4.3%	$(14,839)

Other (income) expense, net for the year ended July 1, 2018 consists primarily of investment earnings of the Company's Non-Qualified Deferred Compensation Plan assets, partially offset by a $0.2 million impairment related to the Company's equity method investment in Flores Online (see Note 2. in Item 15 for details).

Other (income) expense, net for the year ended July 1, 2018 consists primarily of a $14.6 million gain on the sale of Fannie May (see Note 4. in Item 15 for details), a $1.0 million investment gain related to the Company's Non-Qualified Deferred Compensation Plan (see "General and Administrative" expense above), partially offset by a $0.1 million loss related to the Company's equity in the net loss of Flores Online (see Note 2. in Item 15 for details).

Income Taxes

During the fiscal years ended July 1, 2018, July 2, 2017 and July 3, 2016, the Company recorded income tax expense (benefit) from continuing operations of ($2.8) million, $12.0 million and $15.6 million, respectively, resulting in an effective tax rate of -7.3%, 21.4% and 30.3%, respectively. The Company's effective tax rate for fiscal 2018 was impacted by the enactment of the The Tax Cuts and Jobs Act ("Tax Act") on December 22, 2017 (see Note 1. in Item 1 above). Although the Tax Act was enacted on December 22, 2017, since the Company has a July 1 fiscal year-end, the lower corporate income tax rate is being phased in, resulting in a U.S. statutory federal rate of approximately 28% for our fiscal year ending on July 1, 2018, and 21% for subsequent fiscal years. In addition to the impact of the lower transitional rate, during the quarter ended December 31, 2017, the Company recognized a discrete tax benefit of $12.2 million, or $0.18 per diluted share, reflecting a revaluation of deferred tax liabilities at the lower U.S. federal statutory rate of 21%. Adjusted for the discrete benefit of $12.2 million, the Company's effective tax rate would have been 24.8%, reflecting various tax credits and return to provision adjustments related to the filing of the Company's Fiscal 2017 tax return. The Company's effective tax rate for fiscal 2017 and 2016 differed from the U.S. federal statutory rate of 35% primarily due to the impact of state income taxes, valuation allowance changes, rate differences, tax settlements, various tax credits/deductions as well as deductible stock-based compensation, as well as the tax effect of the Fannie May disposition in fiscal 2017 (see Note 11 . in Item 15 for details).

At July 1, 2018, the Company's total federal and state capital loss carryforwards were $28.4 million, which if not utilized, will expire in fiscal 2022. The Company's foreign net operating loss carryforwards were $2.8 million, which if not utilized, will begin to expire in fiscal 2034.

Liquidity and Capital Resources

Liquidity and borrowings

The Company's principal sources of liquidity are cash on hand, cash flows generated from operations and the borrowings available under the 2016 Credit Facility (see Note 9. in Item 15 for details). At July 1, 2018, the Company had working capital of $148.2 million, including cash and cash equivalents of $147.2 million, compared to working capital of $132.2 million, including cash and cash equivalents of $149.7 million, at July 2, 2017. As of July 1, 2018, there were no borrowings outstanding under the Company's Revolver. 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 expects to generate significant cash from operations during its second quarter, and then utilize that cash for operating needs during its fiscal third and fourth quarters, after which time, the Company expects to borrow against its Revolver to fund pre-holiday manufacturing and inventory purchases. Borrowings under the Revolver typically peak in November, at which time cash generated from operations during the Christmas holiday shopping season are expected to enable the Company to repay working capital borrowings prior to the end of December.

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

Cash Flows

Net cash provided by operating activities of $58.3 million for the fiscal year ended July 1, 2018 was primarily attributable to net income, adjusted for non-cash charges for depreciation and amortization and stock-based compensation, net of the deferred income tax benefit, primarily related to the Tax Act, partially offset by working capital changes related to the accelerated production of inventory to mitigate the impact of seasonal labor shortages expected during the holiday season, partially offset by decreases in accounts payable and accrued expenses as a result of the timing of the inventory build.

Net cash used in investing activities of $41.8 million was primarily attributable to capital expenditures related to the Company's technology initiatives and manufacturing production and orchard planting equipment, and the working capital adjustment related to the sale of Fannie May, of which $8.5 million was still due to Ferrero at July 2, 2017.

Net cash used in financing activities of $19.0 million for the fiscal year ended July 1, 2018 was for Term Loan repayment of $7.2 million, and the acquisition of $12.2 million of treasury stock. There were no borrowings outstanding under the Company's Revolver as of July 1, 2018.

Stock Repurchase Program

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. On August 30, 2017, the Company's Board of Directors authorized an increase to its stock repurchase plan of up to $30.0 million. The Company repurchased a total of $12.2 million (1,269,059 shares), $10.7 million (1,120,706 shares) and $15.2 million (1,714,550 shares) during the fiscal years ended July 1, 2018, July 2, 2017 and July 3, 2016, respectively, under this program. As of July 1, 2018, $20.0 million remained authorized under the plan.

Contractual Obligations

At July 1, 2018, the Company's contractual obligations from continuing operations consist of:

	Payments due by period (in thousands)				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations (1)	$116,197	$ 13,870	$ 35,003	$ 67,324	$ —
Operating lease obligations	98,022	15,722	21,635	17,476	43,189
Purchase commitments(2)	84,943	80,446	2,681	1,816	—
Unrecognized tax liabilities (3)	—	—	—	—	—
Total	$299,162	$ 110,038	$ 59,319	$ 86,616	$ 43,189

(1) The payments due for long-term debt include principal and estimated interest payments on the Company's Term Loan (see Note 9. in Item 15 below for details). Estimated interest payments are based on outstanding principal amounts, currently effective interest rates as of July 1, 2018 and timing of scheduled principal payments.

(2) Purchase commitments consist primarily of inventory and equipment purchase orders made in the ordinary course of business.

(3) As of July 1, 2018, the Company's Consolidated Balance Sheet reflects a liability for uncertain tax positions of $0.6 million, including an immaterial amount of accrued interest and penalties (see Note 10. in item 15). Due to the high degree of uncertainty regarding the timing of future cash outflows of liabilities for uncertain tax positions, a reasonable estimate of the period of cash settlement cannot be made.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial position and results of operations are based upon the consolidated financial statements of 1-800-FLOWERS.COM, Inc., which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, inventory and long-lived assets, including goodwill and other intangible assets related to acquisitions. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in preparation of its consolidated financial statements.

Revenue Recognition

Net revenues are generated by e-commerce operations from the Company's online and telephonic sales channels as well as other operations (retail/wholesale) and primarily consist of the selling price of merchandise, service or outbound shipping charges, net of discounts, returns and credits. Net revenues are recognized primarily upon product delivery and do not include sales tax. Net revenues generated by the Company's BloomNet Wire Service operations include membership fees as well as other products and service offerings to florists. Membership fees are recognized monthly in the period earned, and products sales are recognized upon product shipment with shipping terms primarily FOB shipping point.

Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers or franchisees to make required payments. In establishing the appropriate provisions for customer receivable balances, the Company makes assumptions with respect to their future collectability. The Company's assumptions are based on an assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivable balances. Once the Company considers the factors above, an appropriate provision is made, which takes into account the severity of the likely loss on the outstanding receivable balance based on the Company's experience in collecting these amounts. If the financial condition of the Company's customers or franchisees were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory

Inventories are valued at the lower of cost or market using the first-in, first-out method of accounting. The Company also records an inventory obsolescence reserve, which represents the difference between the cost of the inventory and its estimated realizable value, based on various product sales projections. This reserve is determined by analyzing inventory skus based on age, expiration, historical trends and requirements to support forecasted sales. In addition, and as necessary, the Company may establish specific reserves for future known or anticipated events.

Business Combinations

The Company accounts for business combinations in accordance with ASC Topic 805 which requires, among other things, the acquiring entity in a business combination to recognize the fair value of all the assets acquired and liabilities assumed; the recognition of acquisition-related costs in the consolidated results of operations; the recognition of restructuring costs in the consolidated results of operations for which the acquirer becomes obligated after the acquisition date; and contingent purchase consideration to be recognized at their fair values on the acquisition date with subsequent adjustments recognized in the consolidated results of operations. The fair values assigned to identifiable intangible assets acquired are determined primarily by using an income approach which is based on assumptions and estimates made by management. Significant assumptions utilized in the income approach are based on company specific information and projections which are not observable in the market and are therefore considered Level 3 measurements. The excess of the purchase price over the fair value of the identified assets and liabilities is recorded as goodwill. Operating results of the acquired entity are reflected in the Company's consolidated financial statements from date of acquisition.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in each business combination, with the carrying value of the Company's goodwill allocated to its reporting units, in accordance with the acquisition method of accounting. Goodwill is not amortized, but it is subject to an annual assessment for impairment, which the Company performs during the fourth quarter, or more frequently if events occur or circumstances change such that it is more likely than not that an impairment may exist. The Company tests goodwill for impairment at the reporting unit level. The Company identifies its reporting units by assessing whether the components of its operating segments constitute businesses for which discrete financial information is available and management of each reporting unit regularly reviews the operating results of those components.

In applying the goodwill impairment test, the Company has the option to perform a qualitative test (also known as "Step 0") or a two-step quantitative test (consisting of "Step 1" and "Step 2"). Under the Step 0 test, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting units is less than its carrying value. Qualitative factors may include, but are not limited to economic conditions, industry and market considerations, cost factors, overall financial performance of the reporting unit and other entity and reporting unit specific events. If after assessing these qualitative factors, the Company determines it is "more-likely-than-not" that the fair value of the reporting unit is less than the carrying value, then performing the two-step quantitative test is necessary.

The first step ("Step 1") of the two-step quantitative test requires comparison of the fair value of each of the reporting units to the respective carrying value. If the carrying value of the reporting unit is less than the fair value, no impairment exists and the second step ("Step 2") is not performed. If the carrying value of the reporting unit is higher than the fair value, Step 2 must be performed to compute the amount of the goodwill impairment, if any. In Step 2, the impairment is computed by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized for the excess.

