1 800 FLOWERS COM INC
Form 10-K
September 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended July 3, 2016

or

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

Commission File No. 0-26841

1-800-FLOWERS.COM, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE 11-3117311

(State or other jurisdiction of

incorporation or organization)

(I.R.S. Employer

Identification No.)

One Old Country Road, Carle Place, New York 11514

(Address of principal executive offices)(Zip code)

(516) 237-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each Exchange on which registered Class A common stock, par value $0.01 per share The Nasdaq Stock Market, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, December 27, 2015, was approximately $234,000,000. The registrant has no non-voting common stock.

35,028,169

(Number of shares of class A common stock outstanding as of September 8, 2016)

29,983,004

(Number of shares of class B common stock outstanding as of September 8, 2016)

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Definitive Proxy Statement for the 2016 Annual Meeting of Stockholders (the Definitive Proxy Statement) are incorporated by reference into Part III of this Report.

1-800-FLOWERS.COM, INC.

FORM 10-K

For the fiscal year ended July 3, 2016

INDEX

Part I.

Part II.

Part III.

PART I

Item 1. BUSINESS

The Company

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

The Company's BloomNet® international floral wire service (www.mybloomnet.net) provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably. The 1-800-FLOWERS.COM, Inc. "Gift Shop" also includes gourmet gifts such as premium, gift-quality fruits and other gourmet items from Harry & David® (1-877-322-1200 or www.harryanddavid.com), popcorn and specialty treats from The Popcorn Factory® (1-800-541-2676 or www.thepopcornfactory.com); cookies and baked gifts from Cheryl's® (1-800-443-8124 or www.cheryls.com); premium chocolates and confections from Fannie May® (www.fanniemay.com and www.harrylondon.com); gift baskets and towers from 1-800- Baskets.com® (www.1800baskets.com); premium English muffins and other breakfast treats from Wolferman's® (1-800-999-1910 or www.wolfermans.com); carved fresh fruit arrangements from FruitBouquets.com (www.fruitbouquets.com); and top quality steaks and chops from Stock Yards® (www.stockyards.com).

On September 30, 2014, the Company completed its acquisition of Harry & David Holdings, Inc. ("Harry & David"), a leading multi-channel specialty retailer and producer of branded premium gift-quality fruit, gourmet food products and other gifts marketed under the Harry & David®, Wolferman's® and Cushman's® brands. The transaction, at a purchase price of $142.5 million, included the Harry & David's brands and websites as well as its headquarters, manufacturing and distribution facilities and orchards in Medford, Oregon, a warehouse and distribution facility in Hebron, Ohio and 48 Harry & David retail stores located throughout the country. Harry & David's revenues were approximately $386 million in fiscal 2014, with Adjusted EBITDA of approximately $28 million. The historical results of Harry & David, as well as applicable pro forma results are included in the Company's Form 8-K/A filed on December 16, 2014.

It should be noted that due to the timing of the acquisition, the revenues and EBITDA for fiscal 2015 do not include the results of Harry & David for the fiscal first quarter of 2015, which is typically the lowest in terms of revenues, but includes significant losses due to the seasonality of its business. Refer to Non-GAAP reconciliation tables included within Item 7 of MD&A which provide comparative pro forma information.

In order to finance the acquisition, on September 30, 2014, the Company entered into a Credit Agreement with JPMorgan Chase Bank as administrative agent, and a group of lenders (the "2014 Credit Facility"). See Note 9. Long-Term Debt in Item 15 for details regarding the 2014 Credit Facility.

On November 27, 2014, a fire occurred at the Company's Maple Heights, Ohio warehouse and distribution facility. While the fire did not cause any injuries, the building was severely damaged, rendering it inoperable for the key calendar 2014 holiday season, and all Fannie May and Harry London confections in the facility were destroyed. As a result, the Company had limited supplies of its Fannie May Fine Chocolates and Harry London Chocolates products available in its retail stores as well as for its ecommerce and wholesale channels during the holiday season. While the Company implemented contingency plans to increase production for Fannie May Fine Chocolates and Harry London Chocolates products at its production facility in Canton, Ohio and to shift warehousing and distribution operations to alternate Company facilities, product availability was severely limited, impacting revenue and earnings during fiscal 2015. Although the entire enterprise came together and was able to return to full capabilities within 5 months of the fire, the Company experienced unforeseen longer term consequences on its revenue base, especially within the brand's e-commerce and retail channels. With the benefit of 20/20 hindsight, it appears that the negative impact on revenues from the fire continued to drag beyond the Company's initial estimates, well into fiscal 2016. While the pace of Fannie May's recovery was below expectations throughout the year, the Company was able to offset this impact to earnings as it recovered its inventory lost to the fire through its property and business interruption policies, recognizing a gain of $19.6 million upon settlement in the first quarter of fiscal 2016.

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 and Gift Baskets business segment. The Company closed on the sale of its Winetasting Network business on December 31, 2013. The Company has classified the results of the e-commerce and procurement business of The Winetasting Network as a discontinued operation in fiscal 2014.

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

References in this Annual Report on Form 10-K to “1-800-FLOWERS.COM” and the “Company” refer to 1-800-FLOWERS.COM, Inc. and its subsidiaries. The Company’s principal offices are located at One Old Country Road, Suite 500, Carle Place, NY 11514 and its telephone number at that location is (516) 237-6000.

The Origins of 1-800-FLOWERS.COM

The Company’s operations began in 1976 when James F. McCann, the Company’s founder and current Executive Chairman of the Board, acquired a single retail florist in New York City, which he subsequently expanded to a 14-store chain. Thereafter, the Company modified its business strategy to take advantage of the rapid emergence of toll-free calling. The Company acquired the right to use the toll-free telephone number 1-800-FLOWERS, adopted it as its corporate identity and began to aggressively build a national brand around it. The Company believes it was one of the first companies to embrace this new way of conducting business.

In order to support the growth of its toll-free business and to provide superior customer service, the Company developed an operating infrastructure that incorporated the best available technologies. Over time, the Company implemented a sophisticated transaction processing system that facilitated rapid order entry and fulfillment, an advanced telecommunications system and multiple customer service centers to handle increasing call volume.

To enable the Company to deliver products reliably nationwide on a same-day or next-day basis and to market pre-selected, high-quality floral products, the Company created BloomNet®, a nationwide network including independent local florists selected for their high-quality products, superior customer service and order fulfillment and delivery capabilities.

As the world’s leading florist and gift shop, 1-800-FLOWERS.COM offers a broad range of truly original gifts through a multi-channel strategy, making it easy for millions of customers to deliver smiles for every occasion. Complementing its retail, telephonic and ecommerce channels, 1-800-FLOWERS.COM is a pacesetter in social and mobile platforms, pioneering award-winning marketing programs and applications. As a result, the Company has developed relationships with customers who purchase products for both a broad range of celebratory gifting occasions as well as for everyday personal use. The Company offers a broad selection of unique products that a customer could expect to find in a high-end florist and gift shop, including a wide assortment of cut flowers and plants, candy, balloons, plush toys, giftware, gourmet gift baskets, and fruit bouquet arrangements. The Company has also significantly expanded its presence in the gourmet food and gift baskets category, which the Company has identified as having significant revenue and earnings growth potential, through a combination of organic initiatives and strategic acquisitions. The addition of Harry & David in September 2014 accelerated the Company’s strategy to leverage its leadership position built in the floral gifting category to create what is fast becoming a leading position in the growing Gourmet Foods and Gift Baskets category. The Gourmet Food & Gift Baskets segment now represents 57% of the Company’s overall revenues.

The Company's Strategy

1-800-FLOWERS.COM's objective is to be the leading authority on thoughtful gifting, to serve an expanding range of our customers' celebratory needs, thereby helping our customers express themselves and connect with the important people in their lives. The Company will continue to build on the trusted relationships with our customers by providing them with ease of access, tasteful and appropriate gifts, and superior service.

The Company believes that 1-800-FLOWERS.COM is one of the most recognized brands in the floral and gift industry. The strength of its brand has enabled the Company to extend its product offerings beyond the floral category into complementary products, which include gourmet popcorn, cookies and related baked and snack food products, premium chocolate and confections, wine gifts, gourmet gift baskets, fruit bouquet arrangements, as well as gift-quality fruit. This extension of gift offerings helps our customers in all of their celebratory occasions, and will enable the Company to increase the number of purchases and the average order value by existing customers who have come to trust the 1-800-FLOWERS.COM brand, as well as continue to attract new customers. As referenced later, the Company recently launched its new consolidated customer database and multi-brand website which should benefit all brands by further enhancing the Company's position as the leading, one-stop destination for all of our customers' gifting and celebratory needs.

The Company believes its brands are characterized by:

Convenience. All of the Company's product offerings can be purchased either via the web and wireless devices, or via the Company's toll-free telephone numbers, 24 hours a day, seven days a week, for those customers who prefer a personal gift advisor to assist them. The Company offers a variety of delivery options, including same-day or next-day service throughout the world.

Quality. High-quality products are critical to the Company's continued brand strength and are integral to the brand loyalty that it has built over the years. The Company offers its customers a 100% satisfaction guarantee on all of its products.

Delivery Capability. The Company has developed a market-proven fulfillment infrastructure that allows delivery on a same-day, next-day and any-day basis. Key to the Company's fulfillment capability is an innovative "hybrid" model which combines BloomNet (comprised of independent florists operating retail flower shops, Company-owned stores, and franchised stores), with its manufacturing and distribution centers located in California, Florida, Illinois, Massachusetts, Nevada, Ohio, Tennessee and Oregon, and third-party vendors who ship directly to the Company's customers.

Selection. Over the course of a year, the Company offers more than 11,000 varieties of fresh-cut flowers, floral and fruit bouquets and plants, and more than 11,200 SKUs of gifts, gourmet foods and gift baskets, cookies and chocolates.

Customer Service. The Company strives to ensure that customer service, whether online, wireless, via the telephone, or in one of its retail stores is of the highest caliber. The Company operates customer service centers in Ohio and Oregon, while also utilizing a network of home agents and outsourcers to provide helpful assistance on everything from advice on product selection to the monitoring of the fulfillment and delivery process.

As part of the Company's continuing effort to serve the thoughtful gifting needs of its customers, and leverage its business platform, the Company continues to execute its vision to build a "Celebratory Ecosystem", including a collection of premium gifting brands, and an increasing suite of products and services designed to help our customers deliver smiles to the important people in their lives. The Company intends to accomplish this through organic development, and where appropriate, through acquisition of complementary businesses. A summary of the Company's more significant brands and/or businesses follows:

CONSUMER FLORAL SEGMENT

Direct-to-consumer provider of fresh flowers, plants, fruit and gift basket products, balloons, candles, keepsake gifts and plush stuffed animals.

Direct-to-consumer provider of carved fresh fruit arrangements.

Franchisor and operator of retail flower shops, acquired in August 2011.

BLOOMNET WIRESERVICE SEGMENT

Provider of products and services to the professional florist.

Wholesale merchandiser and marketer of floral industry products, acquired in July 2008.

GOURMET FOOD & GIFT BASKETS SEGMENT

Multi-channel specialty retailer and producer of premium gift quality fruit, gourmet food products and other gifts marketed under the Harry & David®, and Wolferman's® and Moose Munch® brands, acquired in September 2014.

Manufacturer and retailer of indulgent bakery gifts, including super-thick English muffins, toppings, and desserts.

Multi-channel retailer and manufacturer of small batch gourmet buttery caramel and chocolate covered popcorn.

Manufacturer of giftable premium popcorn and specialty treats, acquired in May 2002.

Manufacturer and retailer of premium chocolates and confections, acquired in May 2006.

Baker of premium cookies and related baked gifts, acquired in March 2005. Includes Mrs. Beasley's, a baker of cakes, muffins and gourmet gift baskets, acquired in March 2011.

E-commerce retailer of gift baskets and towers.

Designer, assembler and distributor of wholesale gift baskets, gourmet food towers and gift sets, acquired in April 2008.

As a complement to the Company's own brands and product lines, the Company has formed strategic relationships with brands such as Lenox®, Waterford®, Yankee Candle®, Junior's® Cheesecakes, The Cheesecake Factory®, Starbucks® and Swarovski®. The Company also continues to develop signature products in order to provide its customers with differentiated products and further its position as a destination for all of their gifting needs.

When the Company launched its integration efforts of Harry & David in January of 2015, it created a holistic approach towards examining and operating the entire enterprise. A key feature of this approach is that the Company is proactively sharing best practices across all of its operational and functional areas, creating centers of excellence focused identifying initiatives designed to enhance top and bottom-line growth opportunities.

The Company believes that these initiatives and its continued focus on the following core values will drive long-term profitable growth:

Know and Take Care of Our Customer - by providing the right products and the best services with consistent, excellent quality and value to help them express themselves and deliver smiles. In 2016, 1-800-Flowers.com was awarded a Silver Stevie "e-Commerce Customer Service" Award, recognizing the company's innovative use of online technologies and social media to service the needs of customers.

Maintain and enhance our Financial Strength and Flexibility - by seeking ways to reduce our operating costs while strengthening our balance sheet and adding flexibility to our capital structure. During fiscal 2015, the Company completed the purchase of Harry & David and in order to finance the acquisition entered into a credit agreement consisting of a term-loan and a new revolving credit facility, assuring capital availability and future flexibility. During fiscal 2016, the Company continued to pay off its long-term loan thereby strengthening the balance sheet.

Continue to Innovate and Invest for the Future - by investing in technology and new growth opportunities. 1-800-FLOWERS.COM, Inc. was recognized as one of Internet Retailer's Top 300 B2B e-commerce companies and was also recently named in Internet Retailer's 2016 Top Mobile 500 as one of the world's leading mobile commerce sites. The Company was included in Internet Retailer's 2015 Top 500 for fast growing e-commerce companies. In 2015, 1-800-FLOWERS.COM was named a winner of the "Best Companies to Work for in New York State" award by The New York Society for Human Resource Management (NYS-SHRM). The Company also continues to be a "first mover" in adopting new technologies such as:

o

the launch of the first commerce "bot" on Facebook's Messenger platform;

o

being one of the first external commerce brands on the Amazon Alexa voice-enabled platform;

o

the beta launch of "Gwyn" – the Company's own Artificial Intelligence based gift concierge service, partnering with IBM's Watson platform;

o

being among the first ecommerce partners to offer Apple Pay on desktop and mobile platforms.

Business Segments

The Company operates in the following three business segments: Consumer Floral, Gourmet Food and Gift Baskets, and BloomNet Wire Service. The Consumer Floral segment includes the operations of the Company's flagship brand, 1-800-Flowers.com, FruitBouquets.com and Flowerama, while the Gourmet Food and Gift Baskets segment includes the operations of Harry & David (which includes Wolferman's®, Moose Munch and Stockyards.com), Fannie May Confections Brands (which includes Harry London), Cheryl's (which includes Mrs. Beasley's), The Popcorn Factory, DesignPac and 1-800-Baskets. The BloomNet Wire Service segment includes the operations of BloomNet and Napco.

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 and Gift Baskets business segment. The Company closed on the sale of its Winetasting Network business on December 31, 2013. The Company has classified the results of the e-commerce and procurement business of The Winetasting Network as a discontinued operation in fiscal 2014. For further details please see Note 16 under Item 15 of this Annual Report on Form 10-K.

The Company's Products and Service Offerings

The Company offers a wide range of products including fresh-cut flowers, floral and fruit arrangements and plants, gifts, popcorn, gourmet foods and gift baskets, cookies, chocolates, candy, wine, and gift-quality fruit. In order to maximize sales opportunities, products are not exclusive to certain brands, and may be sold across business categories. The Company's differentiated and value-added product offerings create the opportunity to have a relationship with customers who purchase items not only for gift-giving occasions but also for everyday consumption. The Company's merchandising team works closely with manufacturers and suppliers to select and design its floral, gourmet foods and gift baskets, as well as other gift-related products that accommodate our customers' needs to celebrate a special occasion or convey a sentiment. As part of this continuing effort, the Company intends to continue to develop differentiated products and signature collections that customers have embraced and come to expect, while eliminating marginal performers from its product offerings.

During fiscal 2016, 2015, and 2014 approximately 1%, 2%, and 2% respectively, of consolidated net revenue came from international sources.

Flowers and Plants. The Company offers fresh-cut flowers and floral and fruit arrangements for all occasions and holidays, available for same-day delivery. The Company provides its customers with a choice of florist designed products, including traditional floral and gift offerings and the Company's line of fruit arrangements under the Fruit Bouquets® brand (www.fruitbouquets.com), and flowers delivered fresh from the farm. The Company also offers a wide variety of popular plants to brighten the home and/or office, and accent gardens and landscapes.

Gourmet Foods and Gift Baskets. The Company manufactures premium cookies and baked gift items under the Cheryl's and Mrs. Beasley's brands, which are delivered in beautiful and innovative gift baskets and containers, providing customers with a variety of assortments to choose from. The Popcorn Factory brand pops premium popcorn and specialty snack products, while Fannie May Confections Brands manufactures premium chocolate and candy under the Fannie May, Fannie Farmer, Harry London and various private label brand names. The 1-800-BASKETS.COM® brand features a collection of gourmet gift baskets and related products confected by DesignPac, as well as through third parties. Harry & David is a vertically integrated multi-channel specialty retailer and producer of branded premium gift-quality fruit, food products and gifts marketed under the Harry & David®, Wolferman's® and Cushman's® and MooseMunch® brands. The Company also licenses the Stockyards name through which it sells premium meats. Many of the Company's gourmet products are packaged in seasonal, occasion specific or decorative tins, fitting the "giftable" requirement of individual customers, while also adding the capability to customize the tins with corporate logos and other personalized features for the Company's corporate customers' gifting needs.

BloomNet Products and Services. The Company's BloomNet business provides its members with products and services, including: (i) clearinghouse services, consisting of the settlement of orders between sending florists (including the 1-800-Flowers.com brand) and receiving florists, (ii) advertising, in the form of member directories, including the industry's first on-line directory, (iii) communication services, by which BloomNet florists are able to send and receive orders and communicate between members, using Bloomlink®, the Company's proprietary electronic communication system, (iv) other services including web hosting, marketing services and point of sale, and (v) wholesale products, which consist of branded and non-branded floral supplies, enabling member florists to reduce their costs through 1-800-Flowers purchasing leverage, while also ensuring that member florists will be able to fulfill 1-800-Flowers.com brand orders based on recipe specifications. While maintaining industry-high quality standards for its 1-800-Flowers.com brand customers, the Company offers florists a compelling value proposition, offering products and services that its florists need to grow their business and to enhance profitability.

Marketing and Promotion

The Company's marketing and promotional strategy is designed to strengthen the 1-800-FLOWERS.COM brands, increase customer acquisition, build customer loyalty, and encourage repeat purchases. The Company's goal is to create a celebratory ecosystem that makes its brands synonymous with thoughtful gifting and to help our customers "send smiles" everyday. To do this, the Company intends to invest in its brands and acquire new customers through the use of selective on and off-line media, direct marketing, public relations and strategic Internet relationships, while cost-effectively capitalizing on the Company's large and loyal customer base.

The Company’s strong appeal and brand recognition provide it with significant marketing opportunities. For example, the Company was featured in an episode of the CBS TV hit reality show *Undercover Boss*, providing a great opportunity for all of its brands to receive broad national exposure in front of an estimated 15 million viewers, while also being included in the *Walk of Shame* movie. Our “Imagine the Smiles” program recognizes and celebrates members of our local communities, who are deserving of a smile. And, in what can be considered one of the best compliments a brand can receive, 1-800-Flowers.com’s place in America’s cultural fabric was confirmed when the brand was featured in a great spoof on Mother’s Day family relations during a Saturday Night Live skit.

Enhance its Customer Relationships. The Company intends to deepen its relationship with its customers and be their trusted resource to fulfill their need for quality, tasteful gifts. It plans to improve customer purchase frequency via product exposure through its multi-brand portal, by continuing to provide product-related content and interactive features which will enable the Company to reach its customers during non-holiday periods, thereby increasing everyday purchases for birthdays, anniversaries, weddings, and sympathy. Examples of these efforts include the Company’s active social media presence, and use of new and innovative platforms to reach customers, whether it be GWYN's gift concierge functionality, which enables consumers to receive personalized gift suggestions, or Facebook’s Messenger, or Amazon’s Alexa voice-enabled platform. In addition, through customer panel research, the Company has a number of signature products designed to increase everyday purchases, including the “a DOG-able™” collection, a variety of dog-shaped floral arrangements, Cookie Flower arrangements, Cookie Cards, Fruit Bouquets, and with the recent acquisition of Harry & David, it’s signature Comice pears and MooseMunch popcorn, all of which build upon the Company’s efforts to offer unique products, a strategy which stems back to the Company’s earliest signature collections such as the still popular “Birthday Cake” and “Happy Hour” collections.

In order to attract new customers and to increase purchase frequency and average order value of existing customers, the Company markets and promotes its brands and products as follows:

Strategic Online Relationships. The Company promotes its products through strategic relationships with leading Internet portals, search engines, and mobile and online social networks.

Affiliate and Co-Marketing Promotions. In addition to securing alliances with frequently visited websites, the Company has developed an affiliate network that includes thousands of websites operated by third parties. Affiliate participation may be terminated by them or by the Company at any time. These websites earn commissions on purchases made by customers referred from their sites to the Company’s website. In order to expand the reach of its marketing programs and stretch its marketing dollars, the Company has established a number of co-marketing relationships and promotions to advertise its products.

E-mails. The Company is able to capitalize on its customer database by utilizing cost-effective, targeted e-mails to notify customers of product promotions, remind them of upcoming gifting occasions and convey other marketing messages.

Direct Mail and Catalogs. The Company uses its direct mail promotions and catalogs to increase the number of new customers and to increase purchase frequency of its existing customers. Through the use of catalogs, the Company can utilize its extensive customer database to effectively cross-promote its products. In addition to providing a direct sale mechanism, these catalogs drive on-line sales and will attract additional customers to the Company's websites.

Off-line Media. The Company utilizes off-line media, including television, radio and print to market its brands and products. Off-line media allows the Company to reach a large number of customers and to target particular market segments.

The Company's Websites

The Company offers floral, fruit, plant, gift baskets, gourmet foods, chocolate and candies, plush and specialty gift products through its multi-branded 1-800-FLOWERS.COM (www.1800flowers.com) website. The Company's customers can access all of its family of brands through "tabs" on this URL, with full multi-brand functionality. Customers can come to the Company's websites directly or be linked by one of the Company's portal providers, search engine, affiliate or social media relationships. The Company also offers premium chocolates and confections from Fannie May Fine Chocolates (www.fanniemay.com and www.harrylondon.com), premium popcorn and specialty food products through The Popcorn Factory *(*www.thepopcornfactory.com*)*, exceptional baked cookies and baked gifts from Cheryl's (www.cheryls.com), gift-quality fruit from Harry & David (harryanddavid.com), which can be accessed directly, or through the Company's multi-branded website. A majority of the Company's online revenues are derived from traffic coming directly to one of the Company's Universal Resource Locators ("URL's").

The Company’s websites allow customers to easily browse and purchase its products, promote brand loyalty and encourage repeat purchases by providing an inviting customer experience. The Company’s websites offer customers detailed product information, complete with photographs, personalized shopping services, including search and order tracking, contests, gift-giving suggestions and reminder programs, party tips and planning, and information about special events and offers. The Company has designed its desktop and mobile websites to be fast, secure and easy to use and allows customers to order products with minimal effort.

Technology Infrastructure

The Company believes it has been and continues to be a leader in implementing new technologies to give its customers the best possible shopping experience, whether online or over the telephone. Through the use of customized software applications, the Company is able to retrieve, sort and analyze customer information to enable it to better serve its customers and target its product offerings. The Company’s online and telephonic orders are fed directly from the Company’s secure websites, or with the assistance of a gift advisor, into a transaction processing system which captures the required customer and recipient information. The system then routes the order to the appropriate Company distribution center or, for florist fulfilled or drop-shipped items, selects a florist or other vendor to fulfill the customer's order and electronically transmits the necessary information using BloomLink®, the Company’s proprietary communication system, assuring timely delivery. In addition, the Company’s gift advisors have electronic access to this system, enabling them to assist in order fulfillment and subsequently track other customer and/or order information.

The Company’s technology infrastructure, primarily consisting of the Company’s websites, transaction processing, manufacturing and warehouse management, customer databases and telecommunications systems, is built and maintained for reliability, security, scalability and flexibility. To minimize the risk of service interruptions from unexpected component or telecommunications failure, maintenance and upgrades, the Company has built full back-up and system redundancies into those components of its systems that have been identified as critical.

Fulfillment and Manufacturing Operations

The Company’s customers primarily place their orders either online or over the telephone. The Company’s development of a hybrid fulfillment system, which enables the Company to offer same-day, next-day and any-day delivery, combines the use of BloomNet (comprised of independent florists operating retail flower shops and franchise florist shops), with the Company-owned distribution centers and brand-name vendors who ship directly to the Company’s customers. While providing a significant competitive advantage in terms of delivery options, the Company’s fulfillment system also has the added benefit of reducing the Company’s capital investments in inventory and infrastructure. All of the Company’s products are backed by a 100% satisfaction guarantee, and the Company’s business is not dependent on any single third-party supplier.

To ensure reliable and efficient communication of online and telephonic orders to its BloomNet members and third party gift vendors, the Company developed BloomLink®, a proprietary and secure internet-based communications system which is available to all BloomNet members and third-party gift vendors. The Company also has the ability to arrange for international delivery of floral products through third-party relationships.

Fulfillment and manufacturing of products is as follows:

Flowers and Plants. A majority of the Company’s floral orders are fulfilled by one of the Company’s BloomNet members, allowing the Company to deliver its floral and fruit bouquet products on a same-day or next-day basis to ensure freshness and to meet its customers’ need for immediate gifting. In addition, the Company is better positioned to ensure consistent product quality and presentation and offer a greater variety of arrangements, which creates a better experience for its customers and gift recipients. The Company selects retail florists for BloomNet based upon the florist's design staff, facilities, quality of floral processing, and delivery capabilities and allocates orders to members within a geographical area based on historical performance of the florist in fulfilling orders, and the number of BloomNet florists currently serving the area. The Company regularly monitors BloomNet florists’ performance and adherence to the Company’s quality standards to ensure proper fulfillment.

In addition to its florist designed product, the Company offers its customers an alternative to florist designed products through its direct ship products fresh from the farm.

As of July 3, 2016, the Company operates one floral retail store in New York, and 8 floral retail stores in the mid-west. In addition, the Company has 175 floral franchised stores, located within the United States.

Gourmet Foods and Gift Baskets. In order to achieve improved margins, better control quality and to offer premium branded signature products in the Gourmet Food and Gift Baskets product category, the Company has acquired several gourmet food retailers with manufacturing operations, as well as one vertically integrated retailer (Harry & David). The Company's premium chocolates are manufactured and distributed from its 225,000 square feet production facility in North Canton, Ohio and from its 276,000 square feet distribution facility in Maple Heights, Ohio. The Company's cookie and baked gifts are fulfilled from its 88,000 square foot baking facility in Westerville, Ohio, and from its 176,000 square foot freezer and distribution center in Obetz, Ohio, while its premium popcorn and related snack products are shipped from the Company's 148,000 square foot manufacturing and distribution center located in Lake Forest, Illinois. Harry & David products are grown, manufactured and distributed primarily from its 1,103,000 square foot facilities in Medford, Oregon, supplemented by a 331,000 square foot distribution center in Hebron, Ohio. Gift basket confection and fulfillment for both wholesale and 1-800-Baskets.com is handled by DesignPac, through its 250,000 square foot distribution center located in Melrose Park, Illinois. As of July 3, 2016, the Company operates 80 Fannie May/Harry London, 9 Cheryl's and 44 Harry & David retail stores. In June 2014, the Company terminated its Fannie May franchise agreement with GB Chocolates and acquired 16 stores GB had been operating under the agreement. As of July 3, 2016, the Company did not operate any franchises under the Fannie May brand.

Seasonality

The Company's quarterly results may experience seasonal fluctuations. Due to the seasonal nature of the Company's business, and its continued expansion into non-floral products, including the acquisition of Harry & David on September 30, 2014, the Thanksgiving through Christmas holiday season, which falls within the Company's second fiscal quarter, is expected to generate nearly 50% of the Company's annual revenues, and all of its earnings. Additionally, due to the number of major floral gifting occasions, including Mother's Day, Valentine's Day and Administrative Professionals Week, revenues also rise during the Company's fiscal third and fourth quarters in comparison to its fiscal first quarter. The Easter Holiday, which was on April 5th in fiscal 2015, fell on March 27, 2016 in fiscal 2016. As a result, during fiscal 2016, all revenue and EBITDA associated with the Easter Holiday was within the Company's fiscal third quarter. Easter falls on April 16th in 2017, which will result in the shift of some revenue and EBITDA back to the Company's fourth quarter in fiscal 2017.

In preparation for the Company's second quarter holiday season, the Company significantly increases its inventories, and therefore, corresponding cash requirements, which traditionally have been financed by cash flows from operations and bank lines of credit, which are highest during the latter part of the Company's fiscal first quarter, peaking within its second fiscal quarter. The Company has historically repaid all revolving bank lines of credit with cash generated from operations, prior to the end of the Company's fiscal second quarter.

Competition

The growing popularity and convenience of e-commerce has continued to give rise to established businesses on the Internet. In addition to selling their products over the Internet, many of these retailers sell their products through a combination of channels by maintaining a website, a toll-free phone number and physical locations. Additionally, several of these merchants offer an expanding variety of products and some are attracting an increasing number of customers. Certain mass merchants have expanded their offerings to include competing products and may continue to do so in the future. These mass merchants, as well as other potential competitors, may be able to:

undertake more extensive marketing campaigns for their brands and services;

adopt more aggressive pricing policies; and

make more attractive offers to potential employees, distributors and retailers.

In addition, the Company faces intense competition in each of its individual product categories. In the floral industry, there are various providers of floral products, none of which is dominant in the industry. The Company's competitors include:

retail floral shops, some of which maintain toll-free telephone numbers and websites;

online floral retailers, as well as retailers offering substitute gift products;

catalog companies that offer floral products;

floral telemarketers and wire services; and

supermarkets, mass merchants and specialty retailers with floral departments.

Similarly, the plant, gift basket and gourmet foods categories are highly competitive. Each of these categories encompasses a wide range of products, is highly fragmented and is served by a large number of companies, none of which is dominant. Products in these categories may be purchased from a number of outlets, including mass merchants, telemarketers, retail specialty shops, online retailers and mail-order catalogs.

The Company believes the strength of its brands, product selection, customer relationships, technology infrastructure and fulfillment capabilities position it to compete effectively against its current and potential competitors in each of its product categories. However, increased competition could result in:

price reductions, decreased revenues and lower profit margins;

loss of market share; and

increased marketing expenditures.

These and other competitive factors may adversely impact the Company’s business and results of operations.

Government Regulation and Legal Uncertainties

The Internet continues to evolve and there are laws and regulations directly applicable to e-commerce. Legislatures are also considering an increasing number of laws and regulations pertaining to the Internet, including laws and regulations addressing:

user privacy;

pricing;

content;

connectivity;

intellectual property;

distribution;

taxation;

liabilities;

antitrust; and

characteristics and quality of products and services.

Further, the growth and development of the market for online services may prompt more stringent consumer protection laws that may impose additional burdens on those companies conducting business online. The adoption of any additional laws or regulations may impair the growth of the Internet or commercial online services. This could decrease the demand for the Company’s services and increase its cost of doing business. Moreover, the applicability to the Internet of existing laws regarding issues like property ownership, taxes, libel and personal privacy is uncertain. Any new legislation or regulation that has an adverse impact on the Internet or the application of existing laws and regulations to the Internet could have a material adverse effect on the Company’s business, financial condition and results of operations.

States or foreign countries might attempt to regulate the Company's business or levy additional sales or other taxes relating to its activities. Because the Company's products and services are available over the Internet anywhere in the world, multiple jurisdictions may claim that the Company is required to do business as a foreign corporation in one or more of those jurisdictions. Failure to qualify as a foreign corporation in a jurisdiction where the Company is required to do so could subject it to taxes and penalties. States or foreign governments may charge the Company with violations of local laws.

Intellectual Property and Proprietary Rights

The Company regards its service marks, trademarks, trade secrets, domain names and similar intellectual property as critical to its success. The Company has applied for or received trademark and/or service mark registration for, among others, “1-800-FLOWERS.COM”, “1-800-FLOWERS”, “1-800-Baskets”, “GreatFoods.com”, “The Popcorn Factory”, “Chery “Mrs. Beasley’s”, “Celebrations”, “Flowerama”, “DesignPac”, “Napco”, “Fannie May”, “Harry London”, “Harry & David”, “Wolferman’s", “MooseMunch” and “Cushman’s”. The Company also has rights to numerous domain names, including www.1800flowers.com, www.800flowers.com, www.1800baskets.com, www.flowers.com, www.greatfoods.com, www.stockyards.com, www.cheryls.com, www.fanniemay.com, www.harrylondon.com, www.celebrations.com, www.flowerama.com, www.designpac.com, www.mybloomnet.net, www.napcoimports.com, www.thepopcornfactory.com, www.harryanddavid.com and www.wolfermans.com. In addition, the Company owns a number of international trademarks and/or service marks. The Company has also developed transaction processing and operating systems as well as marketing data, and customer and recipient information databases.

The Company relies on trademark, unfair competition and copyright law, trade secret protection and contracts such as confidentiality and license agreements with its employees, customers, vendors and others to protect its proprietary rights. Despite the Company’s precautions, it may be possible for competitors to obtain and/or use the Company’s proprietary information without authorization or to develop technologies similar to the Company’s and independently create a similarly functioning infrastructure. Furthermore, the protection of proprietary rights in Internet-related industries is uncertain and still evolving. The laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. The Company’s means of protecting its proprietary rights in the United States or abroad may not be adequate.

Third parties have in the past infringed or misappropriated the Company’s intellectual property or similar proprietary rights. The Company believes infringements and misappropriations will continue to occur in the future. The Company intends to police against infringement and misappropriation. However, the Company cannot guarantee it will be able to enforce its rights and enjoin the alleged infringers from their use of confusingly similar trademarks, service marks, telephone numbers and domain names.

In addition, third parties may assert infringement claims against the Company. The Company cannot be certain that its technologies or its products and services do not infringe valid patents, trademarks, copyrights or other proprietary rights held by third parties. The Company may be subject to legal proceedings and claims from time to time relating to its intellectual property and the intellectual property of others in the ordinary course of its business. Intellectual property litigation is expensive and time-consuming and could divert management resources away from running the Company’s business.

Employees

As of July 3, 2016, the Company had a total of 4,490 full and part-time employees. During peak periods, the Company substantially increases the number of customer service, manufacturing and retail and fulfillment personnel. The Company's personnel are not represented under collective bargaining agreements and the Company considers its relations with its employees to be good.

Item 1A. Risk Factors

Cautionary Statements Under the Private Securities Litigation Reform Act of 1995

Our disclosures and analysis in this Form 10-K contain some forward-looking statements that set forth anticipated results based on management's plans and assumptions. From time to time, we also provide forward-looking statements in other statements we release to the public as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions; the effectiveness of our marketing programs; the performance of our existing products and services; our ability to attract and retain customers and expand our customer base; our ability to enter into or renew online marketing agreements; our ability to respond to competitive pressures; expenses, including shipping costs and the costs of marketing our current and future products and services; the outcome of contingencies, including legal proceedings in the normal course of business; and our ability to integrate acquisitions.

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

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our 10-Q and 8-K reports to the SEC. Also note we provide the following cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995.

The financial and credit markets and consumer sentiment have and will experience significant volatility, which may have an adverse effect on our customers' spending patterns and in turn our business, financial condition and results of operations. Consumer spending patterns are difficult to predict and are sensitive to the general economic climate, the consumer's level of disposable income, consumer debt, and overall consumer confidence. In recent past, financial crisis has impacted and may continue to impact our business in a number of ways. Included among these current and potential future negative impacts are reduced demand and lower prices for our products and services. We are currently operating in challenging macroeconomic conditions, which may continue during fiscal 2017.

The Company's operating results may fluctuate, and this fluctuation could cause financial results to be below expectations. The Company's operating results may fluctuate from period to period for a number of reasons. In budgeting the Company's operating expenses for the foreseeable future, the Company makes assumptions regarding revenue trends; however, some of the Company's operating expenses are fixed in the short term. Sales of the Company's products are seasonal, concentrated in the fourth calendar quarter, due to the Thanksgiving and Christmas-time holidays, and the second calendar quarter, due to Mother's Day and Administrative Professionals' Week. In anticipation of increased sales activity during these periods, the Company hires a significant number of temporary employees to supplement its permanent staff and the Company increases its inventory levels. If revenues during these periods do not meet the Company's expectations, it may not generate sufficient revenue to offset these increased costs and its operating results may suffer.

The Company's quarterly operating results may significantly fluctuate and you should not rely on them as an indication of its future results. The Company's future revenues and results of operations may significantly fluctuate due to a combination of factors, many of which are outside of management's control. The most important of these factors include:

seasonality;

the retail economy;

the timing and effectiveness of marketing programs;

the timing of the introduction of new products and services;

the Company’s ability to find and maintain reliable sources for certain of its products;

the timing and effectiveness of capital expenditures;

the Company’s ability to enter into or renew online marketing agreements; and

competition.

The Company may be unable to reduce operating expenses quickly enough to offset any unexpected revenue shortfall. If the Company has a shortfall in revenue without a corresponding reduction to its expenses, operating results may suffer. The Company’s operating results for any particular quarter may not be indicative of future operating results. You should not rely on quarter-to-quarter comparisons of results of operations as an indication of the Company’s future performance. It is possible that results of operations may be below the expectations of public market analysts and investors, which could cause the trading price of the Company’s Class A common stock to fall.

12

Consumer spending on flowers, gifts and other products sold by the Company may vary with general economic conditions. If general economic conditions deteriorate and the Company's customers have less disposable income, consumers may spend less on its products and its quarterly operating results may suffer.

During peak periods, the Company utilizes temporary employees and outsourced staff, who may not be as well-trained or committed to its customers as its permanent employees, and if they fail to provide the Company's customers with high quality customer service the customers may not return, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. The Company depends on its customer service department to respond to its customers should they have questions or problems with their orders. During peak periods, the Company relies on its permanent employees, as well as temporary employees and outsourced staff to respond to customer inquiries. These temporary employees and outsourced staff may not have the same level of commitment to the Company's customers or be as well trained as its permanent employees. If the Company's customers are dissatisfied with the quality of the customer service they receive, they may not shop with the Company again, which could have a material adverse effect on its business, financial condition, results of operations and cash flows.

If the Company's customers do not find its expanded product lines appealing, revenues may not grow and net income may decrease. The Company's business historically has focused on offering floral and floral-related gift products. Although the Company has been successful in its expanded product lines including fruit bouquets, plants, gift baskets, popcorn, gourmet food and unique, specialty gifts and gift-quality fruit, it expects to continue to incur significant costs in marketing these products. If the Company's customers do not continue to find its product lines appealing, the Company may not generate sufficient revenue to offset its related costs and its results of operations may be negatively impacted.