The Company generally estimates the fair value of a reporting unit using an equal weighting of the income and market approaches. The Company uses industry accepted valuation models and set criteria that are reviewed and approved by various levels of management and, in certain instances, the Company engages third-party valuation specialists. Under the income approach, the Company uses a discounted cash flow methodology which requires management to make significant estimates and assumptions related to forecasted revenues, gross profit margins, operating income margins, working capital cash flow, perpetual growth rates, and long-term discount rates, among others. For the market approach, the Company uses the guideline public company method. Under this method the Company utilizes information from comparable publicly traded companies with similar operating and investment characteristics as the reporting units, to create valuation multiples that are applied to the operating performance of the reporting unit being tested, in order to obtain their respective fair values. The Company also reconciles the aggregate fair values of its reporting units determined in the first step (as described above) to its current market capitalization, allowing for a reasonable control premium.

During fiscal years 2018, 2017 and 2016, the Company performed a Step 0 analysis and determined that it was not "more likely than not" that the fair values of its reporting units were less than their carrying amounts. Future changes in the estimates and assumptions above could materially affect the results of our reviews for impairment of goodwill.

Other Intangibles, net

Other intangibles consist of definite-lived intangible assets (such as investment in licenses, customer lists, and others) and indefinite-lived intangible assets (such as acquired trade names and trademarks). The cost of definite-lived intangible assets is amortized to reflect the pattern of economic benefits consumed, over the estimated periods benefited, ranging from 3 to 16 years, while indefinite-lived intangible assets are not amortized.

Definite-lived intangibles are reviewed for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. When such events or changes in circumstances occur, a recoverability test is performed comparing projected undiscounted cash flows from the use and eventual disposition of an asset or asset group to its carrying value. If the projected undiscounted cash flows are less than the carrying value, then an impairment charge would be recorded for the excess of the carrying value over the fair value, which is determined by discounting future cash flows.

The Company tests indefinite-lived intangible assets for impairment at least annually, during the fourth quarter, or whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. In applying the impairment test, the Company has the option to perform a qualitative test (also known as "Step 0") or a quantitative test. Under the Step 0 test, the Company assesses qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. Qualitative factors may include, but are not limited to economic conditions, industry and market considerations, cost factors, financial performance, legal and other entity and asset specific events. If after assessing these qualitative factors, the Company determines it is "more-likely-than-not" that the indefinite-lived intangible asset is impaired, then performing the quantitative test is necessary. The quantitative impairment test for indefinite-lived intangible assets encompasses calculating a fair value of an indefinite-lived intangible asset and comparing the fair value to its carrying value. If the carrying value exceeds the fair value, impairment is recognized for the difference. To determine fair value of other indefinite-lived intangible assets, the Company uses an income approach, the relief-from-royalty method. This method assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset. Other indefinite-lived intangible assets' fair values require significant judgments in determining both the assets' estimated cash flows as well as the appropriate discount and royalty rates applied to those cash flows to determine fair value.

During fiscal years 2018, 2017 and 2016, the Company performed a Step 0 analysis and determined that it is not "more likely than not" that the fair values of the indefinite-lived intangibles were less than their carrying amounts. Future changes in the estimates and assumptions above could materially affect the results of our reviews for impairment of intangibles.

Income Taxes

The Company uses the asset and liability method to account for income taxes. The Company has established deferred tax assets and liabilities for temporary differences between the financial reporting bases and the income tax bases of its assets and liabilities at enacted tax rates expected to be in effect when such assets or liabilities are realized or settled. The Company recognizes as a deferred tax asset, the tax benefits associated with losses related to operations. Realization of these deferred tax assets assumes that we will be able to generate sufficient future taxable income so that these assets will be realized. The factors that the Company considers in assessing the likelihood of realization include the forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements on a particular tax position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. The amount of unrecognized tax benefits ("UTBs") is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination. We recognize both accrued interest and penalties, where appropriate, related to UTBs in income tax expense. Assumptions, judgment and the use of estimates are required in determining if the "more likely than not" standard has been met when developing the provision for income taxes.

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. We will adopt this guidance beginning with the first quarter of our fiscal year ending on June 30, 2019, on a modified retrospective basis, with a cumulative adjustment to retained earnings. The Company has substantially completed its analysis, and based upon this evaluation, we have determined that the new standard will impact the following areas related to our e-commerce and retail revenue streams: the costs of producing and distributing the Company's catalogs will be expensed upon mailing, instead of being capitalized and amortized in direct proportion to the actual sales; gift card breakage will be recognized over the expected customer redemption period, rather than when redemption is considered remote; e-commerce revenue will be recognized upon shipment, when control of the merchandise transfers to the customer, instead of upon receipt by the customer. The new standard will not have a material effect on the Company's consolidated financial position, results of operations, or cash flows. The Company expects to complete its analysis during the first quarter of FY 2019.

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 ASU, but expect that it will have a material impact on our consolidated financial statements, primarily the consolidated balance sheets and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company elected to early adopt the amendments in ASU 2016-09, in fiscal 2017. As a result, stock-based compensation excess tax benefits are reflected in the Consolidated Statements of Income as a component of the provision for income taxes, whereas they were previously recognized in equity. 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, with early adoption permitted, and should be applied 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. We do not expect the standard to have a material impact 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, and should be applied prospectively to an award modified on or after the adoption date. We do not expect the standard to have a material impact on our consolidated financial statements.

U.S. Tax Reform

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

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 $0.6 million during the fiscal year ended July 1, 2018.

Special Note Regarding Forward-Looking Statements

This annual report contains 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," "expects," "project," "believe," "anticipate," "intend," "plan," "foresee," "likely," "will," or similar words or phrases. These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of the Company's control, which could cause actual results to differ materially from the results expressed or implied in the forward-looking statements, including, among others: the Company's ability to achieve its guidance for revenue, EBITDA and EPS; its ability to manage the significant seasonality of its business; its ability to integrate the operations of acquired companies; its ability to cost effectively acquire and retain customers; the outcome of contingencies, including legal proceedings in the normal course of business; its ability to compete against existing and new competitors; its ability to manage expenses associated with sales and marketing and necessary general and administrative and technology investments and general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products. The Company undertakes no obligation to publicly update any of the forward-looking statements, whether as a result of new information, future events or otherwise, made in this annual report or in any of its SEC filings except as may be otherwise stated by the Company. For a more detailed description of these and other risk factors, and a list of definitions of non-GAAP terms, please refer to the Company's SEC filings including the Company's Annual Reports on Form 10-K and its Quarterly Reports on Form 10-Q. Consequently, you should not consider any such list to be a complete set of all potential risks and uncertainties.

Quarterly Results of Operations

The following table provides unaudited quarterly consolidated results of operations for each quarter of fiscal years 2018 and 2017. The Company believes this unaudited information has been prepared substantially on the same basis as the annual audited consolidated financial statements and all necessary adjustments, consisting of only normal recurring adjustments, have been included in the amounts stated below to present fairly the Company's results of operations. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	Jul. 1, 2018	Apr. 1, 2018	Dec. 31, 2017	Oct. 1, 2017	Jul. 2, 2017	Apr. 2, 2017	Jan. 1, 2017	Oct. 2, 2016
	(in thousands, except per share data)							
Net revenues:								
E-commerce (telephonic/online)	$ 192,079	$ 196,866	$ 424,132	$ 108,771	$ 191,355	$ 177,729	$ 420,594	$ 107,084
Other	37,855	41,679	101,961	48,578	48,173	55,986	133,959	58,745
Total net revenues	229,934	238,545	526,093	157,349	239,528	233,715	554,553	165,829
Cost of revenues	136,901	145,090	290,834	90,071	141,209	140,134	297,559	94,442
Gross profit	93,033	93,455	235,259	67,278	98,319	93,581	256,994	71,387
Operating expenses:								
Marketing and sales	67,102	68,215	113,771	49,722	72,415	70,158	119,876	55,078
Technology and development	10,172	10,241	9,175	9,670	9,312	10,254	9,849	9,488
General and administrative	19,312	19,553	19,170	19,405	19,670	20,962	21,551	21,933
Depreciation and amortization	7,823	7,885	8,677	8,084	7,720	8,492	9,167	7,997
Total operating expenses	104,409	105,894	150,793	86,881	109,117	109,866	160,443	94,496
Operating income (loss)	(11,376)	(12,439)	84,466	(19,603)	(10,798)	(16,285)	96,551	(23,109)
Interest expense, net	712	662	1,226	1,031	1,025	1,191	2,154	1,451
Other (income) expense, net	(290)	31	(86)	(260)	(14,901)	(421)	1	(150)
Income (loss) before income taxes	(11,798)	(13,132)	83,326	(20,374)	3,078	(17,055)	94,396	(24,410)
Income tax expense (benefit)	(3,575)	(4,669)	12,627	(7,152)	(4,935)	(5,925)	31,467	(8,639)
Net income (loss)	$ (8,223)	$ (8,463)	$ 70,699	$ (13,222)	$ 8,013	$ (11,130)	$ 62,929	$ (15,771)
Basic net income (loss) per common share	$ (0.13)	$ (0.13)	$ 1.09	$ (0.20)	$ 0.12	$ (0.17)	$ 0.97	$ (0.24)
Diluted net income (loss) per common share	$ (0.13)	$ (0.13)	$ 1.06	$ (0.20)	$ 0.12	$ (0.17)	$ 0.93	$ (0.24)
Weighted average shares used in the calculation of net income (loss) per common share:								
Basic	64,583	64,527	64,601	64,954	65,255	65,199	65,172	65,081
Diluted	64,583	64,527	66,782	64,954	67,604	65,199	67,754	65,081

The Company's quarterly results may experience seasonal fluctuations. Refer above to the Results of Operations for a discussion of significant events and transactions.

Consolidated Balance Sheets

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

(in thousands, except share data)

	July 1, 2018	July 2, 2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 147,240**	$ 149,732
Trade receivables, net	**12,935**	14,073
Inventories	**88,825**	75,862
Prepaid and other	**24,021**	17,735
Total current assets	**273,021**	257,402
Property, plant and equipment, net	**163,340**	161,381
Goodwill	**62,590**	62,590
Other intangibles, net	**59,823**	61,090
Other assets	**12,115**	10,007
Total assets	**$ 570,889**	$ 552,470
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 41,437**	$ 27,781
Accrued expenses	**73,299**	90,206
Current maturities of long-term debt	**10,063**	7,188
Total current liabilities	**124,799**	125,175
Long-term debt	**92,267**	101,377
Deferred tax liabilities	**26,200**	33,868
Other liabilities	**12,719**	9,811
Total liabilities	**255,985**	270,231
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued	**–**	–
Class A common stock, $.01 par value, 200,000,000 shares authorized, 52,071,293 and 51,227,779 shares issued in 2018 and 2017, respectively	**520**	513
Class B common stock, $.01 par value, 200,000,000 shares authorized, 33,822,823 and 33,901,603 shares issued in 2018 and 2017, respectively	**338**	339
Additional paid-in capital	**341,783**	337,726
Retained earnings (deficit)	**73,429**	32,638
Accumulated other comprehensive loss	**(200)**	(187)
Treasury stock, at cost, 15,978,790 and 14,709,731 Class A shares in 2018 and 2017, respectively, and 5,280,000 Class B shares in 2018 and 2017	**(100,966)**	(88,790)
Total stockholders' equity	**314,904**	282,239
Total liabilities and stockholders' equity	**$ 570,889**	$ 552,470

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

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

(in thousands, except per share data)

	Years Ended		
	July 1, 2018	July 2, 2017	July 3, 2016
Net revenues	**$1,151,921**	$1,193,625	$1,173,024
Cost of revenues	**662,896**	673,344	655,566
Gross profit	**489,025**	520,281	517,458
Operating expenses:			
Marketing and sales	**298,810**	317,527	318,175
Technology and development	**39,258**	38,903	39,234
General and administrative	**77,440**	84,116	84,383
Depreciation and amortization	**32,469**	33,376	32,384
Total operating expenses	**447,977**	473,922	474,176
Operating income	**41,048**	46,359	43,282
Interest expense, net	**3,631**	5,821	6,674
Other (income) expense, net	**(605)**	(15,471)	(14,839)
Income before income taxes	**38,022**	56,009	51,447
Income tax expense (benefit)	**(2,769)**	11,968	15,579
Net Income	**40,791**	44,041	35,868
Less: Net loss attributable to noncontrolling interest	**–**	–	(1,007)
Net income attributable to 1-800-FLOWERS.COM, Inc.	**$ 40,791**	$ 44,041	$ 36,875
Basic net income per common share attributable to 1-800-FLOWERS.COM, Inc.	**$ 0.63**	$ 0.68	$ 0.57
Diluted net income per common share attributable to 1-800-FLOWERS.COM, Inc.	**$ 0.61**	$ 0.65	$ 0.55
Weighted average shares used in the calculation of net income per common share:			
Basic	**64,666**	65,191	64,896
Diluted	**66,938**	67,735	67,083

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

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

(in thousands)

	Years Ended		
	July 1, 2018	July 2, 2017	July 3, 2016
Net income	**$40,791**	$44,041	$35,868
Other comprehensive income/(loss) (currency translation)	**(13)**	(41)	252
Comprehensive income	**40,778**	44,000	36,120
Less:			
Net loss attributable to noncontrolling interest	**–**	–	(1,007)
Other comprehensive income (loss) (currency translation) attributable to noncontrolling interest	**–**	–	87
Comprehensive net loss attributable to noncontrolling interest	**–**	–	(920)
Comprehensive income attributable to 1-800-FLOWERS.COM, Inc.	**$40,778**	$44,000	$37,040

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

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

Years ended July 1, 2018, July 2, 2017 and July 3, 2016

(in thousands, except share data)

	Common Stock				Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock		Total 1-800-FLOWERS.COM, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
	Class A		Class B									
	Shares	Amount	Shares	Amount				Shares	Amount			
Balance at June 28, 2015	42,875,291	$ 429	39,310,044	$ 393	$ 319,108	$ (48,278)	$ (371)	17,154,475	$ (62,832)	$ 208,449	$ 1,807	$210,256
Net income	—	—	—	—	—	36,875	—	—	—	36,875	(1,007)	35,868
Translation adjustment	—	—	—	—	—	—	165	—	—	165	87	252
Noncontrolling interest write-off	—	—	—	—	—	—	60	—	—	60	(887)	(827)
Conversion of Class B stock into Class A stock	4,047,040	40	(4,047,040)	(40)	—	—	—	—	—	—	—	—
Stock-based compensation	879,863	9	—	—	6,334	—	—	—	—	6,343	—	6,343
Exercise of stock options	1,044,255	10	—	—	3,507	—	—	—	—	3,517	—	3,517
Excess tax benefit from stock-based compensation	—	—	—	—	2,400	—	—	—	—	2,400	—	2,400
Acquisition of Class A treasury stock	—	—	—	—	—	—	—	1,714,550	(15,223)	(15,223)	—	(15,223)
Balance at July 3, 2016	48,846,449	488	35,263,004	353	331,349	(11,403)	(146)	18,869,025	(78,055)	242,586	—	242,586
Net income	—	—	—	—	—	44,041	—	—	—	44,041	—	44,041
Translation adjustment	—	—	—	—	—	—	(41)	—	—	(41)	—	(41)
Conversion of Class B stock into Class A stock	1,361,401	14	(1,361,401)	(14)	—	—	—	—	—	—	—	—
Stock-based compensation	965,429	10	—	—	6,092	—	—	—	—	6,102	—	6,102
Exercise of stock options	54,500	1	—	—	285	—	—	—	—	286	—	286
Acquisition of Class A treasury stock	—	—	—	—	—	—	—	1,120,706	(10,735)	(10,735)	—	(10,735)
Balance at July 2, 2017	51,227,779	513	33,901,603	339	337,726	32,638	(187)	19,989,731	(88,790)	282,239	—	282,239
Net income	—	—	—	—	—	40,791	—	—	—	40,791	—	40,791
Translation adjustment	**—**	**—**	**—**	**—**	**—**	**—**	**(13)**	**—**	**—**	**(13)**	**—**	**(13)**
Conversion of Class B stock into Class A stock	**78,780**	**1**	**(78,780)**	**(1)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Stock-based compensation	**622,734**	**5**	**—**	**—**	**3,721**	**—**	**—**	**—**	**—**	**3,726**	**—**	**3,726**
Exercise of stock options	**142,000**	**1**	**—**	**—**	**336**	**—**	**—**	**—**	**—**	**337**	**—**	**337**
Acquisition of Class A treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,269,059**	**(12,176)**	**(12,176)**	**—**	**(12,176)**
Balance at July 1, 2018	**52,071,293**	**$ 520**	**33,822,823**	**$ 338**	**$ 341,783**	**$ 73,429**	**$ (200)**	**21,258,790**	**$(100,966)**	**$ 314,904**	**$ —**	**$314,904**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

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

(in thousands)

	Years Ended		
	July 1, 2018	July 2, 2017	July 3, 2016
Operating activities:			
Net income	**$ 40,791**	$ 44,041	$ 35,868
Reconciliation of net income to net cash provided by operating activities, net of acquisitions/dispositions:			
Gain on sale of Fannie May	**–**	(14,607)	–
Depreciation and amortization	**32,469**	33,376	32,384
Amortization of deferred financing costs	**953**	1,532	1,791
Deferred income taxes	**(7,668)**	(1,649)	(3,000)
Foreign equity investment impairment	**–**	–	2,278
Loss on sale/impairment of iFlorist	**–**	–	1,990
Bad debt expense	**1,068**	1,158	1,278
Stock-based compensation	**3,726**	6,102	6,343
Excess tax benefit from stock-based compensation	**–**	–	(2,400)
Other non-cash items	**565**	133	517
Changes in operating items:			
Trade receivables	**70**	(6,220)	(4,210)
Insurance receivable	**–**	–	2,979
Inventories	**(12,963)**	(9,277)	(10,216)
Prepaid and other	**(6,286)**	(2,609)	(1,560)
Accounts payable and accrued expenses	**5,249**	9,132	(6,429)
Other assets	**(88)**	(36)	(29)
Other liabilities	**455**	(66)	89
Net cash provided by operating activities	**58,341**	61,010	57,673
Investing activities:			
Proceeds from sale of business	**–**	111,955	–
Working capital adjustment related to sale of Fannie May	**(8,500)**	–	–
Capital expenditures, net of non-cash expenditures	**(33,306)**	(33,653)	(33,938)
Net cash provided by (used in) investing activities	**(41,806)**	78,302	(33,938)
Financing activities:			
Acquisition of treasury stock	**(12,176)**	(10,735)	(15,223)
Excess tax benefit from stock based compensation	**–**	–	2,400
Proceeds from exercise of employee stock options	**337**	286	3,517
Proceeds from bank borrowings	**30,000**	181,000	178,000
Repayment of notes payable and bank borrowings	**(37,188)**	(186,451)	(192,543)
Debt issuance costs	**–**	(1,506)	–
Net cash used in financing activities	**(19,027)**	(17,406)	(23,849)
Net change in cash and cash equivalents	**(2,492)**	121,906	(114)
Cash and cash equivalents:			
Beginning of year	**149,732**	27,826	27,940
End of year	**$147,240**	$149,732	$ 27,826

Supplemental Cash Flow Information:

- Interest paid amounted to $4.0 million, $4.4 million and $5.0 million, for the years ended July 1, 2018, July 2, 2017 and July 3, 2016, respectively.
- The Company paid income taxes of approximately $5.2 million, $6.8 million, and $13.4 million, net of tax refunds received, for the years ended July 1, 2018, July 2, 2017, and July 3, 2016, respectively.

See accompanying Notes to Consolidated Financial Statements.