If the Company fails to develop and maintain its brands, it may not increase or maintain its customer base or its revenues. The Company must continue to develop and maintain the 1-800-FLOWERS.COM brands to expand its customer base and its revenues. In addition, the Company has introduced and acquired other brands in the past, and may continue to do so in the future. The Company believes that the importance of brand recognition will increase as it expands its product offerings. Many of the Company's customers may not be aware of the Company's non-floral products. If the Company fails to advertise and market its products effectively, it may not succeed in establishing its brands and may lose customers leading to a reduction of revenues.

The Company's success in promoting and enhancing the 1-800-FLOWERS.COM brands will also depend on its success in providing its customers high-quality products and a high level of customer service. If the Company's customers do not perceive its products and services to be of high quality, the value of the 1-800-FLOWERS.COM brands would be diminished and the Company may lose customers and its revenues may decline.

A failure to establish and maintain strategic online and social media relationships that generate a significant amount of traffic could limit the growth of the Company's business. Although the Company expects a significant portion of its online customers will continue to come directly to its website, it will also rely on third party websites, search engines and affiliates with which the Company has strategic relationships for traffic. If these third-parties do not attract a significant number of visitors, the Company may not receive a significant number of online customers from these relationships and its revenues from these relationships may decrease or remain flat. There continues to be strong competition to establish or maintain relationships with leading Internet companies, and the Company may not successfully enter into additional relationships, or renew existing ones beyond their current terms. The Company may also be required to pay significant fees to maintain and expand existing relationships. The Company’s online revenues may suffer if it does not enter into new relationships or maintain existing relationships or if these relationships do not result in traffic sufficient to justify their costs.

If local florists and other third-party vendors do not fulfill orders to the Company’s customers' satisfaction, customers may not shop with the Company again. In many cases, floral orders placed by the Company’s customers are fulfilled by local independent florists, a majority of which are members of BloomNet. The Company does not directly control any of these florists. In addition, many of the non-floral products sold by the Company are manufactured and delivered to its customers by independent third-party vendors. If customers are dissatisfied with the performance of the local florist or other third-party vendors, they may not utilize the Company’s services when placing future orders and its revenues may decrease.

If a florist discontinues its relationship with the Company, the Company's customers may experience delays in service or declines in quality and may not shop with the Company again. Many of the Company's arrangements with local florists for order fulfillment may be terminated by either party with 10 days notice. If a florist discontinues its relationship with the Company, the Company will be required to obtain a suitable replacement located in the same geographic area, which may cause delays in delivery or a decline in quality, leading to customer dissatisfaction and loss of customers.

If a significant number of customers are not satisfied with their purchase, the Company will be required to incur substantial costs to issue refunds, credits or replacement products. The Company offers its customers a 100% satisfaction guarantee on its products. If customers are not satisfied with the products they receive, the Company will either replace the product for the customer or issue the customer a refund or credit. The Company's net income would decrease if a significant number of customers request replacement products, refunds or credits and the Company is unable to pass such costs onto the supplier.

Increased shipping costs and labor stoppages may adversely affect sales of the Company's products. Many of the Company's products are delivered to customers either directly from the manufacturer or from the Company's fulfillment centers. The Company has established relationships with Federal Express, UPS and other common carriers for the delivery of these products. If these carriers were to increase the prices they charge to ship the Company's goods, and the Company passes these increases on to its customers, its customers might choose to buy comparable products locally to avoid shipping charges. In addition, these carriers or other parties involved (e.g. dock workers) may experience labor stoppages, which could impact the Company's ability to deliver products on a timely basis to our customers and adversely affect its customer relationships.

If the Company fails to continuously improve its website, it may not attract or retain customers. If potential or existing customers do not find the Company's website a convenient place to shop, the Company may not attract or retain customers and its sales may suffer. To encourage the use of the Company's website, it must continuously improve its accessibility, content and ease of use. Customer traffic and the Company's business would be adversely affected if competitors' websites are perceived as easier to use or better able to satisfy customer needs.

Competition in the floral, plant, gift basket, gourmet food, and specialty gift industries is intense and a failure to respond to competitive pressure could result in lost revenues. There are many companies that offer products in these categories. In the floral category, the Company's competitors include:

retail floral shops, some of which maintain toll-free telephone numbers, and websites;

online floral retailers;

catalog companies that offer floral products;

floral telemarketers and wire services; and

supermarkets, mass merchants and specialty gift retailers with floral departments.

Similarly, the plant, gift basket, gourmet food, cookie, candy, fruit and specialty gift categories are highly competitive. Each of these categories encompasses a wide range of products and is highly fragmented. Products in these categories may be purchased from a number of outlets, including mass merchants, retail shops, online retailers and mail-order catalogs.

Competition is intense and the Company expects it to increase. Increased competition could result in:

price reductions, decreased revenue and lower profit margins;

loss of market share; and

increased marketing expenditures.

14

These and other competitive factors could materially and adversely affect the Company's results of operations.

If the Company does not accurately predict customer demand for its products, it may lose customers or experience increased costs. In the past, the Company did not need to maintain a significant inventory of products. However, as the Company expands the volume of non-floral products offered to its customers, especially with the acquisition of Harry & David, the Company is required to increase inventory levels and the number of products maintained in its warehouses. If the Company overestimates customer demand for its products, excess inventory and outdated merchandise could accumulate, tying up working capital and potentially resulting in reduced warehouse capacity and inventory losses due to damage, theft and obsolescence. If the Company underestimates customer demand, it may disappoint customers who may turn to its competitors. Moreover, the strength of the 1-800-FLOWERS.COM brands could be diminished due to misjudgments in merchandise selection.

If the supply of flowers for sale becomes limited, the price of flowers could rise or flowers may be unavailable and the Company's revenues and gross margins could decline. A variety of factors affect the supply of flowers in the United States and the price of the Company's floral products. If the supply of flowers available for sale is limited due to weather conditions, farm closures, economic conditions, or other factors, prices for flowers could rise and customer demand for the Company's floral products may be reduced, causing revenues and gross margins to decline. Alternatively, the Company may not be able to obtain high quality flowers in an amount sufficient to meet customer demand. Even if available, flowers from alternative sources may be of lesser quality and/or may be more expensive than those currently offered by the Company.

Most of the flowers sold in the United States are grown by farmers located abroad, primarily in Colombia, Ecuador and Holland, and the Company expects that this will continue in the future. The availability and price of flowers could be affected by a number of factors affecting these regions, including:

import duties and quotas;

agricultural limitations and restrictions to manage pests and disease;

changes in trading status;

economic uncertainties and currency fluctuations;

severe weather;

work stoppages;

foreign government regulations and political unrest; and

trade restrictions, including United States retaliation against foreign trade practices.

Our orchard production operations are subject to environmental laws and regulation and any failure to comply could result in significant fines or clean-up costs. We use herbicides, fertilizers and pesticides, some of which may be considered hazardous substances. Various federal, state, and local environmental laws, ordinances and regulations regulate our properties and farming operations and could make us liable for costs of removing or cleaning up hazardous substances on, under, or in property that we currently own or lease, that we previously owned or leased, or upon which we currently or previously conducted farming operations. These laws could impose liabilities without regard to whether we knew of, or were responsible for, the presence of hazardous substances. The presence of hazardous substances or the failure to properly clean up such substances when present, could jeopardize our ability to use, sell or collateralize certain real property and result in significant fines or clean-up costs, which could adversely affect our business, financial condition and results of operations. Future environmental laws could impact our farming operations or increase our cost of goods.

Various diseases, pests and certain weather conditions can affect fruit production. Various diseases, pests, fungi, viruses, drought, frosts, wildfires, floods and certain other weather conditions could affect the quality and quantity of our fruit production in our Harry & David orchards, decreasing the supply of our products and negatively impacting profitability. Our producing orchards also require adequate water supplies. A substantial reduction in water supplies could result in material losses of crops, which could lead to a shortage of our product supply.

The ripening of our fruits is subject to seasonal fluctuations which could negatively impact profitability. The ripening of our fruits in the Harry & David orchards can happen earlier than predicted due to warmer temperatures during the year. This would result in an oversupply of fruits which we might not be able to sell on a timely basis and could result in significant inventory write-offs. The ripening of the Company's fruits can also happen later than predicted due to colder temperatures during the year. This can cause a delay in product shipments and not being able to timely meet customer demand during the critical holiday season. Both of these scenarios could adversely affect our business, financial condition and results of operations.

The Company’s franchisees may damage its brands or increase its costs by failing to comply with its franchise agreements or its operating standards. The Company’s franchise business is governed by its Uniform Franchise Disclosure Document, franchise agreements and applicable franchise law. If the Company’s franchisees do not comply with its established operating standards or the terms of the franchise agreements, the 1-800-FLOWERS.COM brands may be damaged. The Company may incur significant additional costs, including time-consuming and expensive litigation, to enforce its rights under the franchise agreements. Additionally, the Company is the primary tenant on certain leases, which the franchisees sublease from the Company. If a franchisee fails to meet its obligations as subtenant, the Company could incur significant costs to avoid default under the primary lease. Furthermore, as a franchiser, the Company has obligations to its franchisees. Franchisees may challenge the performance of the Company’s obligations under the franchise agreements and subject it to costs in defending these claims and, if the claims are successful, costs in connection with their compliance.

If third parties acquire rights to use similar domain names or phone numbers or if the Company loses the right to use its phone numbers, its brands may be damaged and it may lose sales. The Company’s Internet domain names are an important aspect of its brand recognition. The Company cannot practically acquire rights to all domain names similar to www.1800flowers.com, or its other brands, whether under existing top level domains or those issued in the future. If third parties obtain rights to similar domain names, these third parties may confuse the Company’s customers and cause its customers to inadvertently place orders with these third parties, which could result in lost sales and could damage its brands.

Likewise, the phone number that spells 1-800-FLOWERS is important to the Company’s brand and its business. While the Company has obtained the right to use the phone numbers 1-800-FLOWERS, 1-888-FLOWERS and 1-877-FLOWERS, as well as common toll-free "FLOWERS" misdials, it may not be able to obtain rights to use the FLOWERS phone number as new toll-free prefixes are issued, or the rights to all similar and potentially confusing numbers. If third parties obtain the phone number which spells "FLOWERS" with a different prefix or a toll-free number similar to FLOWERS, these parties may also confuse the Company’s customers and cause lost sales and potential damage to its brands. In addition, under applicable FCC rules, ownership rights to phone numbers cannot be acquired. Accordingly, the FCC may rescind the Company’s right to use any of its phone numbers, including 1-800-FLOWERS (1-800-356-9377).

Computer system disruption and cyber security threats could damage our relationships with our customers, harm our reputation, expose us to litigation and adversely affect our business. We rely extensively on our computer systems for the successful operation of our business, including corporate email communications to and from employees, customers and retail operations, the design, manufacture and distribution of our finished goods, digital marketing efforts, collection and retention of customer data, employee information, the processing of credit card transactions, online e-commerce activities and our interaction with the public in the social media space. Our systems are subject to damage or interruption from computer viruses, malicious attacks and other security breaches. The possibility of a cyber-attack on any one or all of these systems is always a serious threat and consumer awareness and sensitivity to privacy breaches and cyber security threats is at an all-time high.

As part of our business model, we collect, retain, and transmit confidential information over public networks. In addition to our own databases, we use third party service providers to store, process and transmit this information on our behalf. Although we contractually require these service providers to implement and use reasonable security measures, we cannot control third parties and cannot guarantee that a security breach will not occur in the future either at their location or within their systems. We have confidential security measures in place to protect both our physical facilities and digital systems from attacks. Despite these efforts, we may be vulnerable to targeted or random security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events.

Given the robust nature of our e-commerce presence and digital strategy, it is imperative that we and our e-commerce partners maintain uninterrupted operation of our: (i) computer hardware, (ii) software systems, (iii) customer marketing databases, and (iv) ability to email our current and potential customers.

If our systems are damaged or fail to function properly or reliably, we may incur substantial repair or replacement costs, experience data loss or theft and impediments to our ability to conduct our operations. Any material disruptions in our e-commerce presence or information technology systems could have a material adverse effect on our business, financial condition and results of operations.

A privacy or data security breach could expose us to costly government enforcement actions and private litigation and adversely affect our business. An important component of our business involves the receipt and storage of information about our customers. We have programs in place to detect, contain and respond to data security incidents. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. In addition, hardware, software, or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud, trickery, or other forms of deceiving our team members, contractors, vendors, and temporary staff.

The Company's business could be injured by significant credit card, debit card and gift card fraud. Customers typically pay for their on-line or telephone orders with debit or credit cards as well as a portion of their orders using gift cards. The Company's revenues and gross margins could decrease if it experienced significant credit card, debit card and gift card fraud. Failure to adequately detect and avoid fraudulent credit card, debit card and gift card transactions could cause the Company to lose its ability to accept credit cards or debit cards as forms of payment and/or result in charge-backs of the fraudulently charged amounts and/or significantly decrease revenues. Furthermore, widespread credit card, debit card and gift card fraud may lessen the Company's customers' willingness to purchase products through the Company's websites or toll-free telephone numbers. For this reason, such failure could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Unexpected system interruptions caused by system failures may result in reduced revenues and harm to the Company's brand. In the past, particularly during peak holiday periods, the Company has experienced significant increases in traffic on its website and in its toll-free customer service centers. The Company's operations are dependent on its ability to maintain its computer and telecommunications systems in effective working order and to protect its systems against damage from fire, natural disaster, power loss, telecommunications failure or similar events. The Company's systems have in the past, and may in the future, experience:

system interruptions;

long response times; and

degradation in service.

The Company's business depends on customers making purchases on its systems. Its revenues may decrease and its reputation could be harmed if it experiences frequent or long system delays or interruptions or if a disruption occurs during a peak holiday season.

If the Company's telecommunications providers do not adequately maintain the Company's service, the Company may experience system failures and its revenues may decrease. The Company is dependent on telecommunication providers to provide telephone services to its customer service centers and connectivity with its data centers. Although the Company maintains redundant telecommunications systems, if these providers experience system failures or fail to adequately maintain the Company's systems, the Company may experience interruptions and will be unable to generate revenue. The Company depends upon these third-party relationships because it does not have the resources to maintain its service without these or other third parties. Failure to maintain these relationships or replace them on financially attractive terms may disrupt the Company's operations or require it to incur significant unanticipated costs.

The Company's operating results may suffer due to economic, political and social unrest or disturbances. Like other American businesses, the Company is unable to predict what long-term effect acts of terrorism, war, or similar unforeseen events may have on its business. The Company's results of operations and financial condition could be adversely impacted if such events cause an economic slowdown in the United States, or other negative effects that cannot now be anticipated.

If the Company is unable to hire and retain key personnel, its business may suffer. The Company's success is dependent on its ability to hire, retain and motivate highly qualified personnel. In particular, the Company's success depends on the continued efforts of its Chief Executive Officer, Christopher G. McCann, as well as its senior management team which help manage its business. The loss of the services of any of the Company's executive management or key personnel or its inability to attract qualified additional personnel could cause its business to suffer and force it to expend time and resources in locating and training additional personnel.

Many governmental regulations may impact the Internet, which could affect the Company's ability to conduct business. Any new law or regulation, or the application or interpretation of existing laws, may decrease the growth in the use of the Internet or the Company's website. The Company expects there will be an increasing number of laws and regulations pertaining to the Internet in the United States and throughout the world. These laws or regulations may relate to liability for information received from or transmitted over the Internet, online content regulation, user privacy, taxation and quality of products and services sold over the Internet. Moreover, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment, personal privacy and other issues is uncertain and developing. This could decrease the demand for the Company's products, increase its costs or otherwise adversely affect its business.

Regulations imposed by the Federal Trade Commission may adversely affect the growth of the Company's Internet business or its marketing efforts. The Federal Trade Commission has proposed regulations regarding the collection and use of personal identifying information obtained from individuals when accessing websites, with particular emphasis on access by minors. These regulations may include requirements that the Company establish procedures to disclose and notify users of privacy and security policies, obtain consent from users for collection and use of information and provide users with the ability to access, correct and delete personal information stored by the Company. These regulations may also include enforcement and redress provisions. Moreover, even in the absence of those regulations, the Federal Trade Commission has begun investigations into the privacy practices of other companies that collect information on the Internet. One investigation resulted in a consent decree under which an Internet company agreed to establish programs to implement the principles noted above. The Company may become a party to a similar investigation, or the Federal Trade Commission's regulatory and enforcement efforts, or those of other governmental bodies, may adversely affect its ability to collect demographic and personal information from users, which could adversely affect its marketing efforts.

Unauthorized use of the Company's intellectual property by third parties may damage its brands. Unauthorized use of the Company's intellectual property by third parties may damage its brands and its reputation and may likely result in a loss of customers. It may be possible for third parties to obtain and use the Company's intellectual property without authorization. Third parties have in the past infringed or misappropriated the Company's intellectual property or similar proprietary rights. The Company believes infringements and misappropriations will continue to occur in the future. Furthermore, the validity, enforceability and scope of protection of intellectual property in Internet-related industries is uncertain and still evolving. The Company has been unable to register certain of its intellectual property in some foreign countries and furthermore, the laws of some foreign countries are uncertain or do not protect intellectual property rights to the same extent as do the laws of the United States.

Defending against intellectual property infringement claims could be expensive and, if the Company is not successful, could disrupt its ability to conduct business. The Company has been unable to register certain of its intellectual properties in some foreign countries, including, “1-800-Flowers.com”, “1-800-Flowers” and “800-Flowers”. The Company cannot be certain that the products it sells, or services it offers, do not or will not infringe valid patents, trademarks, copyrights or other intellectual property rights held by third parties. The Company may be a party to legal proceedings and claims relating to the intellectual property of others from time to time in the ordinary course of its business. The Company may incur substantial expense in defending against these third-party infringement claims, regardless of their merit. Successful infringement claims against the Company may result in substantial monetary liability or may materially disrupt its ability to conduct business.

The Company does not collect sales or consumption taxes in some jurisdictions. In addition to the Company's retail store operations, the Company collects sales or other similar taxes in states where the Company's ecommerce channel has applicable nexus. Our customer service and fulfillment networks, and any further expansion of those networks, along with other aspects of our evolving business, may result in additional sales and use tax obligations. Currently, U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales taxes with respect to remote sales. However, an increasing number of states have considered or adopted laws that attempt to impose obligations on out-of-state retailers to collect taxes on their behalf. A successful assertion by one or more states that we should collect sales or other taxes where we do not do so could result in substantial tax liabilities, including for past sales, penalties and interest, as well as decrease our ability to compete with traditional retailers, and otherwise harm our business.

A failure to integrate our acquisitions may cause the results of the acquired company, as well as the results of the Company to suffer. The Company has opportunistically acquired a number of companies over the past several years. Additionally the Company may look to acquire additional companies in the future. As part of the acquisition process, the Company embarks upon a project management effort to integrate the acquisition onto our information technology systems and management processes. If we are unsuccessful in integrating our acquisitions, the results of our acquisitions may suffer, management may have to divert valuable resources to oversee and manage the acquisitions, the Company may have to expend additional investments in the acquired company to upgrade personnel and/or information technology systems and the results of the Company may suffer.

A failure to dispose of assets or businesses in a timely manner may cause the results of the Company to suffer. The Company continues to evaluate the potential disposition of assets and businesses that may no longer help it meet its objectives. When the Company decides to sell assets or a business, it may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the accomplishment of its strategic objectives. Alternatively, the Company may dispose of a business at a price or on terms that are less than it had anticipated. After reaching an agreement with a buyer or seller for the disposition of a business, the Company is subject to satisfaction of pre-closing conditions, which may prevent the Company from completing the transaction. Dispositions may also involve continued financial involvement in the divested business, such as through continuing equity ownership, guarantees, indemnities or other financial obligations. Under these arrangements, performance by the divested businesses or other conditions outside the Company's control could affect its future financial results.