Note 1. Description of Business

1-800-FLOWERS.COM, Inc. and its subsidiaries (collectively, the "Company") is a leading provider of gifts for all celebratory occasions. For more than 40 years, 1-800-Flowers.com® has been delivering smiles to customers with gifts for every occasion, including fresh flowers and the best selection of plants, gift baskets, gourmet foods, confections, jewelry, candles, balloons and plush stuffed animals. As always, our 100% Smile Guarantee® backs every gift.

The Company's BloomNet® international floral wire service provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably. The 1-800-FLOWERS.COM, Inc. family of brands also includes everyday gifting and entertaining products such as premium, gift-quality fruits and other gourmet items from Harry & David®, popcorn and specialty treats from The Popcorn Factory® and Moose Munch®; cookies and baked gifts from Cheryl's®; gift baskets and towers from 1-800-Baskets.com® and DesignPac Gifts; premium English muffins and other breakfast treats from Wolferman's®; artisan chocolate and confections from Simply Chocolate®, carved fresh fruit arrangements from FruitBouquets.com (www.fruitbouquets.com); top quality steaks and chops from Stock Yards® and unique gifts from Personalization Universe® and Goodsey SM .

Note 2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of 1-800-FLOWERS.COM, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. During fiscal years 2018, 2017 and 2016, approximately 1%, of consolidated net revenue came from international sources.

Fiscal Year

The Company's fiscal year is a 52 - or 53 -week period ending on the Sunday nearest to June 30. Fiscal years 2018 and 2017, which ended on July 1, 2018 and July 2, 2017, respectively, consisted of 52 weeks. Fiscal year 2016, which ended on July 3, 2016, consisted of 53 weeks.

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.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with banks, highly liquid money market funds, United States government securities, overnight repurchase agreements and commercial paper with maturities of three months or less when purchased.

Inventories

Inventories are valued at the lower of cost or market using the first -in, first -out method of accounting.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is computed using the straight-line method over the assets' estimated useful lives. Amortization of leasehold improvements and capital leases is computed using the straight-line method over the shorter of the estimated useful lives and the initial lease terms. The Company capitalizes certain internal and external costs incurred to acquire or develop internal-use software. Capitalized software costs are amortized on a straight-line basis over the estimated useful life of the software. Orchards in production, consisting of direct labor and materials, supervision and other items, are capitalized as part of capital projects in progress – orchards until the orchards produce fruit in commercial quantities. Upon attaining commercial levels of production, the capital investments in these orchards are recorded as land improvements. Estimated useful lives are periodically reviewed, and where appropriate, changes are made prospectively.

The Company's property, plant and equipment is depreciated using the following estimated lives:

Building and building improvements (years)	10 - 40
Leasehold improvements (years)	3 - 10
Furniture, fixtures and production equipment (years)	3 - 10
Software (years)	3 - 7
Orchards in production and land improvements (years)	15 - 35

Property, plant and equipment are reviewed for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in each business combination, with the carrying value of the Company's goodwill allocated to its reporting units, in accordance with the acquisition method of accounting. Goodwill is not amortized, but it is subject to an annual assessment for impairment, which the Company performs during the fourth quarter, or more frequently if events occur or circumstances change such that it is more likely than not that an impairment may exist. The Company tests goodwill for impairment at the reporting unit level. The Company identifies its reporting units by assessing whether the components of its operating segments constitute businesses for which discrete financial information is available and management of each reporting unit regularly reviews the operating results of those components.

In applying the goodwill impairment test, the Company has the option to perform a qualitative test (also known as "Step 0") or a two -step quantitative test (consisting of "Step 1" and "Step 2"). Under the Step 0 test, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting units is less than its carrying value. Qualitative factors may include, but are not limited to, economic conditions, industry and market considerations, cost factors, overall financial performance of the reporting unit and other entity and reporting unit specific events. If after assessing these qualitative factors, the Company determines it is “more-likely-than- not” that the fair value of the reporting unit is less than the carrying value, then performing the two-step quantitative test is necessary.

The first step (“Step 1”) of the two -step quantitative test requires comparison of the fair value of each of the reporting units to the respective carrying value. If the carrying value of the reporting unit is less than the fair value, no impairment exists and the second step (“Step 2”) is not performed. If the carrying value of the reporting unit is higher than the fair value, Step 2 must be performed to compute the amount of the goodwill impairment, if any. In Step 2, the impairment is computed by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized for the excess.

The Company generally estimates the fair value of a reporting unit using an equal weighting of the income and market approaches. The Company uses industry accepted valuation models and set criteria that are reviewed and approved by various levels of management and, in certain instances, the Company engages third -party valuation specialists. Under the income approach, the Company uses a discounted cash flow methodology which requires management to make significant estimates and assumptions related to forecasted revenues, gross profit margins, operating income margins, working capital cash flow, perpetual growth rates, and long-term discount rates, among others. For the market approach, the Company uses the guideline public company method. Under this method the Company utilizes information from comparable publicly traded companies with similar operating and investment characteristics as the reporting units, to create valuation multiples that are applied to the operating performance of the reporting unit being tested, in order to obtain their respective fair values. The Company also reconciles the aggregate fair values of its reporting units determined in the first step (as described above) to its current market capitalization, allowing for a reasonable control premium.

During fiscal years 2018, 2017 and 2016, the Company performed a Step 0 analysis and determined that it was not “more likely than not” that the fair values of its reporting units were less than their carrying amounts. Future changes in the estimates and assumptions above could materially affect the results of our reviews for impairment of goodwill.

Other Intangibles, net

Other intangibles consist of definite-lived intangible assets (such as investment in licenses, customer lists, and others) and indefinite-lived intangible assets (such as acquired trade names and trademarks). The cost of definite-lived intangible assets is amortized to reflect the pattern of economic benefits consumed, over the estimated periods benefited, ranging from 3 to 16 years, while indefinite-lived intangible assets are not amortized.

Definite-lived intangibles are reviewed for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. When such events or changes in circumstances occur, a recoverability test is performed comparing projected undiscounted cash flows from the use and eventual disposition of an asset or asset group to its carrying value. If the projected undiscounted cash flows are less than the carrying value, then an impairment charge would be recorded for the excess of the carrying value over the fair value, which is determined by discounting future cash flows.

The Company tests indefinite-lived intangible assets for impairment at least annually, during the fourth quarter, or whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. In applying the impairment test, the Company has the option to perform a qualitative test (also known as “Step 0”) or a quantitative test. Under the Step 0 test, the Company assesses qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. Qualitative factors may include, but are not limited to economic conditions, industry and market considerations, cost factors, financial performance, legal and other entity and asset specific events. If, after assessing these qualitative factors, the Company determines it is “more-likely-than- not” that the indefinite-lived intangible asset is impaired, then performing the quantitative test is necessary. The quantitative impairment test for indefinite-lived intangible assets encompasses calculating a fair value of an indefinite-lived intangible asset and comparing the fair value to its carrying value. If the carrying value exceeds the fair value, impairment is recognized for the difference. To determine fair value of other indefinite-lived intangible assets, the Company uses an income approach, the relief-from-royalty method. This method assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset. Other indefinite-lived intangible assets’ fair values require significant judgments in determining both the assets’ estimated cash flows as well as the appropriate discount and royalty rates applied to those cash flows to determine fair value.

During fiscal years 2018, 2017 and 2016, the Company performed a Step 0 analysis and determined that it is not “more likely than not” that the fair values of the indefinite-lived intangibles were less than their carrying amounts. Future changes in the estimates and assumptions above could materially affect the results of our reviews for impairment of intangibles.

Business Combinations

The Company accounts for business combinations in accordance with ASC Topic 805, which requires, among other things, the acquiring entity in a business combination to recognize the fair value of all the assets acquired and liabilities assumed; the recognition of acquisition-related costs in the consolidated results of operations; the recognition of restructuring costs in the consolidated results of operations for which the acquirer becomes obligated after the acquisition date; and contingent purchase consideration to be recognized at their fair values on the acquisition date with subsequent adjustments recognized in the consolidated results of operations. The fair values assigned to identifiable intangible assets acquired are determined primarily by using an income approach which is based on assumptions and estimates made by management. Significant assumptions utilized in the income approach are based on company specific information and projections which are not observable in the market and are therefore considered Level 3 measurements. The excess of the purchase price over the fair value of the identified assets and liabilities is recorded as goodwill. Operating results of the acquired entity are reflected in the Company's consolidated financial statements from date of acquisition.

Deferred Catalog Costs

The Company capitalizes the costs of producing and distributing its catalogs. These costs are amortized in direct proportion to actual sales from the corresponding catalogs over a period not to exceed 12 months. Included within prepaid and other current assets was $3.0 million and $2.7 million at July 1, 2018 and July 2, 2017 respectively, relating to prepaid catalog expenses.

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 July 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 years ended July 1, 2018, July 2, 2017 and July 3, 2016 was less than $0.1 million per year. 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. During the quarter ended September 27, 2015, the Company determined that the fair value of its investment in Flores Online was below its carrying value and that this decline was other-than-temporary. As a result, the Company recorded an impairment charge of $1.7 million, which is included within the "Other (income) expense, net" line item in the Company's consolidated statement of income in fiscal 2016.

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 $1.7 million as of July 1, 2018 and July 2, 2017, including a $1.5 million investment in Euroflorist – see Note 4. for details. During the year ended July 3, 2016, the Company determined that the fair value of one of its cost method investments was below its carrying value and that the decline was other-than-temporary. As a result, the Company recorded an impairment charge of $0.5 million, which is included within the "Other (income) expense, net" line items in the Company's consolidated statements of income in fiscal 2016.

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with high quality financial institutions. Concentration of credit risk with respect to accounts receivable is limited due to the Company's large number of customers and their dispersion throughout the United States, and the fact that a substantial portion of receivables are related to balances owed by major credit card companies. Allowances relating to consumer, corporate and franchise accounts receivable ($2.4 million at July 1, 2018 and $1.8 million at July 2, 2017) have been recorded based upon previous experience and management's evaluation.

Revenue Recognition

Net revenues are generated by e-commerce operations from the Company's online and telephonic sales channels as well as other operations (retail/wholesale) and primarily consist of the selling price of merchandise, service or outbound shipping charges, net of discounts, returns and credits. Net revenues are recognized primarily upon product delivery and do not include sales tax. Net revenues generated by the Company's BloomNet Wire Service operations include membership fees as well as other products and service offerings to florists. Membership fees are recognized monthly in the period earned, and products sales are recognized upon product shipment with shipping terms primarily FOB shipping point.

Cost of Revenues

Cost of revenues consists primarily of florist fulfillment costs (fees paid directly to florists), the cost of floral and non-floral merchandise sold from inventory or through third parties, and associated costs including inbound and outbound shipping charges. Additionally, cost of revenues includes labor and facility costs related to manufacturing and production operations.

Marketing and Sales

Marketing and sales expense consists primarily of advertising expenses, catalog costs, online portal and search expenses, 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.

The Company expenses all advertising costs, with the exception of catalog costs (see Deferred Catalog Costs above), at the time the advertisement is first shown. Advertising expense was $138.2 million, $137.5 million and $133.1 million for the years ended July 1, 2018, July 2, 2017 and July 3, 2016, respectively.

Technology and Development

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, content development and maintenance and support costs related to the Company's order entry, customer service, fulfillment and database systems. Costs associated with the acquisition or development of software for internal use are capitalized if the software is expected to have a useful life beyond one year and amortized over the software's useful life, typically three to seven years. Costs associated with repair maintenance or the development of website content are expensed as incurred, as the useful lives of such software modifications are less than one year.

Stock-Based Compensation

The Company records compensation expense associated with restricted stock awards and other forms of equity compensation based upon the fair value of stock-based awards as measured at the grant date. The cost associated with share-based awards that are subject solely to time-based vesting requirements is recognized over the awards' service period for the entire award on a straight-line basis. The cost associated with performance-based equity awards is recognized for each tranche over the service period, based on an assessment of the likelihood that the applicable performance goals will be achieved.

Derivatives and hedging

The Company does not enter into derivative transactions for trading purposes, but rather, on occasion to manage its exposure to interest rate fluctuations. When entering into these transactions, the Company has periodically managed its floating rate debt using interest rate swaps in order to reduce its exposure to the impact of changing interest rates on its consolidated results of operations and future cash outflows for interest. The Company did not have any open derivative positions at July 1, 2018 and July 2, 2017.

Income Taxes

The Company uses the asset and liability method to account for income taxes. The Company has established deferred tax assets and liabilities for temporary differences between the financial reporting bases and the income tax bases of its assets and liabilities at enacted tax rates expected to be in effect when such assets or liabilities are realized or settled. The Company recognizes as a deferred tax asset, the tax benefits associated with losses related to operations. Realization of these deferred tax assets assumes that we will be able to generate sufficient future taxable income so that these assets will be realized. The factors that the Company considers in assessing the likelihood of realization include the forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements on a particular tax position are measured based on the largest benefit that has a greater than a 50% likelihood of being realized upon settlement. The amount of unrecognized tax benefits ("UTBs") is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination. We recognize both accrued interest and penalties, where appropriate, related to UTBs in income tax expense. Assumptions, judgment and the use of estimates are required in determining if the "more likely than not" standard has been met when developing the provision for income taxes.

Net Income Per Share

Basic net income per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive common equivalent shares (consisting primarily of employee stock options and unvested restricted stock awards) outstanding during the period.

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. We will adopt this guidance beginning with the first quarter of our fiscal year ending on June 30, 2019, on a modified retrospective basis, with a cumulative adjustment to retained earnings. The Company has substantially completed its analysis, and based upon this evaluation, we have determined that the new standard will impact the following areas related to our e-commerce and retail revenue streams: the costs of producing and distributing the Company's catalogs will be expensed upon mailing, instead of being capitalized and amortized in direct proportion to the actual sales; gift card breakage will be recognized over the expected customer redemption period, rather than when redemption is considered remote; e-commerce revenue will be recognized upon shipment, when control of the merchandise transfers to the customer, instead of upon receipt by the customer. The new standard will not have a material effect on the Company's consolidated financial position, results of operations, or cash flows. The Company expects to complete its analysis during the first quarter of FY 2019.

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 ASU, but expect that it will have a material impact on our consolidated financial statements, primarily the consolidated balance sheets and related disclosures.

In March 2016, the FASB issued ASU No. 2016 - 09, "Improvements to Employee Share-Based Payment Accounting." ASU No. 2016 - 09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016 - 09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company elected to early adopt the amendments in ASU 2016 - 09, in fiscal 2017. As a result, stock-based compensation excess tax benefits are reflected in the Consolidated Statements of Income as a component of the provision for income taxes, whereas they were previously recognized in equity. 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, with early adoption permitted, and should be applied 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. We do not expect the standard to have a material impact 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, and should be applied prospectively to an award modified on or after the adoption date. We do not expect the standard to have a material impact on our consolidated financial statements.

U.S. Tax Reform

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

Reclassifications

Certain balances in the prior fiscal years have been reclassified to conform to the presentation in the current fiscal year.

Note 3 – Net Income Per Common Share from Continuing Operations

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

	Years Ended		
	July 1, 2018	July 2, 2017	July 3, 2016
	(in thousands, except per share data)		
Numerator:			
Net income	**$40,791**	$44,041	$35,868
Less: Net loss attributable to noncontrolling interest	**—**	—	(1,007)
Net income attributable to 1-800-FLOWERS.COM, Inc.	**$40,791**	$44,041	$36,875
Denominator:			
Weighted average shares outstanding	**64,666**	65,191	64,896
Effect of dilutive securities:			
Employee stock options (1)	**1,580**	1,519	1,294
Employee restricted stock awards	**692**	1,025	893
Total effect of dilutive securities	**2,272**	2,544	2,187
Adjusted weighted-average shares and assumed conversions	**66,938**	67,735	67,083
Net income per common share from continuing operations attributable to 1-800-FLOWERS.COM, Inc.			
Basic	**$ 0.63**	$ 0.68	$ 0.57
Diluted	**$ 0.61**	$ 0.65	$ 0.55

Note (1): The effect of options to purchase 0.0 million, 0.0 million and 0.1 million shares for the years ended July 1, 2018, July 2, 2017 and July 3, 2016, respectively, were excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.

Note 4. Dispositions

On March 15, 2017, the Company and Ferrero International S.A., a Luxembourg corporation ("Ferrero"), entered into a Stock Purchase Agreement (the "Purchase Agreement") pursuant to which Ferrero agreed to purchase from the Company all of the outstanding equity of Fannie May Confections Brands, Inc., including its subsidiaries, Fannie May Confections, Inc. and Harry London Candies, Inc. ("Fannie May") for a total consideration of $115.0 million in cash, subject to adjustment for seasonal working capital. On May 30, 2017, the Company closed on the transaction, and the working capital adjustment was finalized in August 2017, resulting in an $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 statement of income.

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 Foods & 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.

Disposition of Colonial Gifts Limited ("iFlorist")

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 accounts for this investment using the cost method as it does not possess the ability to exercise significant influence over Euroflorist.). The Company recorded a loss on the sale in the amount of $2.0 million, which is included within "Other (income) expense, net" in the consolidated statements of income.

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:

	July 1, 2018	July 2, 2017
	(in thousands)	
Finished goods	**$ 33,930**	$ 34,476
Work-in-process	**17,575**	11,933
Raw materials	**37,320**	29,453
Total Inventory	**$ 88,825**	$ 75,862

Note 6. Goodwill and Intangible Assets

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

	Consumer Floral	BloomNet Wire Service	Gourmet Foods & Gift Baskets	Total
Balance at July 3, 2016	$ 17,441	$ —	$ 60,226	$ 77,667
Sale of Fannie May	—	—	(15,077)	(15,077)
Balance at July 2, 2017	$ 17,441	$ —	$ 45,149	$ 62,590
Balance at July 1, 2018	**$ 17,441**	**$ —**	**$ 45,149**	**$ 62,590**

There were no goodwill impairment charges in any segment during the years ended July 1, 2018, July 2, 2017 and July 3, 2016.

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

		July 1, 2018			July 2, 2017		
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
	(in years)						
Intangible assets with determinable lives							
Investment in licenses	**14-16**	**$ 7,420**	**$ 6,042**	**$ 1,378**	$ 7,420	$ 5,937	$ 1,483
Customer lists	**3-10**	**12,184**	**9,354**	**2,830**	12,184	8,227	3,957
Other	**5-14**	**2,946**	**2,172**	**774**	2,946	2,045	901
Total intangible assets with determinable lives		**22,550**	**17,568**	**4,982**	22,550	16,209	6,341
Trademarks with indefinite lives		**54,841**	**—**	**54,841**	54,749	—	54,749
Total identifiable intangible assets		**$77,391**	**$17,568**	**$59,823**	$77,299	$16,209	$61,090

Intangible assets with determinable lives 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. No material impairments were recognized for the years ended July 1, 2018, July 2, 2017 and July 3, 2016.

The amortization of intangible assets for the years ended July 1, 2018, July 2, 2017 and July 3, 2016 was $1.4 million, $1.4 million and $1.9 million, respectively. Future estimated amortization expense is as follows: 2019 - $0.7 million, 2020 - $0.6 million, 2021 - $0.6 million, 2022 - $0.5 million, 2023 - $0.5 and thereafter - $2.1 million.

Note 7. Property, Plant and Equipment

	July 1, 2018	July 2, 2017
	(in thousands)	
Land	**$ 30,789**	$ 30,789
Orchards in production and land improvements	**10,962**	9,703
Building and building improvements	**58,450**	56,791
Leasehold improvements	**12,997**	11,950
Production equipment and furniture and fixtures	**53,066**	47,293
Computer and telecommunication equipment	**46,925**	45,026
Software	**115,944**	119,177
Capital projects in progress - orchards	**10,789**	9,971
Property, plant and equipment, gross	**339,922**	330,700
Accumulated depreciation and amortization	**(176,582)**	(169,319)
Property, plant and equipment, net	**$163,340**	$161,381

Depreciation expense for the years ended July 1, 2018, July 2, 2017 and July 3, 2016 was $31.3 million, $32.0 million and $30.5 million, respectively.