Product liability claims may subject the Company to increased costs. Several of the products the Company sells, including perishable food and alcoholic beverage products may expose it to product liability claims in the event that the use or consumption of these products results in personal injury or property damage. Although the Company has not experienced any material losses due to product liability claims to date, it may be a party to product liability claims in the future and incur significant costs in their defense. Product liability claims often create negative publicity, which could materially damage the Company's reputation and its brands. Although the Company maintains insurance against product liability claims, its coverage may be inadequate to cover any liabilities it may incur.

The price at which the Company's Class A common stock will trade may be highly volatile and may fluctuate substantially. The stock market has from time to time experienced price and volume fluctuations that have affected the market prices of securities, particularly securities of companies with Internet operations. As a result, investors may experience a material decline in the market price of the Company's Class A common stock, regardless of the Company's operating performance. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. The Company may become involved in this type of litigation in the future. Litigation of this type is often expensive and diverts management's attention and resources and could have a material adverse effect on the Company's business and its results of operations.

Additional Information

The Company's internet address is www.1800flowers.com. We make available, through the investor relations tab located on our website at www.1800flowersinc.com, access to our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. All such filings on our investor relations website are available free of charge. (The information posted on the Company's website is not incorporated into this Annual Report on Form 10-K.)

A copy of this Annual Report on Form 10-K is available without charge upon written request to: Investor Relations, 1-800-FLOWERS.COM, Inc., One Old Country Road, Suite 500, Carle Place, NY 11514. In addition, the SEC maintains a website (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1B. Unresolved Staff Comments

We have received no written comments regarding our current or periodic reports from the staff of the SEC that were issued 180 days or more preceding the end of our fiscal year ended July 3, 2016 that remain unresolved.

Item 2. PROPERTIES

The table below lists the Company’s properties at July 3, 2016:

Location	**Type**	**Principal Use**	**Square Footage**	**Ownership**
Melrose Park, IL	Office and warehouse	Distribution, administrative and customer service	250,000	leased
McCook, IL	Warehouse	Distribution - Holiday storage	200,000	leased
Carle Place, NY	Office	Headquarters	80,500	

leased

Boston, MA

Fulfillment Center

Distribution

13,000

leased

Fort Lauderdale, FL

Fulfillment Center

Distribution

10,000

leased

Memphis, TN

Warehouse

Distribution

40,000

leased

New York, NY

Office

Administrative

3,700

leased

Bethpage, NY

Warehouse

Storage

500

leased

Miami, FL

Office

Administrative

900

leased

Reno, NV

Warehouse

Distribution

70,000

leased

Obetz, OH

Warehouse

Distribution

176,000

leased

Obetz, OH

Warehouse

Storage - Holiday

66,000

leased

Westerville, OH

Office, plant and warehouse

Manufacturing, distribution and administrative

86,000

owned

Maple Heights, OH

Warehouse

Distribution

276,000

leased

Western Avenue, IL

Warehouse

Distribution

40,000

leased

North Lake, IL

Warehouse

Distribution

78,000

leased

North Canton, OH

Office, plant and warehouse

Manufacturing, distribution and administrative

225,000

leased

Cedar Falls, IA

Office

Administrative

3,300

leased

Central Point, OR

Warehouse

Storage

17,000

leased

Hebron, OH

Office, plant and warehouse

Manufacturing, distribution and administrative

330,900

owned

Jackson County, OR

Orchards

Farming

41 (acres)

leased

Jackson County, OR

Orchards

Farming

1684 (acres)

owned

Jackson County, OR

Land

Fallow land

1677 (acres)

owned

Medford, OR

Office, plant and warehouse

Manufacturing, distribution and administrative

1,103,000

owned

Medford, OR

Warehouse

Storage

375,800

leased

Atlanta, GA

Showroom

Showroom

7,800

leased

Jacksonville, FL

Office and warehouse

Distribution and administrative

180,000

owned

Lake Forest, IL

Office, plant and warehouse

Manufacturing, distribution and administrative

148,000

leased

In addition to the above properties, the Company leases approximately 313,000 square feet for owned or franchised retail stores with lease terms typically ranging from 2 to 20 years. Some of its leases provide for a minimum rent plus a percentage rent based upon sales after certain minimum thresholds are achieved. The leases generally require the

Company to pay insurance, utilities, real estate taxes and repair and maintenance expenses. In general, our properties are well maintained, adequate and suitable for their purposes.

Item 3. LEGAL PROCEEDINGS

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

Edible Arrangements:

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

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

Following extensive discovery, the parties engaged in mediation and reached an agreement in principle to resolve all claims on June 30, 2016. The parties entered a Confidential Settlement Agreement on July 22, 2016, pursuant to which, among other things, the Company paid $1.5 million to Edible Arrangements and the Company agreed not to use “Edible”, “Edible Arrangements” or “Do Fruit’ in its marketing, except that the Company may refer to “Edible Arrangements” to comment on or compare the Company’s products to those of “Edible Arrangements”. The Company maintains its rights to market its products as “Fruit Bouquets” and “Bouquets,” and to the continued use of its branding of

"Fruit Bouquets.com" and Fruit Bouquets by 1800Flowers.com. In addition, all claims and counterclaims in the case were dismissed with prejudice. The Company recorded the settlement paid to Edible Arrangements in the "General and administrative expense" line item in the consolidated statements of income for the year ended July 3, 2016.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following individuals were serving as executive officers of the Company and certain of its subsidiaries on September 16, 2016:

Name	Age	Position with the Company
James F. McCann	65	Executive Chairman of the Board
Christopher G. McCann	55	Chief Executive Officer, Director and President
Arnie Leap	48	Senior Vice President and Chief Information Officer

Gerard M. Gallagher

63

Senior Vice President, General Counsel and Corporate Secretary

Mark L. Nance

66

President, BloomNet

William E. Shea

57

Senior Vice President, Treasurer and Chief Financial Officer

David Taiclet

53

President, Gourmet Foods and Gift Baskets

Thomas Hartnett

53

President, Consumer Floral

James F. McCann has served as the Company's Chairman of the Board since inception and was the Chief Executive Officer from inception until June 2016. Mr. McCann has been in the floral industry since 1976 when he began a retail chain of flower shops in the New York metropolitan area. Mr. McCann is chairman of the board of directors of Willis Holdings Group and is a director on the board of directors for International Game Technology PLC and The Scotts Miracle-Gro Company. James F. McCann is the brother of Christopher G. McCann, a Director, President and the Chief Executive Officer of the Company. Effective June 30, 2016, Mr. J. McCann transitioned to Executive Chairman and will continue to be involved with the Company, overseeing its management talent evaluation and development, M&A and business development and long-term strategic planning.

Christopher G. McCann has added the title of the Company’s Chief Executive Officer as of June 2016. Mr. McCann has been the Company's President since September 2000 and prior to that had served as the Company's Senior Vice President. Mr. McCann has been a Director of the Company since inception. Mr. McCann is a member of the Board of Trustees of Marist College. Christopher G. McCann is the brother of James F. McCann, the Company's Executive Chairman of the Board.

Arnie Leap has been the Company’s Chief Information Officer since November 2013. Mr. Leap served as the Executive Vice President and Chief Technology Officer for Direct Insite Corp. from November 2000 until joining the Company. Mr. Leap served in various positions with Direct Insite, including the Executive Vice President Channel Sales and Executive Vice President Sales and Marketing. Mr. Leap's background includes senior management positions with over 20 years experience in the technology sector.

Gerard M. Gallagher has been the Company’s Senior Vice President, General Counsel and Corporate Secretary since August 1999 and has been providing legal services to the Company since its inception. Mr. Gallagher is the founder and a managing partner in the law firm Gallagher, Walker, Bianco and Plastaras, based in Mineola, New York, specializing in corporate, litigation and intellectual property matters since 1993. Mr. Gallagher is duly admitted to practice before the New York State Courts and the United States District Courts of both the Eastern District and Southern District of New York.

Mark L. Nance has been President of BloomNet since August 2006. Before holding his current position, Mr. Nance was a Senior Vice President, Sales and Marketing for BloomNet after joining us in December 2004. Before joining us, Mr. Nance was an Executive Vice President and General Manager with Teleflora, LLC from November 2000 until June 2004 and held various senior level positions at American Floral Services, Inc. from 1983 to 2000.

William E. Shea has been the Company’s Senior Vice President, Treasurer and Chief Financial Officer since September 2000. Before holding his current position, Mr. Shea was Vice President of Finance and Corporate Controller after joining the Company in April 1996. From 1980 until joining the Company, Mr. Shea was a certified public accountant with Ernst & Young LLP.

David Taiclet has been the Company’s President of Gourmet Foods and Gift Baskets since June 2009. Mr. Taiclet served as Chief Executive Officer of the Fannie May Confections Brands from April 2006 to June 2009. Prior thereto and commencing in January 1995, Mr. Taiclet was a Co-Founder of a business that ultimately became known as Fannie May Confections Brands, Inc. (formerly Alpine Confections, Inc.), a multi-branded and multi-channel retailer, manufacturer, and distributor of confectionery and specialty food products. From May 1991 to January 1995, Mr. Taiclet served in a variety of management positions with Cargill, Inc., including the Strategy and Business Development Group. Cargill, Inc. is an international marketer, processor and distributor of food, financial and industrial products. Mr. Taiclet also served four years of active duty in the U.S. Army, attaining the rank of Captain.

Thomas Hartnett has been the Company’s President of Consumer Floral since October 2013. Previously, he was the Company's SVP and CFO of the Consumer Floral Brand since April 2010. Mr. Hartnett had previously served as the Company's SVP and COO of the Consumer Floral Brand from June 2006 through April 2010. Prior to this role, Mr. Hartnett was Senior Vice President of Retail and Fulfillment from September 2000. Before holding these positions, Mr. Hartnett held various positions within the Company since joining in 1991, including Controller, Director of Store Operations, Vice President of Retail Operations and Vice President of Strategic Development. Prior to joining the Company, Mr. Hartnett was a certified public accountant with Ernst & Young LLP.

PART II

Item 5.

MARKET FOR REGISTRANT’S 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 3, 2016 and June 28, 2015.

	High	Low
Year ended July 3, 2016		
June 29, 2015 – September 27, 2015	$ 10.90	$ 7.92
September 28, 2015 – December 27, 2015	$ 10.88	$ 6.80
December 28, 2015 – March 27, 2016	$ 8.42	$ 6.11
March 28, 2015 – July 3, 2016		

$ 8.38 $ 6.74

Year ended June 28, 2015

June 30, 2014 – September 28, 2014

$ 7.49 $ 4.96

September 29, 2014 – December 28, 2014

$ 9.31 $ 7.12

December 29, 2014 – March 29, 2015

$ 13.46 $ 7.05

March 30, 2015 – June 28, 2015

$ 13.19 $ 9.36

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 2016, 4,047,040 shares of Class B common stock were converted into shares of Class A common stock.

Holders

As of September 1, 2016, there were approximately 255 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 1, 2016, there were approximately 8 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. In June 2015, the Company's Board of Directors authorized an increase of $25 million to its stock repurchase plan. The Company repurchased a total of $15.2 million (1,714,550 shares), $8.4 million (1,056,038 shares) and $8.3 million (1,561,206 shares) during the fiscal years ended July 3, 2016, June 28, 2015 and June 29, 2014, respectively, under this program. As of July 3, 2016, $12.0 million remains authorized under the plan.

The following table sets forth, for the months indicated, the Company's purchase of common stock during the fiscal year ended July 3, 2016, which includes the period June 29, 2015 through July 3, 2016:

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)

(in thousands, except average price paid per share)

$ 27,273 06/29/15

-

07/26/15 69.8 $ 10.40 69.8 $ 26,543 07/27/15

-

08/30/15 125.0 $ 9.86 125.0 $ 25,307 08/31/15

-

09/27/15 320.6 $ 8.56 320.6 $ 22,554 09/28/15

-

10/25/15 137.4 $ 9.50 137.4 $ 21,244 10/26/15

-

11/29/15 454.5 $ 9.87 454.5 $ 16,753 11/30/15

-

12/27/15 89.6 $ 7.95 89.5 $ 16,039 12/28/15

-

01/31/16 90.0 $ 6.92 90.0 $ 15,413 02/01/16

-

02/28/16 145.0 $ 7.56 145.0 $ 14,313 02/29/16

-

03/27/16 - - - $ 14,313 03/28/16

–

04/24/16 47.7 $ 7.63 47.7 $ 13,947 04/25/16

–

05/22/16	89.9	$ 7.65	89.9	$ 13,256	05/23/16
–					
07/03/16	145.0	$ 8.30	145.0	$ 12,048	
Total	1,714.6	$ 8.85	1,714.6		

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

26

Item 6. SELECTED FINANCIAL DATA

The selected consolidated statement of operations data for the years ended July 3, 2016, June 28, 2015 and June 29, 2014 and the consolidated balance sheet data as of July 3, 2016 and June 28, 2015, have been derived from the Company's audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated statement of operations data for the years ended June 30, 2013 and July 1, 2012, and the selected consolidated balance sheet data as of June 29, 2014, June 30, 2013 and July 1, 2012, are derived from the Company's audited consolidated financial statements which are not included in this Annual Report on Form 10-K.

The following tables summarize the Company's consolidated statement of income and balance sheet data. The Company acquired Harry & David in September 2014, 16 franchised stores from GB Chocolates in June 2014, iFlorist in December 2013 (subsequently disposed in October 2015), Pingg Corp. in May 2013 (subsequently disposed of in June 2015), Flowerama in August 2011, 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. On September 6, 2011, the Company completed the sale of certain assets of its wine fulfillment services business operated by its Winetasting Network subsidiary. 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 and 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 its wine fulfillment services business as a discontinued operation for fiscal 2012, and the results of the e-commerce and procurement businesses as discontinued operations for fiscal 2014, 2013 and 2012. 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 on Form 10-K.

Years ended

July 3, 2016

June 28, 2015

June 29, 2014

June 30, 2013

July 1, 2012

(in thousands, except per share data)

Consolidated Statement of Income Data:

Net revenues	$ 1,173,024	$ 1,121,506	$ 756,345	$ 735,497	$ 707,517
Cost of revenues	655,566	634,311	440,672	430,305	414,940
Gross profit	517,458	487,195	315,673	305,192	292,577
Operating expenses:					
Marketing and sales	318,175	299,801	194,847	186,720	181,199
Technology and development	39,234	34,745	22,518	21,700	20,426
General and administrative	84,383	85,908	54,754	52,188	51,474
Depreciation and amortization	32,384	29,124	19,848	18,798	19,540
Total operating expenses	474,176	449,578	291,967	279,406	272,639
Gain on sale of stores	-	-	-	-	3,789

Operating income

43,282 37,617 23,706 25,786 23,727

Interest expense, net

6,674 5,753 1,305 1,713 2,675

Other (income) expense, net

(14,839) 1,550 52 (722) (40)

Income from continuing operations before income taxes

51,447 30,314 22,349 24,795 21,092

Income tax expense from continuing operations

15,579 10,930 8,403 9,073 7,771

Income from continuing operations

35,868 19,384 13,946 15,722 13,321

Income (loss) from discontinued operations, net of tax

- - 729 (3,401) 4,325

Net income

35,868 19,384 14,675 12,321 17,646

Less: Net loss attributable to noncontrolling interest

(1,007) (903) (697) - -

Net income attributable to 1-800-FLOWERS.COM, Inc.

$ 36,875 $ 20,287 $ 15,372 $ 12,321 $ 17,646

Basic net income (loss) per common share attributable to 1-800-FLOWERS.COM, Inc.

From continuing operations

$ 0.57 $ 0.31 $ 0.23 $ 0.24 $ 0.21

From discontinued operations

- $ 0.00 $ 0.01 (0.05) 0.07

Basic net income per common share	$ 0.57	$ 0.31	$ 0.24	$ 0.19	$ 0.27
Diluted net income (loss) per common share attributable to 1-800-FLOWERS.COM, Inc.					
From continuing operations	$ 0.55	$ 0.30	$ 0.22	$ 0.24	$ 0.20
From discontinued operations	-	$ 0.00	$ 0.01	(0.05)	0.07
Diluted net income per common share	$ 0.55	$ 0.30	$ 0.23	$ 0.19	$ 0.27
Weighted average shares used in the calculation of net income (loss) per common share:					
Basic	64,896	64,976	64,035	64,369	64,697
Diluted	67,083	67,602	66,460	66,792	66,239

27

(in thousands)	As of July 3, 2016	June 28, 2015	June 29, 2014	June 30, 2013	July 1, 2012
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 27,826	$ 27,940	$ 5,203	$ 154	$ 28,854
Working capital	45,798	36,361	17,511	16,886	29,721
Total assets	506,514	501,946	267,569	250,073	262,213
Long-term liabilities					

	143,067	168,083	7,144	5,039	17,080
Total 1-800-FLOWERS.COM, Inc. stockholders' equity					
	242,586	208,449	183,228	169,271	161,748

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Business overview

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

The Company's BloomNet® international floral wire service (www.mybloomnet.net) provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably. The 1-800-FLOWERS.COM, Inc. "Gift Shop" also includes gourmet gifts such as premium, gift-quality fruits and other gourmet items from Harry & David® (1-877-322-1200 or www.harryanddavid.com), popcorn and specialty treats from The Popcorn Factory® (1-800-541-2676 or www.thepopcornfactory.com); cookies and baked gifts from Cheryl's® (1-800-443-8124 or www.cheryls.com); premium chocolates and confections from Fannie May® (www.fanniemay.com and www.harrylondon.com); gift baskets and towers from 1-800- Baskets.com® (www.1800baskets.com); premium English muffins and other breakfast treats from Wolferman's® (1-800-999-1910 or www.wolfermans.com); carved fresh fruit arrangements from FruitBouquets.com (www.fruitbouquets.com); and top quality steaks and chops from Stock Yards® (www.stockyards.com).

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. While consumers appear more upbeat about the economy, during the recent economic downturn, the demand for our products had been adversely affected by the reduction in consumer spending, and the Company expects that its revenues will continue to be closely tied to changes in consumer sentiment.

On September 30, 2014, the Company completed its acquisition of Harry & David Holdings, Inc. ("Harry & David"), a leading multi-channel specialty retailer and producer of branded premium gift-quality fruit, gourmet food products and other gifts marketed under the Harry & David®, Wolferman's® and Cushman's® brands.

During fiscal 2016, the Company was able to achieve a number of operational and financial milestones:

Integration of Harry & David - During fiscal 2016, the Company made significant progress towards achieving its primary goal of integrating Harry & David, whose iconic brands have helped transform the Company into a source for premier gifting, executing upon identified initiatives that have been estimated to achieve over $20.0 million of annual synergy savings within three years of the acquisition.

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 long-term growth, by completing the migration of all of the Company's brands onto the multi-brand website. This will provide the ability to enhance the customer experience by providing for cross-brand marketing and merchandising programs and ease of access to the Company's Celebrations suite of services, including Celebrations Passport free shipping, Rewards and Reminders membership programs.

Strengthening balance sheet and investment in business platforms - Throughout fiscal 2016, the Company continued its responsible stewardship of shareholders' capital, further strengthening its balance sheet by reducing long-term debt while continuing to invest in business platforms, category-leading mobile and social efforts, and the Company's innovate focus as a "first mover" in the fast evolving areas of artificial intelligence and conversational commerce.