Note 8. Accrued Expenses

Accrued expenses consisted of the following:

	July 1, 2018	July 2, 2017
	(in thousands)	
Payroll and employee benefits	**$19,244**	$22,767
Deferred revenue	**13,524**	13,865
Accrued marketing expenses	**12,472**	11,974
Fannie May working capital adjustment	**—**	8,500
Accrued florist payout	**6,890**	6,576
Other	**21,169**	26,524
Accrued Expenses	**$73,299**	$90,206

Note 9. Long-Term Debt

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

	July 1, 2018	July 2, 2017
	(in thousands)	
Revolver (1)	**$ —**	$ —
Term Loan (1)	**104,938**	112,125
Deferred Financing Costs	**(2,608)**	(3,560)
Total debt	**102,330**	108,565
Less: current maturities of long-term debt	**10,063**	7,188
Long-term debt	**$ 92,267**	$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, N.A. 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 to, among other things, extend the maturity date of the $115.0 million outstanding term loan ("Term Loan") and the revolving credit facility (the "Revolver") by approximately two years to December 23, 2021. The Term Loan is payable in 19 quarterly installments of principal and interest beginning on April 2, 2017, with escalating principal payments, at the rate of 5% in year one, 7.5% in year two, 10% in year three, 12.5% in year four, and 15% in year five, with the remaining balance of $61.8 million due upon maturity. The Revolver, in the aggregate amount of $200 million, subject to seasonal reduction to an aggregate amount of $100 million for the period from January 1 through August 1, may be used for working capital and general corporate purposes, subject to certain restrictions.

For each borrowing under the 2016 Amended Credit Agreement, the Company may elect that such borrowing bear interest at an annual rate equal to either: (1) a base rate plus an applicable margin varying from 0.75% to 1.5%, based on the Company's consolidated leverage ratio, where the base rate is the highest of (a) the prime rate, (b) the highest of the federal funds rate and the overnight bank funding rate as published by the New York Fed, plus 0.5% and (c) an adjusted LIBO rate, plus 1% or (2) an adjusted LIBO rate plus an applicable margin varying from 1.75% to 2.5%, based on the Company's consolidated leverage ratio. The 2016 Amended Credit Agreement requires that while any borrowings are outstanding the Company comply with certain financial covenants and affirmative covenants as well as certain negative covenants, that subject to certain exceptions, limit the Company's ability to, among other things, incur additional indebtedness, make certain investments and make certain restricted payments. The Company was in compliance with these covenants as of July 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: $10.1 million – fiscal 2019, $12.9 million – fiscal 2020, $15.8 million - fiscal 2021, and $66.1 million – fiscal 2022

Note 10. Fair Value Measurements

Cash and cash equivalents, trade and other receivables, accounts payable and accrued expenses are reflected in the consolidated balance sheets at carrying value, which approximates fair value due to the short-term nature of these instruments. Although no trading market exists, the Company believes that the carrying amount of its debt approximates fair value due to its variable nature. The Company's investments in non-marketable equity instruments of private companies are carried at cost and are periodically assessed for other-than-temporary impairment, when an event or circumstances indicate that an other-than-temporary decline in value may have occurred. The Company's remaining financial assets and liabilities are measured and recorded at fair value (see table below). The Company's non-financial assets, such as intangible assets with determinable lives 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 Assets (Liabilities)		
	Carrying Value	Level 1	Level 2	Level 3
		(in thousands)		
Assets (liabilities) as of July 1, 2018:				
Trading securities held in a "rabbi trust" (1)	$9,368	$9,368	$ —	$ —
	$9,368	$9,368	$ —	$ —
Assets (liabilities) as of July 2, 2017:				
Trading securities held in a "rabbi trust" (1)	$6,916	$6,916	$ —	$ —
	$6,916	$6,916	$ —	$ —

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

Note 11. Income Taxes

Significant components of the income tax provision are as follows:

	Years Ended		
	July 1, 2018	July 2, 2017	July 3, 2016
		(in thousands)	
Current provision:			
Federal	**$ 3,385**	$11,859	$15,876
State	**1,514**	1,758	2,703
Foreign	**—**	—	—
Current income tax expense	**4,899**	13,617	18,579
Deferred provision (benefit):			
Federal	**(9,331)**	(1,563)	(2,949)
State	**1,648**	(90)	(7)
Foreign	**15**	4	(44)
Deferred income tax (benefit)	**(7,668)**	(1,649)	(3,000)
Income tax expense (benefit)	**$ (2,769)**	$11,968	$15,579

A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate is as follows:

	Years Ended		
	July 1, 2018	July 2, 2017	July 3, 2016
Tax at U.S. statutory rates	**28.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**5.7**	2.3	3.4
Valuation allowance change	**2.6**	14.9	1.3
Foreign rate differences	**—**	0.1	(2.6)
Deductible stock-based compensation	**(1.6)**	(1.6)	(0.2)
Domestic production deduction	**(2.0)**	(2.1)	(2.6)
Tax credits	**(2.5)**	(1.7)	(4.2)
Tax Act impact on deferred tax balance (1)	**(32.0)**	—	—
Return to provision	**(5.8)**	—	(0.3)
Tax effect of Fannie May disposition	**—**	(25.3)	—
Other, net	**(0.3)**	(0.2)	0.5
Effective tax rate	**(7.3)%**	21.4%	30.3%

On December 22, 2017, the U.S. government enacted comprehensive tax legislation pursuant to the Tax Cuts and Jobs Act (the "Tax Act"), which significantly revised the ongoing U.S. corporate income tax law by lowering the U.S. federal corporate income tax rate from 35% to 21%. As the Company has a July 1, 2018 fiscal year end, the lower corporate income tax rate was phased in, resulting in a U.S. statutory federal rate of approximately 28% for the Company's fiscal year ended July 1, 2018, and 21% for subsequent fiscal years.

(1) Due to the complexities involved in accounting for the Tax Act, the SEC's Staff Accounting Bulletin ("SAB") 118 requires that the Company include in its financial statements a reasonable estimate of the impact of the Tax Act on earnings to the extent such reasonable estimate has been determined. Accordingly, for the fiscal year ended July 1, 2018, the Company recorded a tax benefit of $12.2 million related to the net change in deferred tax liabilities from the Tax Act's reduction of the U.S. federal tax rate from 35% to 21%. Certain deferred tax assets may be impacted by the Company's final interpretation of current and future guidance issued in connection with the changes imposed by the Tax Act on the deductibility of executive compensation. However, the Company does not expect such changes to be material to the financial statements.

Pursuant to SAB 118, the Company is allowed a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts and will record any further resulting tax adjustments during fiscal 2019.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred income tax assets (liabilities) are as follows:

	Years Ended	
	July 1, 2018	July 2, 2017
	(in thousands)	
Deferred income tax assets:		
Loss and credit carryforwards	**$ 11,286**	$ 12,717
Accrued expenses and reserves	**3,871**	4,626
Stock-based compensation	**1,344**	2,565
Deferred compensation	**1,711**	1,950
Gross deferred income tax assets	**18,212**	21,858
Less: Valuation allowance	**(9,972)**	(11,772)
Deferred tax assets, net	**8,240**	10,086
Deferred income tax liabilities:		
Other intangibles	**(14,983)**	(20,537)
Tax in excess of book depreciation	**(19,457)**	(23,417)
Deferred tax liabilities	**(34,440)**	(43,954)
Net deferred income tax liabilities	**$ (26,200)**	$ (33,868)

A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The Company has established valuation allowances, primarily for certain state and all foreign net operating losses as well as federal and state capital loss carryforwards. The Company does not expect to utilize the federal and state capital loss carryforward prior to expiration and has therefore provided for a full valuation allowance. At July 1, 2018, the Company's total federal and state capital loss carryforwards were $28.4 million, which if not utilized, will expire in fiscal 2022. The Company's foreign net operating loss carryforwards were $2.8 million, which if not utilized, will begin to expire in fiscal 2034.

The Company files income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign countries. The Company is currently undergoing its U.S. federal examination for fiscal 2016, however, fiscal years 2015 and 2017 remain subject to U.S. federal examination. Due to ongoing state examinations and nonconformity with the U.S. federal statute of limitations for assessment, certain states remain open from fiscal 2013. The Company's foreign income tax filings from fiscal 2013 forward are open for examination by its respective foreign tax authorities, mainly Canada, Brazil, and the United Kingdom.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. At July 1, 2018, the Company has an unrecognized tax benefit, including an immaterial amount of accrued interest and penalties, of approximately $0.6 million. The Company believes that no significant unrecognized tax positions will be resolved over the next twelve months.

Note 12. Capital Stock

Holders of Class A common stock generally have the same rights as the holders of Class B common stock, except that holders of Class A common stock have one vote per share and holders of Class B common stock have 10 votes per share on all matters submitted to the vote of stockholders. Holders of Class A common stock and Class B common stock generally vote together as a single class on all matters presented to the stockholders for their vote or approval, except as may be required by Delaware law. Class B common stock may be converted into Class A common stock at any time on a one -for- one share basis. Each share of Class B common stock will automatically convert into one share of Class A common stock upon its transfer, with limited exceptions. During fiscal 2018 and fiscal 2017, 78,780 and 1,361,401 shares of Class B common stock, respectively, were converted into shares of Class A common stock.

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 October 2016, the Company's Board of Directors authorized an increase to its stock repurchase plan of up to $25 million, and then on August 30, 2017, the Board of Directors increased the authorization to $30.0 million. The Company repurchased a total of $12.2 million (1,269,059 shares), $10.7 million (1,120,706 shares) and $15.2 million (1,714,550 shares) during the fiscal years ended July 1, 2018, July 2, 2017 and July 3, 2016, respectively, under this program. As of July 1, 2018, $20.0 million remains authorized under the plan.