However, there were also a number of significant headwinds that the Company had to address during fiscal 2016. While working to integrate Harry & David and achieve synergy savings, the Company was still dealing with both the operational and financial ramifications of its Fannie May warehouse fire. Although the entire enterprise came together and was able to return to full capabilities within 5 months of the fire, the Company experienced unforeseen longer term consequences on its revenue base, especially within the brand's e-commerce and retail channels. With the benefit of 20/20 hindsight, it appears that the negative impact on revenues from the fire continued to drag beyond the Company's initial estimates, well into fiscal 2016. While the pace of Fannie May's recovery was below expectations throughout the year, the Company was able to offset this impact to earnings as it recovered its inventory lost to the fire through its property and business interruption policies, recognizing a gain of $19.6 million upon settlement in the first quarter of fiscal 2016. In addition to the lingering effects of the fire, the Company effectively steered its way through the challenging date placement of Valentine's Day, which moved from Saturday in fiscal 2015, already a difficult date placement, to Sunday in fiscal 2016, recognized in the e-commerce floral industry as the worst date placement within the week. This shift presented not only logistical challenges related to Sunday deliveries, but also reduced overall demand as customers may forgo flowers in favor of other options such as dining out or going to the movies. Fiscal 2016 was also negatively impacted by a year-over-year reduction in store count, as well as significant increases in labor costs associated with the tightening employment market for seasonal workers and mandated minimum wage increases.

Recognizing the need to balance the Company's short and long-term operating and financial objectives, a key tenet of the Company's fiscal 2017 strategy, now that Harry & David has been substantially integrated, is to continue to focus on execution of its identified cost synergy savings opportunities, which are expected to generate annual savings in excess of $20.0 million by fiscal 2018, while now pursuing revenue generating synergies such as cross-brand marketing, mining of customer databases through our expanded suite of CRM tools and in business gift services and wholesale channels. Tempered by the continuing challenging economic climate, the Company expects consolidated revenue growth in the range of 4-to-5% during fiscal 2017. In terms of bottom-line results, the Company expects EBITDA growth in a range of 8-10%, and EPS growth in a range of 5-10%, compared with Adjusted EBITDA of $85.8 million and Adjusted EPS of $0.43 reported for fiscal 2016 (*Fiscal 2016 Adjusted EBITDA and Adjusted EPS exclude the impact of certain one-time costs – see Category Information below for details of the adjustments*).

Category Information

The following table presents the net revenues, gross profit and category contribution margin from each of the Company's business segments, as well as consolidated EBITDA and Adjusted EBITDA. As noted previously, the Company's e-commerce and procurement businesses of its Winetasting Network subsidiary, which had previously been included within its Gourmet Foods & Gift Baskets category, have been classified as discontinued operations and therefore excluded from category information below for fiscal 2014. (Due to certain one-time items, the following Non-GAAP reconciliation tables have been included within MD&A.)

Years Ended

Reported July 3, 2016

Harry & David Integration Costs

Litigation Settlement

Severance Costs

Adjusted July 3, 2016

Reported June 28, 2015

Impact of Warehouse Fire

Purchase Accounting Adjustment to Deferred Revenue

Purchase Accounting Adjustment for Inventory Fair Value Step-Up

Harry & David Acquisition Costs

Harry & David Integration Costs

Harry & David Severance Costs

Annualization of Acquisition of Harry & David

Adjusted June 28, 2015

Reported June 29, 2014

(dollars in thousands)

Net revenues:

1-800-Flowers.com Consumer Floral

$ 418,492 $ - $ - $ - $ 418,492 $ 422,199 $ - $ - $ - $ - $ - $ - $ - $ 422,199 $ 421,336

BloomNet Wire Service

85,483 85,483 85,968 350 - - - - - - 86,318 84,199

Gourmet Food & Gift Baskets

670,453 670,453 613,953 16,934 1,621 - - - - 29,393 661,901 251,990

Corporate

1,066 1,066 1,020 - - - - - - - 1,020 797

Intercompany eliminations

(2,470) (2,470) (1,634) - - - - - - - (1,634) (1,977)

Total net revenues

$ 1,173,024 $ - $ - $ - $ 1,173,024 $ 1,121,506 $ 17,284 $ 1,621 $ - $ - $ - $ - $ 29,393 $ 1,169,804 $ 756,345

Gross profit:

1-800-Flowers.com Consumer Floral

$ 170,536 $ - $ - $ - $ 170,536 $ 165,677 $ - $ - $ - $ - $ - $ - $ - $ 165,677 $ 164,792 40.8 % 40.8 % 39.2 % - - - - - - - 39.2 % 39.1 %

BloomNet Wire Service

48,169 48,169 47,924 70 - - - - - - 47,994 44,900 56.3 % 56.3 % 55.7 % - - - - - - - 55.6 % 53.3 %

Gourmet Food & Gift Baskets

297,782 297,782 272,690 6,745 1,621 4,760 - - - 12,701 298,517 105,092 44.4 % 44.4 % 44.4 % - - - - - - - 45.1 % 41.7 %

Corporate (a)

971 971 904 - - - - - - - 904 889 91.1 % 91.1 % 88.6 % - - - - - - - 88.6 % 111.5 %

Total gross profit

$ 517,458 $ - $ - $ - $ 517,458 $ 487,195 $ 6,815 $ 1,621 $ 4,760 $ - $ - $ - $ 12,701 $ 513,092 $ 315,673 44.1 % - - - 44.1 % 43.4 % 39.4 % - - - - 43.9 % 41.7 %

Category Contribution Margin:

1-800-Flowers.com Consumer Floral

$ 50,773 $ - $ - $ - $ 50,773 $ 43,529 $ - $ - $ - $ - $ - $ - $ - $ 43,529 $ 40,252

BloomNet Wire Service

30,629 30,629 29,398 70 - - - - - - 29,468 26,715

Gourmet Food & Gift Baskets

79,398 79,398 74,889 6,486 1,621 4,760 1,238 - 1,989 (7,441) 83,542 27,122

Category Contribution Margin Subtotal

160,800 - - - 160,800 147,816 6,556 1,621 4,760 1,238 - 1,989 (7,441) 156,539 94,089

Corporate (a)

(85,134) 828 1,500 1,437 (81,369) (81,075) - - - 2,910 3,039 468 (7,397) (82,055) (50,535)

EBITDA

75,666 828 1,500 1,437 79,431 66,741 6,556 1,621 4,760 4,148 3,039 2,457 (14,838) 74,484 43,554

Add: Stock-based compensation

6,343 6,343 5,962 - - - - - 5,962 4,664

EBITDA, excluding stock-based compensation

$ 82,009 $ 828 $ 1,500 $ 1,437 $ 85,774 $ 72,703 $ 6,556 $ 1,621 $ 4,760 $ 4,148 $ 3,039 $ 2,457 $ (14,838) $ 80,446 $ 48,218

31

Reconciliation of GAAP net income to Adjusted income attributable to 1-800-FLOWERS.COM, Inc.:

	Years Ended		
	July 3, 2016	**June 28, 2015**	**June 29, 2014**
(in thousands, except per share data)			
GAAP net income	$ 35,868	$ 19,384	$ 13,946
Less: Net loss attributable to noncontrolling interest	(1,007)	(903)	(697)
Income attributable to 1-800-FLOWERS.COM, Inc.	36,875	20,287	14,643
Adjustments to reconcile income attributable to 1-800-FLOWERS.COM, Inc. to Adjusted income attributable to 1-800-FLOWERS.COM, Inc.			
Add back: Annualization of net loss attributable to Harry & David		(18,812)	
Add back: Loss on sale/impairment of iFlorist	2,121		

Add back: Impairment of foreign equity investment

1,728

Add back: Litigation costs

1,500

Add back: Harry & David integration costs

828 3,039

Add back: Harry & David acquisition costs

4,148

Add back: Severance costs

1,437 2,457

Add back: Harry & David Purchase accounting adjustment to deferred revenue

1,621

Add: Purchase accounting adjustment for inventory fair value step-up

4,760

Add back: Impact of warehouse fire

6,556

Deduct: Gain from insurance recovery on warehouse fire

(19,611)

Income tax effect of adjustments

3,633 (1,369)

Adjusted income attributable to 1-800-FLOWERS.COM, Inc.

$ 28,511 $ 22,687 $ 14,643

GAAP income (loss) per common share attributable to 1-800-FLOWERS.COM, Inc.

Basic

$ 0.57 $ 0.31 $ 0.23

Diluted

$ 0.55 $ 0.30 $ 0.22

Adjusted income (loss) per common share attributable to 1-800-FLOWERS.COM, Inc.

Basic

$ 0.44 $ 0.35 $ 0.23

Diluted

$ 0.43 $ 0.34 $ 0.22

Weighted average shares used in the calculation of GAAP income and Adjusted income per common share attributable to 1-800-FLOWERS.COM, Inc

Basic

64,896 64,976 64,035

Diluted

67,083 67,602 66,460

Years Ended

Discontinued operations:

July 3, 2016

June 28, 2015

June 29, 2014

Net revenues from discontinued operations	$ -	$ -	$ 1,669
Gross profit from discontinued operations	$ -	$ -	$ 429
EBITDA from discontinued operations	$ -	$ -	$ (868)

32

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

	Years Ended		
	July 3, 2016	**June 28, 2015**	**June 29, 2014**
	(in thousands)		
Income attributable to 1-800-FLOWERS.COM, Inc.	$ 36,875	$ 20,287	14,643
Add:			
Interest expense and other, net	7,597	7,303	1,357
Depreciation and amortization	32,384	29,124	19,848

Income tax expense	15,579	10,930	8,403
Loss on sale/impairment of iFlorist	2,121		
Impairment of foreign equity investment	1,728		
Less:			
Net loss attributable to noncontrolling interest	1,007	903	697
Income tax benefit			
Gain from insurance recovery on warehouse fire	19,611		
EBITDA	75,666	66,741	43,554
Add: Impact of warehouse fire		6,556	
Add: Purchase accounting adjustment to deferred revenue		1,621	
Add: Purchase accounting adjustment for inventory fair value step-up		4,760	
Add: Litigation settlement	1,500		
Add: Acquisition costs		4,148	

Add: Integration costs

828 3,039

Add: Severance costs

1,437 2,457

Add: Harry & David Q1 2015 EBITDA loss (pre-acquisition: 3 months ended 9/28/14)

(14,838)

Adjusted EBITDA

79,431 74,484 43,554

Add: Stock-based compensation

6,343 5,962 4,664

Adjusted EBITDA, excluding stock-based compensation

$ 85,774 $ 80,446 48,218

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

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

Results of Operations

The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to June 30. Fiscal year 2016, which ended on July 3, 2016, consisted of 53 weeks, while fiscal years 2015 and 2014, which ended on June 28, 2015 and June 29, 2014, respectively, consisted of 52 weeks.

Net Revenues

Years Ended

July 3, 2016

% Change

June 28, 2015

% Change

June 29, 2014

(dollars in thousands)

Net revenues:

E-Commerce

$ 882,782 3.9 % $ 849,853 54.8 % $ 548,976

Other								
290,242	6.8 %	271,653	31.0 %	207,369	$ 1,173,024	4.6 %	$ 1,121,506	48.3 %	$ 756,345

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 3, 2016, net revenues increased 4.6% in comparison to the prior year, as a result of growth within the Gourmet Food and Gift Baskets segment due to the incremental revenue generated by Harry & David, which was acquired on September 30, 2014 (pre-acquisition revenues generated by Harry & David during the quarter ended September 28, 2014 was $29.4mm), the impact on prior year revenues of the Thanksgiving Day Fannie May warehouse fire (estimated to be $17.3mm), organic growth of 1-800-Flowers.com, Cheryl's and 1-800-Baskets wholesale gift business, and the impact of the 53rd week in fiscal 2016, partially offset by the impact of the Sunday date placement of Valentine's Day, and the dispositions of the iFlorist and Fine Stationery businesses in October 2015 and June 2015, respectively (which generated a combined $12.1 million of incremental revenues in the prior year), slower recovery by the Fannie May brand after the fire, and a year-over-year reduction in the Harry & David store count. Adjusted for the impact of the timing of the Harry & David acquisition and purchase accounting adjustments in fiscal 2015, and the estimated revenue lost as a result of the fire in 2015, pro forma net revenues increased 2.8% compared to the prior year.

During the year ended June 28, 2015, net revenues increased 48.3% in comparison to the prior year primarily as a result of the incremental revenue generated by Harry & David, which was acquired on September 30, 2014, as well as growth across all three of the Company's business segments. After adjusting for lost revenue associated with the Thanksgiving Day fire at the Company's Fannie May warehouse and distribution center, estimated to be $17.3 million during the year ended June 28, 2015, and for the impact of purchase accounting adjustments to reduce the acquired value of Harry & David's deferred revenue of $1.6 million during the year ended June 28, 2015, pro forma revenue increased by 50.8% during the year ended June 28, 2015. Excluding the impact of acquisitions, organic revenue, adjusted for the estimated lost revenue from the Fannie May warehouse fire, increased 2.8% during the year ended June 28, 2015, despite the loss of revenue from the shift in the Valentine's Day Holiday to a Saturday in fiscal 2015.

E-commerce revenues (combined online and telephonic sales channels) increased 3.9%, during the year ended July 3, 2016 compared to the prior year, due to growth within the Gourmet Food and Gift Baskets segment, as a result of the incremental revenue generated by Harry & David, which was acquired on September 30, 2014, the impact on prior year revenues of the Thanksgiving Day Fannie May warehouse fire, organic growth within the 1-800-Flowers.com Cheryl's brands, and the impact of the 53rd week, and partially offset by the impact of the dispositions of iFlorist and Fine Stationery in October 2015 and June 2015, respectively, and the anticipated decline in revenues due to the Sunday date placement of Valentine's Day. The Company fulfilled approximately 12.2 million e-commerce orders, with an average order value of $72.64, representing increases of 1.4% and 2.4%, respectively, compared to fiscal 2015.

E-commerce revenues increased by 54.8% during the year ended June 28, 2015, primarily as a result of the incremental e-commerce revenue generated by the recent acquisition of Harry & David, as well as organic growth from the Company's Gourmet Food and Gift Baskets segment, offset by the estimated loss of revenues from the warehouse fire. E-commerce revenues from the Consumer Floral segment were flat in comparison to fiscal 2014 as growth during the balance of the year was offset by a decline in Valentine's Day revenue resulting from the shift in the date placement of holiday from Friday in fiscal 2014 to Saturday in fiscal 2015. Reflecting the incremental sales from Harry & David, during fiscal 2015, the Company fulfilled approximately 12.0 million e-commerce orders, with an average order value of $70.87, representing increases of 31.5% and 17.9%, respectively, compared to fiscal 2014.

Other revenues, comprised of the Company's BloomNet Wire Service segment, as well as the wholesale and retail sales channels of its 1-800-Flowers.com Consumer Floral and Gourmet Food and Gift Baskets segments, increased by 6.8% and 31.0% during fiscal 2016 and fiscal 2015, respectively. The increase in fiscal 2016 was due to growth within the Gourmet Food and Gift Baskets segment, resulting from the incremental revenue generated by Harry & David, which was acquired on September 30, 2014, organic growth of Cheryl's and 1-800-Baskets wholesale gift business, and the impact on prior year revenues of the Thanksgiving 2014 Fannie May warehouse fire, partially offset by the Sunday date placement of Valentine's Day and a year-over-year reduction in the Harry & David store count. The increase in fiscal 2015 was primarily due to the addition of Harry & David's retail and wholesale operations, and to a lesser extent, growth within BloomNet, partially offset by the sales lost as a result of the Thanksgiving Day warehouse fire.

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, as well as iFlorist, a UK based e-commerce retailer of floral products (through the date of its disposition in October 2015), and Fine Stationery, an e-commerce retailer of stationery products (through the date of its disposition in June 2015). Net revenues during the fiscal year ended July 3, 2016 decreased 0.9% as a result of lower order volume resulting from the Sunday date placement of Valentine's Day, and the dispositions of iFlorist and Fine Stationery, partially offset by organic growth by the 1-800-Flowers.com brand and the impact of the 53rd week. Adjusted for the sale of iFlorist and Fine Stationery, net revenues in this segment grew 2.0% in fiscal 2016 compared to the prior year. Net revenues during the fiscal year ended June 28, 2015 increased 0.2% primarily due to the incremental volume provided by iFlorist, which was acquired in December 2013, offset by lower order volume resulting from the Saturday placement of Valentine's Day. Excluding the impact of the acquisition of iFlorist, revenue of the 1-800-Flowers.com Consumer Floral segment decreased by 0.2% in comparison to fiscal 2014.

The BloomNet Wire Service segment includes revenues from membership fees as well as other product and service offerings to florists. Net revenues during the fiscal year ended July 3, 2016 decreased 0.6% due to lower transaction and ancillary fee revenues as a result of unfavorable shop to shop order volume sent through the network due in part to the Sunday date placement of Valentine's Day, partially offset by increased revenue as a result of BloomNet initiatives including the annualization of a florist transaction program implemented in the 3rd quarter of fiscal 2015. Net revenues during the fiscal year ended June 28, 2015 increased 2.1%, as a result of higher membership and transaction fees, including the implementation of a new florist transaction program, and increased ancillary service revenue including directory advertising, partially offset by lower product sales as a result of decreased demand and the west coast dock strike.

The Gourmet Food & Gift Baskets segment includes the operations of Harry & David, Wolferman's, Stockyards, Cheryl's, Fannie May, Harry London, The Popcorn Factory and 1-800-Baskets/DesignPac. Revenue is derived from the sale of gourmet fruits, cookies, baked gifts, premium chocolates and confections, gourmet popcorn, gift baskets, and prime steaks and chops through the Company's e-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Harry & David, Cheryl's and Fannie May brand names, as well as wholesale operations. Net revenue during the fiscal year ended July 3, 2016 increased 9.2% in comparison to the prior year, as a result of the incremental revenue generated by Harry & David, which was acquired on September 30, 2014, and the impact on prior year revenues of the Thanksgiving Day Fannie May warehouse fire, organic growth of Cheryl's and 1-800-Baskets wholesale gift business, and the impact of the 53rd week. Adjusted for the impact of the timing of the Harry & David acquisition and purchase accounting adjustments in fiscal 2015, and the estimated revenue lost as a result of the fire in 2015, pro forma net revenues increased 1.3% compared to the prior year, as post-fire recovery of the Fannie May brand has been slower than originally anticipated. Net revenue during the fiscal year ended June 28, 2015 increased 143.6% in comparison to the prior year, driven primarily by the incremental revenue generated by Harry & David, which was acquired on September 30, 2014, complemented by strong organic e-commerce growth from Cheryl's and 1-800-Baskets, partially offset by reduced revenue from Fannie May due to the Thanksgiving Day warehouse fire. After adjusting for the estimated lost revenue from the warehouse fire, and for the impact of purchase accounting adjustments to reduce the acquired value of Harry & David's deferred revenue, pro forma revenue for the Gourmet Food & Gift Baskets segment increased 151.0% during the year ended June 28, 2015. Excluding the revenue contribution of Harry & David, Gourmet Food & Gift Baskets, revenue growth, adjusted for the estimated lost revenue from the Fannie May warehouse fire, increased 7.8% during the year ended June 28, 2015.

In fiscal 2017, the Company expects to grow revenues across all three of its business segments with consolidated revenue growth for the year anticipated to be in the range of 4-to-5 percent.

Gross Profit

	Years Ended				
	July 3, 2016	**% Change**	**June 28, 2015**	**% Change**	**June 29, 2014**
	(dollars in thousands)				
Gross profit	$ 517,458	6.2 %	$ 487,195	54.3 %	$ 315,673
Gross margin %	44.1 %		43.4 %		41.7 %

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

Gross profit increased 6.2% during the fiscal year ended July 3, 2016 in comparison to the prior year, primarily as a result of the incremental revenue and associated gross margins generated by Harry & David, which was acquired on September 30, 2014, the impact on prior year gross margin of the Thanksgiving Day Fannie May warehouse fire, organic revenue growth, the impact of the 53rd week, and sourcing and logistics synergy savings, partially offset by the impact of the Sunday date placement of Valentine's Day, the dispositions of the iFlorist and Fine Stationery businesses during October 2015 and June 2015, respectively (which generated $4.4 million of incremental gross margin in the prior year period), and a year-over-year reduction in Harry & David store count. Adjusted for the impact of the timing of the Harry & David acquisition and purchase accounting adjustments in fiscal 2015, and the estimated revenue lost as a result of the fire in 2015, pro forma gross profit decreased 0.2% compared to the prior year, as post-fire recovery of the Fannie May brand has been slower than originally anticipated. Gross margin percentage increased 70 basis points to 44.1% during the fiscal year ended July 3, 2016, primarily due benefits of enhanced sourcing and logistics, the mix of sales associated with the recovery from the warehouse fire, higher margins earned by Harry & David, and the dispositions of iFlorist and Fine Stationery businesses which carried lower gross margins. Adjusted for the impact of the Harry & David acquisition, and the lost revenue from the fire in the prior year, pro forma gross margin increased 20 basis points to 44.1%.

Gross profit increased 54.3% during the fiscal year ended June 28, 2015 in comparison to the prior year, primarily as a result of the incremental revenue and associated gross margins generated by Harry & David, which was acquired on September 30, 2014, as well as organic growth across all segments, partially offset by the impact of the revenues lost as a result of the Thanksgiving Day fire at the Company's Fannie May warehouse and distribution center. After adjusting for estimated lost gross profit from the warehouse fire of $6.8 million during the year ended June 28, and for the impact of Harry & David purchase accounting adjustments related to deferred revenue of $1.6 million and step-up of inventory to fair value of $4.8 million during the year ended June 28, 2015, gross profit during year ended June 28, 2015, increased by 58.5% in comparison to the prior year. Excluding the impact of acquisitions, organic gross profit, adjusted for the estimated lost revenue from the warehouse fire, increased 4.5% during the year ended June 28, 2015. Gross margin percentage increased 170 basis points to 43.4% during the fiscal year ended June 28, 2015 in comparison to the prior year, as a result of the aforementioned Harry & David acquisition, which earns higher margins due to its vertically integrated operations, as well as organic improvements across all business segments. After adjusting for the estimated lost gross profit from the warehouse fire for fiscal year ended June 28, 2015 and for the impact of Harry & David purchase accounting adjustments related to deferred revenue and step-up of inventory to fair value for fiscal year ended June 28, 2015, pro forma gross margin percentage increased to 43.9% for the fiscal year ended June 28, 2015. Excluding the impact of acquisitions, organic gross margin percentage, adjusted for the estimated lost revenue from the warehouse fire, was 42.3% during the fiscal year ended June 28, 2015.

The 1-800-Flowers.com Consumer Floral segment gross profit increased by 2.9% during the fiscal year ended July 3, 2016 in comparison to the prior year, while gross margin percentage increased 160 basis points to 40.8% due to the benefit of synergy savings, which reduced shipping costs, as well as sourcing improvements and reductions in discounts, which more than offset the loss of margin caused by the Sunday date placement of Valentine's Day and the dispositions of iFlorist and Fine Stationery in October 2015 and June 2015, respectively. The 1-800-Flowers.com Consumer Floral segment gross profit increased by 0.5% during the fiscal year ended June 28, 2015 in comparison to the prior year, due to the higher revenue, as described above. Excluding the impact of the acquisition of iFlorist, gross profit within the 1-800-Flowers.com Consumer Floral segment increased by 0.3%. Gross margin percentage increased 10 basis points to 39.2% during the fiscal year ended June 28, 2015 in comparison to the prior year as sourcing and logistics improvements were offset by lower margins earned by iFlorist.

BloomNet Wire Service segment's gross profit increased by 0.5% during the fiscal year ended July 3, 2016 in comparison to the prior year, while gross margin percentage increased 60 basis points, as a result of sales mix and lower rebates associated with the decline in shop-to-shop order volume. BloomNet Wire Service segment's gross profit increased by 6.7% and gross margin percentage increased 240 basis points during the fiscal year ended June 28, 2015, as a result of an increase in higher margin BloomNet membership, directory and transaction fees, as well as newly implemented transaction fees, offset in part by a reduction in lower margin wholesale product revenues.

The Gourmet Food & Gift Baskets segment gross profit increased by 9.2% during the fiscal year ended July 3, 2016 in comparison to the prior year, as a result of the incremental revenue and associated gross margins generated by Harry & David, which was acquired on September 30, 2014, the recovery from the Thanksgiving Day Fannie May warehouse fire, the organic revenue growth referenced above, and synergy savings related to logistics and sourcing, while gross margin percentage was consistent at 44%. Adjusted for the impact of the Harry & David acquisition and the lost revenue from the fire in the prior year, pro forma gross profit decreased by 0.2%, while gross margin percentage decreased 70 basis points to 44.4%, reflecting the difficulties encountered by Fannie May in its efforts to recover after the fire.

The Gourmet Food & Gift Baskets segment gross profit increased by 159.5% during the fiscal year ended June 28, 2015 in comparison to the prior year, driven primarily by the incremental revenue generated by Harry & David, which was acquired on September 30, 2014, and strong organic e-commerce growth from Cheryl's and 1-800-Baskets, partially offset by reduced revenue from Fannie May, due to the Thanksgiving Day warehouse fire. After adjusting for estimated lost gross profit from the warehouse fire of $6.7 million during the year ended June 28, 2015 and for the impact of Harry & David purchase accounting adjustments related to deferred revenue of $1.6 million and step-up of inventory to fair value of $4.8 million during the year ended June 28, 2015, gross profit during the year ended June 28, 2015 increased by 172.0% in comparison to fiscal 2014. Excluding the impact of acquisitions, organic gross profit, adjusted for the estimated lost revenue from the warehouse fire, increased 9.7% during the year ended June 28, 2015. Gross margin percentage increased 270 basis points during the year ended June 28, 2015 to 44.4% as a result of the Harry & David acquisition, which earns higher margins due to its vertically integrated operations, and due to the timing of the acquisition which excluded the first quarter of Harry & David's operations which carries a lower gross margin due to the seasonality of its business, as well as productivity improvements across all brands within the segment. After adjusting for the estimated lost gross profit from the warehouse fire for the year ended June 28, 2015 and for the impact of Harry & David purchase accounting adjustments related to deferred revenue and step-up of inventory to fair value for year ended June 28, 2015, pro forma gross margin percentage increased 350 basis points to 45.2%. Excluding the impact of the acquisition of Harry & David, organic gross margin percentage, adjusted for the estimated lost revenue from the warehouse fire, increased 70 basis points to 42.4% during the year ended June 28, 2015.

In fiscal 2017, the Company expects its gross profit to improve relative to sales growth, as gross margin percentage in fiscal 2017 is expected to be consistent with fiscal 2016.

Marketing and Sales Expense

	Years Ended				
	July 3, 2016	**% Change**	**June 28, 2015**	**% Change**	**June 29, 2014**
(dollars in thousands)					
Marketing and sales	$ 318,175	6.1 %	$ 299,801	53.9 %	$ 194,847
Percentage of sales	27.1 %		26.7 %		25.8 %

37

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 expenses increased 6.1% (27.1% as a percentage of revenues) during the fiscal year ended July 3, 2016 compared to the prior year (26.7% as a percentage of revenues) primarily due to the incremental marketing expenses of Harry & David, which was acquired on September 30, 2014. During the fiscal year ended June 28, 2015, marketing and sales expenses increased 53.9% in comparison to the prior year primarily as a result of the incremental spend due to the acquisitions of Harry & David on September 30, 2014, as well as higher labor and facility costs associated with an increase in Fannie May store count. Adjusted for the impact of the Harry & David acquisition and the warehouse fire in the prior year, pro forma marketing and sales expense as a percentage of revenues was consistent with the prior year ratio. The increase in marketing and sales as a percentage of net revenues during the year ended June 28, 2015 was due to the impact of the Harry & David acquisitions, combined with the impact of the warehouse fire. Excluding the impact of the acquisitions, organic marketing and sales as a percentage of net revenues, adjusted for the estimated lost revenue from the warehouse fire, was 25.9% during the year ended June 28, 2015, comparable with the prior year.

During the fiscal year ended July 3, 2016, the Company added approximately 3.5 million new e-commerce customers, compared to 3.5 million in fiscal 2015, and 2.4 million in fiscal 2014. Approximately 49% of customers who placed e-commerce orders during fiscal 2016 were repeat customers compared to 50% in fiscal 2015 and 49% in fiscal 2014.

Technology and Development Expense

Years Ended

July 3, 2016

% Change

June 28, 2015

% Change

June 29, 2014

(dollars in thousands)

Technology and development

$ 39,234 12.9 % $ 34,745 54.3 % $ 22,518

Percentage of sales

3.3 % 3.1 % 3.0 %

Technology and development expense consists primarily of payroll and operating expenses of the Company's information technology group, costs associated with its websites, including hosting, design, content development and maintenance and support costs related to the Company's order entry, customer service, fulfillment and database systems.

Technology and development expenses increased 12.9% (3.3% as a percentage of revenues) during the fiscal year ended July 3, 2016 compared to the prior year (3.1% as a percentage of revenues) primarily due to the incremental technology and development costs of Harry & David, which was acquired on September 30, 2014. Technology and development expenses increased 54.3% during the fiscal year ended July 3, 2016 compared to the prior year due to the technology and development costs of Harry & David, which was acquired on September 30, 2014. Adjusted for the impact of the Harry & David acquisition and the warehouse fire in the prior year, pro technology and development expense as a percentage of revenues was consistent with the prior year ratio. Technology spend as a percentage of net revenues increased to 3.1% during the fiscal year ended July 3, 2016, compared to the prior year. Excluding the impact of acquisitions, organic technology and development expense as a percentage of net revenues, adjusted for the estimated lost revenue from the warehouse fire, was 3.0% during the fiscal year ended June 28, 2015.

During the fiscal years ended July 3, 2016, June 28, 2015 and June 29, 2014, the Company expended $60.6 million, $52.1 million and $36.6 million, respectively, on technology and development, of which $21.4 million, $17.4 million and $14.1 million, respectively, has been capitalized.

General and Administrative Expense

	Years Ended				
	July 3, 2016	**% Change**	**June 28, 2015**	**% Change**	**June 29, 2014**
(dollars in thousands)					
General and administrative	$ 84,383	-1.8 %	$ 85,908	56.9 %	$ 54,754
Percentage of sales	7.2 %		7.7 %		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 1.8% (7.2% as a percentage of revenues) during the fiscal year ended July 3, 2016 in comparison to the prior year (7.7% as a percentage of revenues), as result of synergistic savings, integration expenses incurred in the prior year, and a decrease in performance based bonuses and integration expenses, partially offset by the incremental general and administrative expenses of Harry & David, which was acquired on September 30, 2014. General and administrative expense increased by 56.9% during the fiscal year ended June 28, 2015 in comparison to the prior year, as a result of incremental general and administrative expense of Harry & David, acquired on September 30, 2014, and the related acquisition and integration expenses of $9.6 million during the fiscal year ended June 28, 2015. Excluding the impact of acquisitions, organic general and administrative expense as a percentage of net revenues, adjusted for the estimated lost revenue from the warehouse fire, was 7.2% during the fiscal year ended June 28, 2015.

Depreciation and Amortization

Years Ended

July 3, 2016

% Change

June 28, 2015

% Change

June 29, 2014

(dollars in thousands)

Depreciation and amortization	$ 32,384	11.2 %	$ 29,124	46.7 %	$ 19,848
Percentage of sales	2.8 %		2.6 %		2.6 %

Depreciation and amortization expense increased by 11.2% during the fiscal year ended July 3, 2016 in comparison to the prior year, as a result of the incremental depreciation and amortization expenses of Harry & David, acquired on September 30, 2014, including the impact of the additional intangibles amortization, as well as a result of the Company's technology improvements. Depreciation and amortization expense increased by 46.7% during the fiscal year ended June 28, 2015 in comparison to the prior year, as a result of the incremental depreciation and amortization expenses of Harry & David, acquired on September 30, 2014, including the impact of the additional intangibles amortization.

Interest Expense, net

Years Ended				
July 3, 2016	**% Change**	**June 28, 2015**	**% Change**	**June 29, 2014**

(dollars in thousands)

Interest expense, net	$ 6,674	16.0 %	$ 5,753	340.8 %	$ 1,305

Interest expense, net consists primarily of interest expense and amortization of deferred financing costs attributable to the Company's credit facility (See Note 9. Long-Term Debt in Item 15 for details regarding the 2014 Credit Facility), net of income earned on the Company's available cash balances.

Interest expense, net increased 16.0% during the year ended July 3, 2016 in comparison to the prior year, as a result of the additional interest expense and deferred financing costs associated with the term debt used to finance the Harry & David acquisition, entered into on September 30, 2014 and the additional interest expense on the Company's revolver to fund the working capital requirements of Harry & David during the first quarter of the current fiscal year. Interest expense, net increased 340.8% during the fiscal year ended June 28, 2015 in comparison to the prior year, as a result of the additional interest expense associated with the Term Loan used to finance the Harry & David acquisition and related working capital requirements of Harry & David.

Other (income) expense, net

	Years Ended				
	July 3, 2016	**% Change**	**June 28, 2015**	**% Change**	**June 29, 2014**
	(dollars in thousands)				
Other (income) expense, net	$ (14,839)	1,057.4 %	$ 1,550	2,880.8 %	$ 52

Other (income) expense, net for the year ended July 3, 2016 consists primarily of a $19.6 million gain on insurance recoveries related to the Fannie May warehouse fire (see Note 18. Fire at the Fannie May Warehouse and Distribution Facility in Item 15 for details), offset by a $2.1 million impairment of iFlorist assets held for sale and loss on sale (see Note 4. Acquisitions and Dispositions in Item 15 for details), a $1.7 million impairment of the Company's investment in Flores Online (see Note 2. Significant Accounting Policies in Item 15 for details), and a $0.7 million impairment of cost method investments (see Note 2. Significant Accounting Policies in Item 15 for details).

Other (income) expense, net for the year ended June 28, 2015 consists primarily of losses on the sale of the Company's Fine Stationery ($0.5 million) and Pingg ($0.6 million) brands during June 2015, as well as losses from its equity interest in Flores Online, partially offset by an increase in investment income in the Company's Non-Qualified Deferred Compensation Plan.

Income Taxes

During the fiscal years ended July 3, 2016, June 28, 2015 and June 29, 2014, the Company recorded income tax expense from continuing operations of $15.6 million, $10.9 million and $8.4 million, respectively, resulting in an effective tax rate of 30.3%, 36.1% and 37.6%, respectively. The Company's effective tax rate 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.

At July 3, 2016 the Company's federal net operating loss carryforwards were $2.2 million, which if not utilized, will begin to expire in fiscal 2025. The federal net operating loss is subject to Section 382 limitations of $0.3 million per year. The Company's foreign net operating loss carryforward was $10.5 million, while the state net operating losses were $5.7 million, before federal benefit, which if not utilized, will begin to expire in fiscal 2017.

Discontinued Operations

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 and Gift Baskets business segment. The Company closed on the sale of its e-commerce and procurement businesses on December 31, 2013. The Company had originally estimated a loss of $2.3 million ($1.5 million, net of tax), which was provided for during the fourth quarter of fiscal 2013, but the loss was reduced to $1.0 million, upon finalization of terms and closing on the sale. As a result, the Company reversed $1.3 million ($0.8 million, net of tax) of its accrual for the estimated loss during the fiscal year ended June 29, 2014. The Company has classified the results of the e-commerce and procurement business of The Winetasting Network as a discontinued operation for fiscal 2014.

Results for discontinued operations are as follows:

Years Ended

(in thousands, except per share data)	**July 3, 2016**	**June 28, 2015**	**June 29, 2014**
Net revenues from discontinued operations	$ -	$ -	$ 1,669
Loss from discontinued operations, net of tax	$ -	$ -	$ (86)
Gain on sale of discontinued operations, net of tax	$ -	$ -	$ 815
Income from discontinued operations	$ -	$ -	$ 729

Quarterly Results of Operations

The following table provides unaudited quarterly consolidated results of operations for each quarter of fiscal years 2016 and 2015. 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. 3,

2016

Mar. 27,

2016

Dec. 27,

2015

Sep. 28,

2015

Jun. 28,

2015

Mar. 29,

2015

Dec. 28,

2014

Sep. 28,

2014

(in thousands, except per share data)

Net revenues:								
E-commerce (telephonic/online)	186,411	$ 179,413	$ 412,261	$ 104,697	$ 178,830	$ 177,903	$ 409,082	$ 84,038
Other	47,984	54,794	136,120	51,344	49,461	54,334	125,193	42,665
Total net revenues	234,395	234,207	548,381	156,041	228,291	232,237	534,275	126,703
Cost of revenues	133,750	137,486	295,798	88,532	130,156	136,915	293,850	73,390
Gross profit	100,645	96,721	252,583	67,509	98,135	95,322	240,425	53,313
Operating expenses:								
Marketing and sales	74,608	71,502	119,539	52,526	71,629	70,574	122,026	35,572
Technology and development								

	10,175	9,903	9,845	9,311	9,427	10,389	9,329	5,600
General and administrative								
	23,351	21,006	20,055	19,971	23,910	22,772	25,558	13,668
Depreciation and amortization								
	8,105	7,546	8,761	7,972	7,519	7,825	8,679	5,101
Total operating expenses								
	116,239	109,957	158,200	89,780	112,485	111,560	165,592	59,941
Operating income (loss)								
	(15,594)	(13,236)	94,383	(22,271)	(14,350)	(16,238)	74,833	(6,628)
Interest expense, net								
	1,382	1,239	2,162	1,891				
Other (income) expense, net								
	312	145	242	(15,538)	2,281	1,631	2,638	753
Income (loss) before income taxes								
	(17,288)	(14,620)	91,979	(8,624)	(16,631)	(17,869)	72,195	(7,381)
Income tax expense (benefit)								
	(6,234)	(5,494)	30,495	(3,188)	(5,866)	(7,056)	26,655	(2,803)
Net income (loss)								
	(11,054)	(9,126)	61,484	(5,436)	(10,765)	(10,813)	45,540	(4,578)
Less: Net loss attributable to noncontrolling interest								
	-	-	(55)	(952)	(26)	(318)	(231)	(328)
Net income (loss) attributable to 1-800-FLOWERS.COM, Inc.								
	$ (11,054)	$ (9,126)	$ 61,539	$ (4,484)	$ (10,739)	$ (10,495)	$ 45,771	$ (4,250)
Basic net income (loss) per common share attributable to 1-800-FLOWERS.COM, Inc.								

From continuing operations								
	$ (0.17)	$ (0.14)	$ 0.95	$ (0.07)	$ (0.16)	$ (0.16)	$ 0.71	$ (0.07)
From discontinued operations								
	-	-	-	-	-	-	-	-
Basic net income per common share								
	$ (0.17)	$ (0.14)	$ 0.95	$ (0.07)	$ (0.16)	$ (0.16)	$ 0.71	$ (0.07)
Diluted net income (loss) per common share attributable to 1-800-FLOWERS.COM, Inc.								
From continuing operations								
	$ (0.17)	$ (0.14)	$ 0.92	$ (0.07)	$ (0.16)	$ (0.16)	$ 0.68	$ (0.07)
From discontinued operations								
	-	-	-	-	-	-	-	-
Diluted net income per common share								
	$ (0.17)	$ (0.14)	$ 0.92	$ (0.07)	$ (0.16)	$ (0.16)	$ 0.68	$ (0.07)
Weighted average shares used in the calculation of net income (loss) per common share:								
Basic								
	65,376	64,687	64,669	64,825	65,188	64,909	64,443	63,948
Diluted								
	65,376	64,687	66,979	64,825	65,188	64,909	67,061	63,948

The Company’s quarterly results may experience seasonal fluctuations – see the Seasonality section in Item 1 for details.