The Company has stock options and restricted stock awards outstanding to participants under the 1 - 800 - FLOWERS.COM 2003 Long Term Incentive and Share Award Plan (as amended and restated as of October 22, 2009, as amended as of October 28, 2011 and September 14, 2016) (the "Plan"). The Plan is a broad-based, long-term incentive program that is intended to provide incentives to attract, retain and motivate employees, consultants and directors in order to achieve the Company's long-term growth and profitability objectives. The Plan provides for the grant to eligible employees, consultants and directors of stock options, share appreciation rights ("SARs"), restricted shares, restricted share units, performance shares, performance units, dividend equivalents, and other share-based awards (collectively "Awards").

Note 13. Stock Based Compensation

The Plan is administered by the Compensation Committee or such other Board committee (or the entire Board) as may be designated by the Board (the "Committee"). At July 1, 2018, the Company has reserved approximately 5.5 million shares of Class A common stock for issuance, including options previously authorized for issuance under the 1999 Stock Incentive Plan.

The amounts of stock-based compensation expense recognized within operating income (*) in the periods presented are as follows:

	Years Ended		
	July 1, 2018	July 2, 2017	July 3, 2016
	(in thousands, except per share data)		
Stock options	**$ 429**	$ 446	$ 432
Restricted stock awards	**3,297**	5,248	5,911
Total	**3,726**	5,694	6,343
Deferred income tax benefit	**961**	2,213	1,987
Stock-based compensation expense, net	**$2,765**	$3,481	$4,356

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

	Years Ended		
	July 1, 2018	July 2, 2017 (*)	July 3, 2016
	(in thousands)		
Marketing and sales	**$ 989**	$1,624	$2,306
Technology and development	**198**	315	493
General and administrative	**2,539**	3,755	3,544
Total	**$3,726**	$5,694	$6,343

Stock-based compensation expense has not been allocated between business segments, but is reflected as part of Corporate overhead. (See Note 15. for details).

(*) Excludes approximately $0.4 milliom of stock-based compensation expense recorded within the gain on the sale of Fannie May, resulting from the acceleration of vesting of shares for Fannie May personnel, upon closing of the disposition.

Stock Options

The Company did not grant stock options during fiscal years 2018, 2017 and 2016. The following table summarizes stock option activity during the year ended July 1, 2018:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000s)
Outstanding beginning of period	2,127,734	$ 2.42		
Granted	—	$ —		
Exercised	(142,000)	$ 2.49		
Forfeited/Expired	(17,500)	$ 9.83		
Outstanding end of period	1,968,234	$ 2.35	2.9	$20,077
Options vested or expected to vest at end of period	1,968,234	$ 2.35	2.9	$20,077
Exercisable at July 1, 2018	1,580,234	$ 2.29	2.8	$16,207

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of fiscal 2018 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on July 1, 2018. This amount changes based on the fair market value of the Company's stock. The total intrinsic value of options exercised for the years ended July 1, 2018, July 2, 2017 and July 3, 2016 was $1.1 million, $0.5 million and $4.2 million, respectively.

The following table summarizes information about stock options outstanding at July 1, 2018:

	Options Outstanding			Options Exercisable	
Exercise Price	Options Outstanding	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$ 1.79	895,000	2.3	$ 1.79	770,000	$ 1.79
$ 2.22 - 2.44	32,000	1.5	$ 2.43	32,000	$ 2.43
$ 2.63	1,000,000	3.3	$ 2.63	750,000	$ 2.63
$ 3.26 - 10.20	41,234	4.7	$ 7.63	28,234	$ 6.94
	1,968,234	2.9	$ 2.35	1,580,234	$ 2.29

As of July 1, 2018, the total future compensation cost related to non-vested options not yet recognized in the statement of operations was $0.4 million and the weighted average period over which these awards are expected to be recognized was 1.0 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 conditions and, in certain cases, holding periods (Restricted Stock).

The following table summarizes the activity of non-vested restricted stock during the year ended July 1, 2018:

	Shares	Weighted Average Grant Date Fair Value
Non-vested – beginning of period	1,352,873	$ 7.44
Granted	921,473	$ 9.50
Vested	(622,734)	$ 7.87
Forfeited	(683,339)	$ 9.46
Non-vested - end of period	968,273	$ 7.70

The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of July 1, 2018, there was $4.3 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over a weighted-average period of 1.8 years.

Note 14. Employee Retirement Plans

The Company has a 401 (k) Profit Sharing Plan covering substantially all of its eligible employees. All employees who have attained the age of 21 are eligible to participate upon completion of one month of service. Participants may elect to make voluntary contributions to the 401 (k) plan in amounts not exceeding federal guidelines. On an annual basis the Company, as determined by its board of directors, may make certain discretionary contributions. Employees are vested in the Company's contributions based upon years of service. The Company suspended all contributions during fiscal years 2018, 2017 and 2016.

The Company also has a nonqualified supplemental deferred compensation plan for certain executives pursuant to Section 409A of the Internal Revenue Code. Participants can defer from 1% up to a maximum of 100% of salary and performance and non-performance based bonus. Up until December 31, 2016, the Company matched 50% of the deferrals made by each participant during the applicable period, up to a maximum of $2,500. Effective January 1, 2017, the Company suspended contributions. Employees are vested in the Company's contributions based upon years of participation in the plan. Distributions will be made to participants upon termination of employment or death in a lump sum, unless installments are selected. As of July 1, 2018 and July 2, 2017, these plan liabilities, which are included in "Other liabilities" within the Company's consolidated balance sheets, totaled $9.4 million and $6.9 million, respectively. The associated plan assets, which are subject to the claims of the creditors, are primarily invested in mutual funds and are included in "Other assets" within the Company's consolidated balance sheets. Company contributions during the years ended July 2, 2017 and July 3, 2016 were less than $0.1 million. The gains (losses) on these investments were $0.8 million, $1.0 million and ($0.1) million for the years ended July 1, 2018, July 2, 2017 and July 3, 2016, are included in "Other (income) expense, net," within the Company's consolidated statements of income.

Note 15. 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 Foods & Gift Baskets

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

Net Revenues

	Years Ended		
	July 1, 2018	July 2, 2017	July 3, 2016
	(in thousands)		
Net revenues:			
1-800-Flowers.com Consumer Floral	**$ 457,460**	$ 437,132	$ 418,492
BloomNet Wire Service	**89,569**	87,700	85,483
Gourmet Foods & Gift Baskets	**605,523**	670,677	670,453
Corporate	**1,114**	1,102	1,066
Intercompany eliminations	**(1,745)**	(2,986)	(2,470)
Total net revenues	**$1,151,921**	$1,193,625	$1,173,024

Operating Income from Continuing Operations

	Years Ended		
	July 1, 2018	July 2, 2017	July 3, 2016
	(in thousands)		
Segment Contribution Margin:			
1-800-Flowers.com Consumer Floral	**$50,808**	$ 51,860	$ 50,773
BloomNet Wire Service	**31,683**	32,383	30,629
Gourmet Foods & Gift Baskets	**70,927**	77,312	79,398
Segment Contribution Margin Subtotal	**153,418**	161,555	160,800
Corporate (a)	**(79,901)**	(81,820)	(85,134)
Depreciation and amortization	**(32,469)**	(33,376)	(32,384)
Operating income	**$41,048**	$ 46,359	$ 43,282

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

Note 16. Commitments and Contingencies

Leases

The Company currently leases office, store facilities, and equipment under various leases through fiscal 2030. As these leases expire, it can be expected that in the normal course of business they will be renewed or replaced. Most lease agreements contain renewal options and rent escalation clauses and require the Company to pay real estate taxes, insurance, common area maintenance and operating expenses applicable to the leased properties. The Company has also entered into leases that are on a month-to-month basis. These leases are classified as either capital leases, operating leases or subleases, as appropriate.

As of July 1, 2018, future minimum rental payments under non-cancelable operating leases with initial terms of one year or more consist of the following:

	Operating Leases
	(in thousands)
2019	$15,722
2020	11,615
2021	10,020
2022	8,880
2023	8,596
Thereafter	43,189
Total minimum lease payments	$98,022

At July 1, 2018, the total future minimum sublease rentals under non-cancelable operating sub-leases for land and buildings were $3.8 million. Rent expense was approximately $25.7 million, $32.6 million and $34.3 million for the years ended July 1, 2018, July 2, 2017 and July 3, 2016, respectively.

Other Commitments

The Company's purchase commitments consist primarily of inventory, equipment and technology (hardware and software) purchase orders made in the ordinary course of business, most of which have terms less than one year. As of July 1, 2018, the Company had fixed and determinable off-balance sheet purchase commitments with remaining terms in excess of one year of approximately $3.5 million, primarily related to the Company's technology infrastructure and inventory commitments.

The Company had approximately $1.8 million in unused stand-by letters of credit as of July 1, 2018.

Litigation

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

Note 17. 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.

During fiscal 2016, the Company and its insurance carrier reached final agreement, and 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 were incurred by the Company until the move back into its leased facility once the landlord completed repairs, during the Company's third quarter of fiscal 2016. The resulting gain of $19.6 million is included in "Other (income) expense, net" in the consolidated statements of income for the year ended July 3, 2016.

The following table reflects the costs related to the fire and the insurance recovery and associated gain as of July 3, 2016:

	Fire-related Insurance Recovery
	(in thousands)
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)

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effectuated by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made in accordance with authorization of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of July 1, 2018.