Refer above to the Results of Operations section in Item 7 for a discussion of significant events and transactions.

Liquidity and Capital Resources

Cash Flows

At July 3, 2016, the Company had working capital of $45.8 million, including cash and cash equivalents of $27.8 million, compared to working capital of $31.5 million, including cash and cash equivalents of $27.9 million at June 28, 2015.

41

Net cash provided by operating activities of $57.7 million for the fiscal year ended July 3, 2016 was primarily related to net income, adjusted for non-cash charges for depreciation and amortization, stock-based compensation, deferred income taxes, bad debt expense and the impairments/sale of iFlorist and foreign equity investments, partially offset by working capital changes primarily related to timing of collection of trade receivables (net of the collection of the Fannie May fire insurance settlement), inventory build to restore Fannie May product levels, and decreases in accounts payable and accrued expenses, primarily related to the timing of year end resulting from the 53rd week in fiscal 2016.

Net cash used in investing activities of $33.9 million was attributable to capital expenditures related to the Company's technology infrastructure, as well as improvements and equipment purchases within the Gourmet Food & Gift Baskets segment. Fiscal 2017 capital spending is expected to be consistent with fiscal 2016.

Net cash used in financing activities of $23.9 million for the fiscal year ended July 3, 2016 was for term debt repayment on borrowings under the Company’s 2014 Credit Facility of $14.5 million, and the acquisition of $15.2 million of treasury stock, partially offset by proceeds from exercises of employee stock options of $3.5 million and excess tax benefits from stock based compensation of $2.4 million. As of July 3, 2016 there were no borrowings outstanding under the Company’s Revolver.

Credit Facility

See Note 9. Long-Term Debt in Item 15 for details regarding the 2014 Credit Facility.

Despite the current challenging economic environment, the Company believes that cash flows from operations along with available borrowings from its 2014 Credit Facility will be a sufficient source of liquidity. Due to the seasonal nature of the Company’s business, and its continued expansion into non-floral products, 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.

Stock Repurchase Program

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. In June 2015, the Company's Board of Directors authorized an increase of $25 million to its stock repurchase plan. The Company repurchased a total of $15.2 million (1,714,550 shares), $8.4 million (1,056,038 shares) and $8.3 million (1,561,206 shares) during the fiscal years ended July 3, 2016, June 28, 2015 and June 29, 2014, respectively, under this program. As of July 3, 2016, $12.0 million remains authorized under the plan.

Contractual Obligations

At July 3, 2016, 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 (including interest)

$ 125,278 $ 22,643 $ 52,417 $ 50,218

Operating lease obligations

121,873 19,671 32,083 21,338 48,781

Purchase commitments (*)

93,519 89,677 3,823 19 —

Unrecognized tax liabilities

1,157 946 211 —

Total

$ 341,827 $ 132,937 $ 88,534 $ 71,575 $ 48,781

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

42

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 2016 the Company performed a Step 0 analysis and determined that it is not "more likely than not" that the fair values of the reporting units were less than their carrying amounts. During fiscal years 2015 and 2014, the Company performed the two-step quantitative impairment test.

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.

Long-lived assets, such as definite-lived intangibles and property, plant and equipment 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 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. During fiscal years 2015 and 2014, the Company performed the two-step quantitative impairment test.

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.

Recent Accounting Pronouncements

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

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

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

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330)." The pronouncement was issued to simplify the measurement of inventory and changes the measurement from lower of cost or market to lower of cost and net realizable value. ASU 2015-11 is effective for the Company's fiscal year ending July 1, 2018. The adoption of ASU 2015-11 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In November 2015 the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes," which will require entities to present deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") as noncurrent in a classified balance sheet. The ASU simplifies the current guidance (ASC 740-10-45-4), which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet. The ASU is effective for the Company's fiscal year ending July 1, 2018, and interim periods within those annual periods. However, the FASB allowed early adoption of the standard, and therefore, the Company adopted this ASU as of December 27, 2015, and has reclassified all prior periods to be consistent with the requirements outlined in the ASU. The impact of the adoption was to reclassify and net $4.9 million of current deferred tax assets within long-term deferred tax liabilities, as of June 28, 2015.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The pronouncement requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. These changes become effective for the Company's fiscal year ending June 30, 2019. The adoption is not expected to have a significant impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” Under this guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for the Company’s fiscal year ending June 28, 2020. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In March 2016 the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting.” ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, including recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. ASU No. 2016-09 is effective for the Company’s fiscal year ending July 1, 2018. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

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

Item 7A. 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 $0.7 million during year ended July 3, 2016.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Annual Financial Statements: See Part IV, Item 15 of this Annual Report on Form 10-K.

Selected Quarterly Financial Data: See Part II, Item 7 of this Annual Report on Form 10-K.

Item 9.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

N/A

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of July 3, 2016. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures were effective as of July 3, 2016.

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 3, 2016..

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 3, 2016. BDO USA, LLP’s report on the effectiveness of the Company's internal control over financial reporting as of July 3, 2016 is set forth below.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

1-800-Flowers.com, Inc.

Carle Place, NY

We have audited 1-800-Flowers.com, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of July 3, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). 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 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, 1-800-Flowers.com, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of July 3, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of 1-800-Flowers.com, Inc. and subsidiaries as of July 3, 2016 and June 28, 2015, 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 3, 2016, and our report dated September 16, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Melville, New York

September 16, 2016

Item 9B. OTHER INFORMATION None. **PART III** **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE** The information to be set forth in the Proxy Statement for the 2016 annual meeting of stockholders is incorporated herein by reference. The Company maintains a Code of Business Conduct and Ethics, which is applicable to all directors, officers and employees on the Investor Relations-Corporate Governance tab of the Company's website at www.1800flowers.com. Any amendment or waiver to the Code of Business Conduct and Ethics that applies to our directors or executive officers will be posted on our website or in a report filed with the SEC on Form 8-K to the extent required by applicable law or the regulations of any exchange applicable to the Company. A copy of the Code of Business Conduct and Ethics is available without charge upon written request to: Investor Relations, 1-800-FLOWERS.COM, Inc., One Old Country Road, Suite 500, Carle Place, New York 11514. **Item 11. EXECUTIVE COMPENSATION** The information to be set forth in the Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated herein by reference. **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS** The information to be set forth in the Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated herein by reference. **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE** The information to be set forth in the Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated herein by reference **Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES** The information to be set forth in the Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

Item 15.

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Index to Consolidated Financial Statements:

(a) (2) Index to Financial Statement Schedules:

Schedule II- Valuation and Qualifying Accounts

S-1

All other information and financial statement schedules are omitted because they are not applicable, or required, or because the required information is included in the consolidated financial statements or notes thereto.

(a) (3) Index to Exhibits

Exhibits marked with an asterisk (*) are incorporated by reference to exhibits or appendices previously filed with the Securities and Exchange Commission, as indicated by the reference in brackets. All other exhibits are filed herewith. Exhibits 10.5, 10.6, 10.7, 10.8, 10.9, 10.10, 10.11, 10.13, 10.14, 10.15 10.16, 10.17, 10.21, 10.22 and 10.23 are management contracts or compensatory plans or arrangements.

Exhibit

Description

*3.1

Third Amended and Restated Certificate of Incorporation. (Registration Statement on Form S-1/A (No. 333-78985) filed on July 9, 1999, Exhibit 3.1)

*3.2

Amendment No. 1 to Third Amended and Restated Certificate of Incorporation. (Registration Statement on Form S-1/A (No. 333-78985) filed on July 22, 1999, Exhibit 3.2)

*3.3

Amended and Restated By-laws. (Registration Statement on Form S-1 (No 333-78985) filed on May 21, 1999, Exhibit 3.3)

*4.1

Specimen Class A common stock certificate. (Registration Statement on Form S-1/A (No. 333-78985 filed on July 9, 1999, Exhibit 4.1)

*4.2

See Exhibits 3.1, 3.2 and 3.3 for provisions of the Certificate of Incorporation and By-laws of the Registrant defining the rights of holders of Common Stock of the Registrant.

*10.4

(Reserved)

*10.5

Employment Agreement, effective as of July 1, 1999, between James F. McCann and 1-800-FLOWERS.COM, Inc. (Form S-1/A (No. 333-78985) filed on July 9, 1999, Exhibit 10.19)

*10.6

Amendment dated December 3, 2008 to Employment Agreement between James F. McCann and 1-800-FLOWERS.COM, Inc. (Quarterly Report on Form 10-Q filed on February 6, 2009, Exhibit 10.1)

*10.7

Employment Agreement, effective as of July 1, 1999, between Christopher G. McCann and 1-800-FLOWERS.COM, Inc. (Form S-1/A (No. 333-78985) filed on July 9, 1999, Exhibit 10.20)

*10.8

Amendment dated December 3, 2008 to Employment Agreement between Christopher G. McCann and 1-800-FLOWERS.COM, Inc. (Quarterly Report on Form 10-Q filed on February 6, 2009, Exhibit 10.2)

*10.9

2003 Long Term Incentive and Share Award Plan (as amended and restated as of October 22, 2009 and amended as of October 28, 2011) (Definitive Proxy filed on October 31, 2011 (No 111168049, Annex A))

*10.10

Section 16 Executive Officer's Bonus Plan (as amended and restated as of October 22, 2009) (Definitive Proxy filed on October 23, 2009 (No. 000-26841), Annex B)

*10.11

Employment Agreement, dated as of May 2, 2006, by and among 1-800-FLOWERS.COM, Inc., Fannie May Confections Brands, Inc. and David Taiclet. (Annual Report on Form 10-K for the fiscal year ended July 3, 2005 filed on September 15, 2006, Exhibit 10.8)

*10.12

Lease, dated May 20, 2005, between Treeline Mineola, LLC and 1-800-FLOWERS.COM, Inc. (Annual Report on Form 10-K for the fiscal year ended July 3, 2005 filed on September 15, 2005, Exhibit 10.26)

*10.15

Form of Restricted Share Agreement under 2003 Long Term Incentive and Share Award Plan. (Annual Report on Form 10-K for the fiscal year ended June 29, 2008 filed on September 12, 2008, Exhibit 10.15)

*10.16

Form of Incentive Stock Option Agreement under 2003 Long Term Incentive and Share Award Plan. (Annual Report on Form 10-K for the fiscal year ended June 29, 2008 filed on September 12, 2008, Exhibit 10.16)

*10.17

Form of Non-statutory Stock Option Agreement under 2003 Long Term Incentive and Share Award Plan. (Annual Report on Form 10-K for the fiscal year ended June 29, 2008 filed on September 12, 2008, Exhibit 10.17)

*10.19

Third Amended and Restated Credit Agreement dated as of April 10, 2013 among 1-800-Flowers.com, Inc., The Subsidiary Borrowers Party thereto, The Guarantors Party thereto, The Lenders Party thereto and J.P. Morgan Chase Bank, N.A., as Administrative Agent. (Current Report on Form 8-K filed on April 11, 2013, Exhibit 99.2)

*10.20

Credit Agreement dated as of September 30, 2014 among 1-800-Flowers.com, Inc., the Subsidiary Borrowers party thereto, and JP Morgan Chase Bank, N.A., as administrative agent (Quarterly Report on Form 10-Q filed on November 7, 2014, Exhibit 10.24)

*10.21

Form of Restricted Share Agreement under 2003 Long Term Incentive and Share Award Plan (Quarterly Report on Form 10-Q filed on February 10, 2012, Exhibit 10.20)

*10.22

Form of Performance Restricted Share Agreement under 2003 Long Term Incentive and Share Award Plan (Quarterly Report on Form 10-Q filed on February 10, 2012, Exhibit 10.21)

*10.23

Form of Non-Statutory Stock Option Agreement under 2003 Long Term Incentive and Share Award Plan (Quarterly Report on Form 10-Q filed on February 10, 2012, Exhibit 10.22)

21.1

Subsidiaries of the Registrant.

23.1

Consent of Independent Registered Public Accounting Firm.

31.1

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

31.2

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

32.1

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

101.INS

XBRL Instance Document

101.SCH

XBRL Taxonomy Extension Schema Document

101.CAL

XBRL Taxonomy Calculation Linkbase Document

101.DEF

XBRL Taxonomy Extension Definition Linkbase Document

101.DEF

XBRL Taxonomy Extension Label Document

101.DEF

XBRL Taxonomy Definition Presentation Document

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: September 16, 2016

1-800-FLOWERS.COM, Inc.

By: /s/ Christopher G. McCann

Christopher G. McCann

Chief Executive Officer

Director, President

(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated below:

Dated: September 16, 2016

By: /s/ Christopher G. McCann

Christopher G. McCann

Chief Executive Officer

Director, President

(Principal Executive Officer)

Dated: September 16, 2016

By: /s/ William E. Shea

William E. Shea

Senior Vice President, Treasurer and

Chief Financial Officer (Principal

Financial and Accounting Officer)

Dated: September 16, 2016

By: /s/ James F. McCann

James F. McCann

Executive Chairman

Dated: September 16, 2016

By: /s/ Geralyn R. Breig

Geralyn R. Breig

Director

Dated: September 16, 2016

By: /s/ Lawrence Calcano

Lawrence Calcano

Director

Dated: September 16, 2016

By: /s/ James A. Cannavino

James A. Cannavino

Director

Dated: September 16, 2016

By: /s/ Eugene F. DeMark

Eugene F. DeMark

Director

Dated: September 16, 2016

By: /s/ Leonard J. Elmore

Leonard J. Elmore

Director

Dated: September 16, 2016

By: /s/ Sean Hegarty

Sean Hegarty

Director

Dated: September 16, 2016

By: /s/ Larry Zarin

Larry Zarin

Director

Dated: September 16, 2016

By: /s/ Celia R. Brown

Celia R. Brown

Director

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

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

Carle Place, NY

We have audited the accompanying consolidated balance sheets of 1-800-FLOWERS.COM, Inc. and Subsidiaries as of July 3, 2016 and June 28, 2015 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 3, 2016. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule listed in the accompanying index. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of 1-800-FLOWERS.COM, Inc. and Subsidiaries at July 3, 2016 and June 28, 2015, and the results of their operations and their cash flows for each of the three years in the period ended July 3, 2016, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), 1-800-FLOWERS.COM, Inc. and Subsidiaries internal control over financial reporting as of July 3, 2016, 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 16, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Melville, New York

September 16, 2016

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

Consolidated Balance Sheets

(in thousands, except share data)

	July 3, 2016	**June 28, 2015**
Assets		
Current assets:		
Cash and cash equivalents	$ 27,826	$ 27,940
Trade receivables, net	19,123	16,191
Insurance receivable	-	2,979
Inventories	103,328	93,163
Prepaid and other	16,382	14,822
Total current assets		

	166,659	155,095
Property, plant and equipment, net	171,362	170,100
Goodwill	77,667	77,097
Other intangibles, net	79,000	82,125
Other assets	11,826	12,656
Total assets	$ 506,514	$ 497,073
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 35,201	$ 35,425
Accrued expenses	66,066	73,639
Current maturities of long-term debt	19,594	14,543
Total current liabilities	120,861	123,607
Long-term debt	97,969	117,563
Deferred tax liabilities		

35,517 37,807

Other liabilities

9,581 7,840

Total liabilities

263,928 286,817

Commitments and contingencies (Note 17)

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, 48,846,449 and 42,875,291 shares issued in 2016 and 2015, respectively

488 429

Class B common stock, $.01 par value, 200,000,000 shares authorized, 35,263,004 and 39,310,044 shares issued in 2016 and 2015, respectively

353 393

Additional paid-in capital

331,349 319,108

Retained deficit

(11,403) (48,278)

Accumulated other comprehensive loss

(146) (371)

Treasury stock, at cost, 13,589,025 and 11,874,475 Class A shares in 2016 and 2015, respectively, and 5,280,000 Class B shares in 2016 and 2015

(78,055) (62,832)

Total 1-800-FLOWERS.COM, Inc. stockholders' equity

	242,586	208,449
Noncontrolling interest in subsidiary	-	1,807
Total equity	242,586	210,256
Total liabilities and equity	$ 506,514	$ 497,073

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statements of Income

(in thousands, except per share data)

	Years ended		
	July 3, 2016	**June 28, 2015**	**June 29, 2014**
Net revenues	$ 1,173,024	$ 1,121,506	$ 756,345
Cost of revenues	655,566	634,311	440,672
Gross profit	517,458	487,195	315,673
Operating expenses:			
Marketing and sales	318,175	299,801	194,847
Technology and development			

39,234 34,745 22,518

General and administrative

84,383 85,908 54,754

Depreciation and amortization

32,384 29,124 19,848

Total operating expenses

474,176 449,578 291,967

Operating income

43,282 37,617 23,706

Interest expense, net

6,674 5,753 1,305

Other (income) expense, net

(14,839) 1,550 52

Income from continuing operations before income taxes

51,447 30,314 22,349

Income tax expense from continuing operations

15,579 10,930 8,403

Income from continuing operations

35,868 19,384 13,946

Loss from discontinued operations, net of tax

- - (86)

Gain on sale of discontinued operations, net of tax

- - 815

Income from discontinued operations, net of tax

- - 729

Net income

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.

$ 36,875 $ 20,287 $ 15,372

Basic net income per common share attributable to 1-800-FLOWERS.COM, Inc.

From continuing operations

$ 0.57 $ 0.31 $ 0.23

From discontinued operations

- - $ 0.01

Basic net income per common share

$ 0.57 $ 0.31 $ 0.24

Diluted net income per common share attributable to 1-800-FLOWERS.COM, Inc.

From continuing operations

$ 0.55 $ 0.30 $ 0.22

From discontinued operations

- - $ 0.01

Diluted net income per common share

$ 0.55 $ 0.30 $ 0.23

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

Basic

64,896 64,976 64,035

Diluted

67,083	67,602	66,460

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statements of Comprehensive Income

(in thousands)

	July 3, 2016	**June 28, 2015**	**June 29, 2014**
Net income	$ 35,868	$ 19,384	$ 14,675
Other comprehensive income/(loss) (currency translation)	252	(505)	(75)
Comprehensive income	36,120	18,879	14,600
Less:			
Net loss attributable to noncontrolling interest	(1,007)	(903)	(697)
Other comprehensive income (loss) (currency translation) attributable to noncontrolling interest	87	(180)	(29)
Comprehensive net loss attributable to noncontrolling interest	(920)	(1,083)	(726)

Comprehensive income attributable to 1-800-FLOWERS.COM, Inc.	$ 37,040	$ 19,962	$ 15,326

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statements of Stockholders' Equity

Years ended July 3, 2016, June 28, 2015 and June 29, 2014

(in thousands, except share data)

Total

Common Stock Additional Accumulated Other

1-800-

FLOWERS.

COM, Inc.