The Company's independent registered public accounting firm, BDO USA, LLP, audited the effectiveness of the Company's internal control over financial reporting as of July 1, 2018. BDO USA, LLP's report on the effectiveness of the Company's internal control over financial reporting as of July 1, 2018 is set forth below.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
1-800-Flowers.com, Inc.
Carle Place, NY

Opinion on Internal Control over Financial Reporting

We have audited 1-800-FLOWERS.COM, Inc. (the “Company’s”) internal control over financial reporting as of July 1, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO criteria”). In our opinion, based on our audit, the Company maintained, in all material respects, effective internal control over financial reporting as of July 1, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of 1-800-FLOWERS.COM. Inc. and Subsidiaries as of July 1, 2018 and July 2, 2017 and the related consolidated statements of income, comprehensive income, stockholders’ equity and cash flows for each of the three years in the period ended July 1, 2018, and the related notes and schedule and our report dated September 14, 2018, expressing an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Item 9A, Management’s Report on Internal Control over Financial Reporting”. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

BDO USA, LLP
Melville, New York
September 14, 2018

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
1-800-FLOWERS.COM, Inc.
Carle Place, NY

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of 1-800-FLOWERS.COM, Inc. and Subsidiaries as of July 1, 2018 and July 2, 2017 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended July 1, 2018, and the related notes and schedule (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at July 1, 2018 and July 2, 2017, and the results of their operations and their cash flows for each of the three years in the period ended July 1, 2018 , in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of July 1, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated September 14, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2014.

BDO USA, LLP
Melville, New York
September 14, 2018

Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

1-800-FLOWERS.COM's Class A common stock trades on The NASDAQ Global Select Market under the ticker symbol "FLWS." There is no established public trading market for the Company's Class B common stock. The following table sets forth the reported high and low sales prices for the Company's Class A common stock for each of the fiscal quarters during the fiscal years ended July 1, 2018 and July 2, 2017.

	High	Low
Year ended July 1, 2018		
July 3, 2017 – October 1, 2017	$10.49	$ 7.80
October 2, 2017 – December 31, 2017	$11.65	$ 8.85
January 1, 2018 – April 1, 2018	$13.10	$ 9.76
April 2, 2018 – July 1, 2018	$13.33	$11.45
Year ended July 2, 2017		
July 4, 2016 – October 2, 2016	$ 9.99	$ 8.78
October 3, 2016 – January 1, 2017	$11.40	$ 8.06
January 2, 2017 – April 2, 2017	$11.05	$ 8.67
April 3, 2017 – July 2, 2017	$11.30	$ 9.38

Rights of Common Stock

Holders of Class A common stock generally have the same rights as the holders of Class B common stock, except that holders of Class A common stock have one vote per share and holders of Class B common stock have 10 votes per share on all matters submitted to the vote of stockholders. Holders of Class A common stock and Class B common stock generally vote together as a single class on all matters presented to the stockholders for their vote or approval, except as may be required by Delaware law. Class B common stock may be converted into Class A common stock at any time on a one-for-one share basis. Each share of Class B common stock will automatically convert into one share of Class A common stock upon its transfer, with limited exceptions. During fiscal 2018 and fiscal 2017, 78,780 and 1,361,401 shares of Class B common stock, respectively, were converted into shares of Class A common stock.

Holders

As of September 7, 2018, there were approximately 239 stockholders of record of the Company's Class A common stock, although the Company believes that there is a significantly larger number of beneficial owners. As of September 7, 2018, there were approximately 6 stockholders of record of the Company's Class B common stock.

Dividend Policy

The Company has never declared or paid any cash dividends on its Class A or Class B common stock. Although the Company has no current intent to do so, the Company may choose, at some future date, to use some portion of its cash for the purpose of cash dividends.

Purchases of Equity Securities by the Issuer

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. On August 30, 2017, the Company's Board of Directors authorized an increase to its stock repurchase plan of up to $30.0 million. The Company repurchased a total of $12.2 million (1,269,059 shares), $10.7 million (1,120,706 shares) and $15.2 million (1,714,550 shares) during the fiscal years ended July 1, 2018, July 2, 2017 and July 3, 2016, respectively, under this program. As of July 1, 2018, $20.0 million remained authorized under the plan.

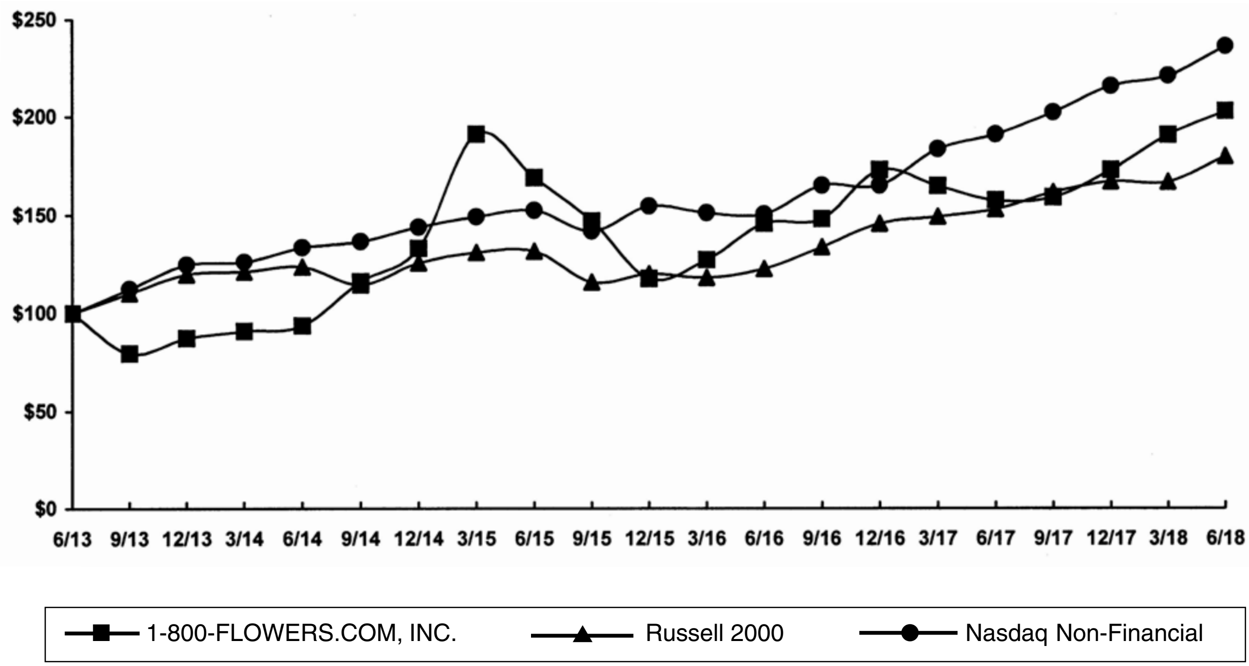
The following table sets forth, for the months indicated, the Company's purchase of common stock during the fiscal year ended July 1, 2018, which includes the period July 3, 2017 through July 1, 2018:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
	(in thousands, except average price paid per share)			
07/03/17 - 07/30/17	89.3	$ 9.66	89.3	$16,363
07/31/16 - 08/27/17	99.6	$ 9.08	99.6	$15,456
08/28/17 - 10/01/17	268.7	$ 9.43	268.7	$27,859
10/02/17 - 10/29/17	233.5	$ 9.62	233.5	$25,606
10/30/17 - 12/03/17	414.3	$ 9.36	414.3	$21,719
12/04/17 - 12/31/17	61.9	$10.16	61.9	$21,089
01/01/18 - 01/28/18	—	—	—	$21,089
01/29/18 - 02/25/18	93.2	$10.60	93.2	$20,098
02/26/18 - 04/01/18	—	—	—	$20,098
04/02/18 - 04/29/18	—	—	—	$20,098
04/30/18 - 05/27/18	8.6	$11.85	8.6	$19,997
05/28/18 - 07/01/18	—	—	—	$19,997
Total	1,269.1	$ 9.57	1,269.1	

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

*Comparison of 5 Year Cumulative Total Return**

Among 1-800-Flowers.com, Inc., the Russell 2000 Index
and the NASDAQ Non-Financial Index



*$100 invested on 6/30/13 in stock or index, including reinvestment of dividends. Fiscal year ending June 30.

1·800·FLOWERS.COM, INC.

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Special Note

Regarding Forward-Looking Statements

This annual report contains 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," "expects," "project," "believe," "anticipate," "intend," "plan," "foresee," "likely," "will," or similar words or phrases. These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of the Company's control, which could cause actual results to differ materially from the results expressed or implied in the forward-looking statements, including, among others: the Company's ability to achieve its guidance for revenue, EBITDA and EPS; its ability to manage the significant seasonality of its business; its ability to integrate the operations of acquired companies; its ability to cost effectively acquire and retain customers; the outcome of contingencies, including legal proceedings in the normal course of business; its ability to compete against existing and new competitors; its ability to manage expenses associated with sales and marketing and necessary general and administrative and technology investments and general consumer sentiment and economic conditions that may affect levels of discretionary customer purchases of the Company's products. The Company undertakes no obligation to publicly update any of the forward-looking statements, whether as a result of new information, future events or otherwise, made in this annual report or in any of its SEC filings except as may be otherwise stated by the Company. For a more detailed description of these and other risk factors, and a list of definitions of non-GAAP terms, please refer to the Company's SEC filings including the Company's Annual Reports on Form 10-K and its Quarterly Reports on Form 10-Q. Consequently, you should not consider any such list to be a complete set of all potential risks and uncertainties.

Stock Exchange Listing

NASDAQ Global Select Market
Ticker Symbol: FLWS

Transfer Agent and Registrar

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, New York 11219
(718) 921-8200

Independent Auditors

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401 Broadhollow Road
Suite 201
Melville, NY 11747
(631) 501-9600

SEC Counsel

Cahill Gordon and Reindel LLP
80 Pine Street
New York, NY 10005
(212) 701-3000

Shareholder Inquiries

Copies of the Company's reports on Forms 10-K and 10-Q as filed with the Securities and Exchange Commission and additional information about 1-800-FLOWERS.COM, Inc. may be obtained by visiting the Investor Relations section at www.1800flowersinc.com, by calling 516-237-6113, or by writing to:
Investor Relations
1-800-FLOWERS.COM, Inc.
One Old Country Road, Suite 500
Carle Place, NY 11514

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