Class A

Class B

Paid-in

Retained

Comprehensive

Treasury Stock

Stockholders'

Noncontrolling

Total

Shares

Amount

Shares

Amount

Capital

Deficit

Loss

Shares

Amount

Equity

Interest

Equity

Balance at June 30, 2013

36,280,425 $ 362 42,125,465 $ 421 $ 298,580 $ (83,937) $ - 14,537,231 $ (46,155) **$ 169,271** - **$ 169,271**

Net income

- - - - - 15,372 - - - **15,372** (697) **14,675**

Translation adjustment

- - - - - - (46) - - **(46)** (29) **(75)**

Conversion of Class B stock into Class A stock

66,871 1 (66,871) (1) - - - - - **-** - **-**

Stock-based compensation

1,608,052 16 - - 4,648 - - - - **4,664** - **4,664**

Exercise of stock options

164,050 2 525 **527** - **527**

Excess tax benefit from stock-based compensation

- - - - 1,757 - - - - **1,757** - **1,757**

Acquisition of Class A treasury stock

- - - - - - - 1,561,206 (8,317) **(8,317)** - **(8,317)**

Noncontrolling interest

- - - - - - - - - **-** 3,616 **3,616**

Balance at June 29, 2014

38,119,398 381 42,058,594 420 305,510 (68,565) (46) 16,098,437 (54,472) **183,228** 2,890 **186,118**

Net income

- - - - - 20,287 - - - **20,287** (903) **19,384**

Translation adjustment

- - - - - - (325) - - **(325)** (180) **(505)**

Conversion of Class B stock into Class A stock

2,748,550 27 (2,748,550) (27) - - - - - **-** - **-**

Stock-based compensation

1,154,173 12 - - 5,950 - - - - **5,962** - **5,962**

Exercise of stock options

853,170 9 5,533 **5,542** - **5,542**

Excess tax benefit from stock-based compensation

- - - - 2,115 - - - - **2,115** - **2,115**

Acquisition of Class A treasury stock

- - - - - - - 1,056,038 (8,360) **(8,360)** - **(8,360)**

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**

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statements of Cash Flows

(in thousands)

Years ended

July 3, 2016

June 28, 2015

June 29, 2014

Operating activities:

Net income

$ 35,868 $ 19,384 $ 14,675

Reconciliation of net income to net cash provided by operating activities, net of acquisitions/dispositions:

Operating activities of discontinued operations

- - 1,587

Gain on sale of discontinued operations

- - (1,300)

Depreciation and amortization

32,384 29,124 19,848

Amortization of deferred financing costs

1,791 1,501 306

Deferred income taxes

(3,000) 2,471 1,454

Foreign equity investment impairment

2,278 - -

Loss on sale/impairment of iFlorist

1,990 - -

Non-cash impact of write-offs related to warehouse fire

- 29,522 -

Bad debt expense

1,278 1,295 1,656

Stock-based compensation

6,343 5,962 4,664

Excess tax benefit from stock-based compensation

(2,400) (2,550) (1,837)

Other non-cash items

517 1,439 755

Changes in operating items:

Trade receivables

(4,210) 8,331 (1,893)

Insurance receivable

2,979 (2,979) -

Inventories

(10,216) 26,390 (2,564)

Prepaid and other

(1,560) 8,047 436

Accounts payable and accrued expenses

(6,429) (2,235) 2,660

Other assets

(29) (1,058) (262)

Other liabilities

89 1,089 2,355

Net cash provided by operating activities

57,673 125,733 42,539

Investing activities:

Acquisitions, net of cash acquired

\- (131,994) (9,000)

Capital expenditures, net of non-cash expenditures

(33,938) (32,572) (22,985)

Other

\- 963 (3)

Investing activities of discontinued operations

\- - 500

Net cash used in investing activities

(33,938) (163,603) (31,488)

Financing activities:

Acquisition of treasury stock

(15,223) (8,360) (8,317)

Excess tax benefit from stock based compensation

2,400 2,550 1,837

Proceeds from exercise of employee stock options

3,517 5,542 527

Proceeds from bank borrowings

178,000 239,500 127,000

Repayment of notes payable and bank borrowings

(192,543) (172,983) (127,052)

Debt issuance costs

- (5,642) -

Other

3

Net cash (used in) provided by financing activities

(23,849) 60,607 (6,002)

Net change in cash and cash equivalents

(114) 22,737 5,049

Cash and cash equivalents:

Beginning of year

27,940 5,203 154

End of year

$ 27,826 $ 27,940 $ 5,203

Supplemental Cash Flow Information:

-

Interest paid amounted to $5.0 million, $4.3 million and $1.0 million, for the years ended July 3, 2016, June 28, 2015 and June 29, 2014, respectively.

-

The Company paid income taxes of approximately $13.4 million, $5.1 million and $7.0 million, net of tax refunds received, for the years ended July 3, 2016, June 28, 2015, and June 29, 2014, respectively.

See accompanying Notes to Consolidated Financial Statements.

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

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 gourmet food and floral gifts for all occasions. For the past 40 years, 1-800-FLOWERS® (1-800-356-9377 or www.1800flowers.com) has been helping deliver smiles for our customers with gifts for every occasion, including fresh flowers and the finest selection of plants, gift baskets, gourmet foods, confections, candles, balloons and plush stuffed animals. As always, our 100% Smile Guarantee® backs every gift.

The Company's BloomNet® international floral wire service (www.mybloomnet.net) provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably. The 1-800-FLOWERS.COM, Inc. "Gift Shop" also includes gourmet gifts such as premium, gift-quality fruits and other gourmet items from Harry & David® (1-877-322-1200 or www.harryanddavid.com), popcorn and specialty treats from The Popcorn Factory® (1-800-541-2676 or www.thepopcornfactory.com); cookies and baked gifts from Cheryl's® (1-800-443-8124 or www.cheryls.com); premium chocolates and confections from Fannie May® (www.fanniemay.com and www.harrylondon.com); gift baskets and towers from 1-800- Baskets.com® (www.1800baskets.com); premium English muffins and other breakfast treats from Wolferman's® (1-800-999-1910 or www.wolfermans.com); carved fresh fruit arrangements from FruitBouquets.com (www.fruitbouquets.com); and top quality steaks and chops from Stock Yards® (www.stockyards.com).

Note 2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of 1-800-FLOWERS.COM, Inc. and its subsidiaries (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. During fiscal 2016, 2015, and 2014 approximately 1%, 2%, and 2% respectively, of consolidated net revenue came from international sources.

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 and Gift Baskets business segment. The Company closed on the sale of its Winetasting Network business on December 31, 2013. The Company has classified the results of the e-commerce and procurement business of The Winetasting Network as a discontinued operation in fiscal 2014.

Fiscal Year

The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to June 30. Fiscal year 2016, which ended on July 3, 2016, consisted of 53 weeks, while fiscal years 2015 and 2014, which ended on June 28, 2015 and June 29, 2014, respectively, consisted of 52 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.

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

Notes to Consolidated Financial Statements

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	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.

F-8

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

Notes to Consolidated Financial Statements

During fiscal 2016 the Company performed a Step 0 analysis and determined that it is not “more likely than not” that the fair values of the reporting units were less than their carrying amounts. During fiscal years 2015 and 2014, the Company performed the two-step quantitative impairment test.

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 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. During fiscal years 2015 and 2014, the Company performed the two-step quantitative impairment test.

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.

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

Notes to Consolidated Financial Statements

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 $3.0million and $2.5million at July 3, 2016 and June 28, 2015 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 investments are comprised of a 32% interest in Flores Online, a Sao Paulo, Brazil based internet floral and gift retailer, that the Company made on May 31, 2012. The book value of this investment was $1.1 million as of July 3, 2016 and $2.9 million as of June 28, 2015, and is included in the "Other assets" line item within the Company's consolidated balance sheets. The Company's equity in the net income (loss) of Flores Online for the years ended July 3, 2016 and June 28, 2015 was $(0.1) million and $(0.3) million, respectively. During the quarter ended September 27, 2015, the Company determined that the fair value of its investment in Flores Online ($1.2 million) was below its carrying value ($2.9 million) and that this decline was other-than-temporary. As a result, the Company recorded an impairment charge of $1.7 million, which is included within the "Other (income) expense, net" line items in the Company's consolidated statements of income.

Investments in non-marketable equity instruments of private companies, where the Company does not possess the ability to exercise significant influence, are accounted for under the cost method. Cost method investments are originally recorded at cost, and are included within the "Other assets" line item within the Company's consolidated balance sheets. The aggregate carrying amount of the Company's cost method investments was $1.7 million as of July 3, 2016 (including a $1.5 million investment in Euroflorist – see Note 4) and $0.7 million as of June 28, 2015. During the quarter 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.

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

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

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 ($2.1 million at July 3, 2016 and $2.2 million at June 28, 2015) have been recorded based upon previous experience and management’s evaluation.

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

Notes to 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.

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 and promotional expenditures, 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 $133.1 million, $130.6 million and $83.0 million for the years ended July 3, 2016, June 28, 2015 and June 29, 2014, 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, less expected forfeitures, 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.

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

Notes to Consolidated Financial Statements

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 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 3, 2016 and June 28, 2015.

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. This guidance will be effective for the Company's fiscal year ending June 30, 2019 and may be applied retrospectively. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

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

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

Notes to Consolidated Financial Statements

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

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330).” The pronouncement was issued to simplify the measurement of inventory and changes the measurement from lower of cost or market to lower of cost and net realizable value. ASU 2015-11 is effective for the Company’s fiscal year ending July 1, 2018. The adoption of ASU 2015-11 is not expected to have a significant impact on the Company’s consolidated financial position or results of operations.

In November 2015 the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes,” which will require entities to present deferred tax assets (“DTAs”) and deferred tax liabilities (“DTLs”) as noncurrent in a classified balance sheet. The ASU simplifies the current guidance (ASC 740-10-45-4), which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet. The ASU is effective for the Company’s fiscal year ending July 1, 2018, and interim periods within those annual periods. However, the FASB allowed early adoption of the standard, and therefore, the Company adopted this ASU as of December 27, 2015, and has reclassified all prior periods to be consistent with the requirements outlined in the ASU. The impact of the adoption was to reclassify and net $4.9 million of current deferred tax assets within long-term deferred tax liabilities, as of June 28, 2015.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The pronouncement requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. These changes become effective for the Company's fiscal year ending June 30, 2019. The adoption is not expected to have a significant impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” Under this guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for the Company’s fiscal year ending June 28, 2020. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In March 2016 the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting.” ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, including recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. ASU No. 2016-09 is effective for the Company’s fiscal year ending July 1, 2018. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

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

Notes to Consolidated Financial Statements

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

Reclassifications

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

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 3, 2016

June 28, 2015

June 29, 2014

(in thousands, except per share data)

Numerator:

Income from continuing operations

$ 35,868 $ 19,384 $ 13,946

Less: Net loss attributable to noncontrolling interest

(1,007) (903) (697)

Income from continuing operations attributable to 1-800-FLOWERS.COM, Inc.

$ 36,875 $ 20,287 $ 14,643

Denominator:

Weighted average shares outstanding

64,896 64,976 64,035

Effect of dilutive securities:

Employee stock options (1)

1,294 1,561 1,083

Employee restricted stock awards

893 1,065 1,342 2,187 2,626 2,425

Adjusted weighted-average shares and assumed conversions

67,083 67,602 66,460

Net income per common share from continuing operations attributable to 1-800-FLOWERS.COM, Inc.

Basic			
	$ 0.57	$ 0.31	$ 0.23
Diluted			
	$ 0.55	$ 0.30	$ 0.22

Note (1): The effect of options to purchase 0.1 million, 0.1 million and 1.2 million shares for the years ended July 3, 2016, June 28, 2015 and June 29, 2014, respectively, were excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.

Note 4. Acquisitions and Dispositions

Acquisition of Harry & David

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

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

Notes to Consolidated Financial Statements

During the quarter ended June 28, 2015, the Company finalized the allocation of the purchase price to the identifiable assets acquired and liabilities assumed based on its estimates of their fair values on the acquisition date. The determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. The estimates and assumptions include the projected timing and amount of future cash flows and discount rates reflecting risk inherent in the future cash flows. Of the acquired intangible assets, $5.2 million was assigned to customer lists, which are being amortized over the estimated remaining lives of between 4 to 11 years, $35.5 million was assigned to trademarks, $1.1 million was assigned to leasehold positions and $16.0 million was assigned to goodwill, which is not expected to be deductible for tax purposes. The goodwill recognized in conjunction with our acquisition of Harry & David is primarily related to synergistic value created in terms of both operating costs and revenue growth opportunities, enhanced financial and operational scale, and other strategic benefits. It also includes certain other intangible assets that do not qualify for separate recognition, such as an assembled workforce.

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

Harry & David

Final Purchase Price Allocation

(in thousands)

Current assets	$ 126,268
Intangible assets	41,827
Goodwill	

	16,042
Property, plant and equipment	105,079
Other assets	(131)
Total assets acquired	289,085
Current liabilities, including short-term debt	104,513
Deferred tax liabilities	42,048
Other liabilities assumed	24
Total liabilities assumed	146,585
Net assets acquired	$ 142,500

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

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

F-15

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

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

Operating results of Harry & David are reflected in the Company's consolidated financial statements from the date of acquisition, within its Gourmet Food & Gift Baskets segment. Harry & David contributed net revenues of $359.7 million and operating income of approximately $24.6 million from September 30, 2014 through June 28, 2015. These amounts are not necessarily indicative of the results of operations that Harry & David would have realized had it continued to operate as a stand-alone company during the period presented due to integration activities since the acquisition date, and due to costs that are now reflected in the Company's unallocated corporate costs which are not allocated to Harry & David.

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

Notes to Consolidated Financial Statements

As required by ASC 805, “Business Combinations,” the following unaudited pro forma financial information for the year ended June 28, 2015, gives effect to the Harry & David acquisition as if it had been completed on July 1, 2013. The unaudited pro forma financial information is prepared by management for informational purposes only in accordance with ASC 805 and is not necessarily indicative of or intended to represent the results that would have been achieved had the acquisition been consummated as of the dates presented, and should not be taken as representative of future consolidated results of operations. The unaudited pro forma financial information does not reflect any operating efficiencies and/or cost savings that the Company may achieve with respect to the combined companies. The pro forma information has been adjusted to give effect to nonrecurring items that are directly attributable to the acquisition.

Years Ended

July 3, 2016

(Actuals)

June 28, 2015

(unaudited)

(Pro-forma)

June 29, 2014

(unaudited)

(Pro-forma)

Net revenues from continuing operations

$ 1,173,024 $ 1,152,103 $ 1,142,946

Income from continuing operations attributable to 1-800-FLOWERS.COM, Inc.

$ 36,875 $ 17,812 $ 19,439

Diluted net income per common share attributable to 1-800-FLOWERS.COM, Inc.

$ 0.55 $ 0.26 $ 0.29

The unaudited pro forma amounts above include the following adjustments:

(1)

An increase of net revenues and a decrease of cost of sales by $1.6 million and $4.8 million, to reflect the impact of purchase accounting adjustments related to Harry & David's deferred revenue and inventory fair value step-up in the year ended June 28, 2015.

(2)

A decrease of operating expenses by $17.4 million during the year ended June 28, 2015, to eliminate acquisition costs ($11.9 million during the year ended June 28, 2015), integration costs ($3.0 million during the year ended June 28, 2015) and severance costs ($2.5 million during the year ended June 28, 2015) directly related to the transaction.

(3)

A decrease of operating expenses by $0.4 million during the year ended June 29, 2014, to eliminate acquisition costs directly related to the transaction.

(4)

An increase of operating expenses by $0.2 million during the year ended June 29, 2014, to reflect the additional amortization expense related to the increase in definite lived intangibles.

(5)

An increase to interest expense by $1.1 million for the year ended June 28, 2015 to reflect the incremental impact of the 2014 Credit Facility utilized to finance the acquisition, assuming our new credit facility was in place on July 1, 2013.

(6)

The adjustments above were tax effected at the combined entity's assumed effective tax rate for the respective periods.

Acquisition of Fannie May retail stores

On June 27, 2014, the Company and GB Chocolates LLC (GB Chocolates) entered into a settlement agreement, resulting in the termination of the GB Chocolates franchise agreement, and its exclusive area development rights. As a result, in fiscal 2014, the Company recognized the previously deferred non-refundable area development fees of $0.7 million. In addition, per the terms of the non-performance Promissory Note, GB Chocolates paid $1.2 million as a result of its failure to complete its development obligations under the 2011 Area Development Agreement (the 2011 ADA). As a result, during the fourth quarter of fiscal 2014, the Company recognized revenue of $1.0 million ($0.2 million had been previously recognized). The Company has no plans to market the territories covered in the 2011 ADA.

In conjunction with the settlement agreement, the Company and GB Chocolates entered into an asset purchase agreement whereby the Company repurchased 16 of the original 17 Fannie May retail stores sold to GB Chocolates in November 2011. The acquisition was accounted for using the purchase method of accounting in accordance with FASB guidance regarding business combinations. The purchase price of $6.4 million was financed utilizing available cash balances.

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

Notes to Consolidated Financial Statements

During the quarter ended June 28, 2015, the Company finalized the allocation of the purchase price to the identifiable assets acquired and liabilities assumed based on our estimates of their fair values on the acquisition date. There have been no measurement period adjustments. The following table summarizes the final allocation of the purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition:

	Final Purchase Price Allocation
(in thousands)	
Current Assets	$ 103
Property, plant and equipment	487
Goodwill	5,783
Net assets acquired	$ 6,373

Operating results of the acquired stores are reflected in the Company's consolidated financial statements from the date of acquisition, within the Gourmet Food & Gift Baskets segment.

Disposition of Colonial Gifts Limited

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

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

As a result of the above, the Company determined that the iFlorist business (disposal group) met the held for sale criteria, as prescribed by FASB ASC 360-10-45-9, as of September 27, 2015. As a result, the Company compared iFlorist's carrying amount ($3.4 million) to its fair value less cost to sell ($1.5 million), and recorded an impairment charge of $1.9 million during the period ended September 27, 2015. The Company recorded this impairment charge within "Other (income) expense, net" in the condensed consolidated statements of operations. During the quarter ended December 27, 2016, the Company completed the sale of the iFlorist business and recorded an additional loss on sale of $0.2 million.

Note 5. Inventory

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

July 3, 2016

June 28, 2015

(in thousands)

Finished goods	$ 44,264	$ 43,254
Work-in-process	24,573	16,020
Raw materials	34,491	33,889
	$ 103,328	$ 93,163

F-18

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

Notes to Consolidated Financial Statements

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

Food & Gift Baskets (1)

Total

Balance at June 29, 2014

$ 16,691 $ - $ 43,475 $ 60,166

Harry & David acquisition

16,042 16,042

iFlorist measurement period adjustment

1,320 1,320

iFlorist translation adjustment

(429) (429)

Other

(2) (2)

Balance at June 28, 2015

$ 17,582 $ - $ 59,515 $ 77,097

Other

(141) 711 570

Balance at July 3, 2016

$ 17,441 $ - $ 60,226 $ 77,667

(1)

The total carrying amount of goodwill for all periods in the table above is reflected net of $71.1 million of accumulated impairment charges, which were recorded in the GFGB segment during fiscal 2009.

There were no goodwill impairment charges in any segment during the years ended July 3, 2016, June 28, 2015 and June 29, 2014.

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

July 3, 2016

June 28, 2015

Amortization

Period

(years)

Gross

Carrying

Amount

Accumulated

Amortization

Net

Gross

Carrying

Amount

Accumulated

Amortization

Net

(in thousands)

Intangible assets with determinable lives

Investment in licenses

14

-

16 $ 7,420 $ 5,832 $ 1,588 $ 7,420 $ 5,727 $ 1,693

Customer lists

3

-

10 21,144 15,960 5,184 21,815 14,595 7,220

Other

5

-

14 3,665 2,698 967 3,665 2,597 1,068 32,229 24,490 7,739 32,900 22,919 9,981

Trademarks with indefinite lives

71,261 - 71,261 72,144 - 72,144

Total identifiable intangible assets

$ 103,490 $ 24,490 $ 79,000 $ 105,044 $ 22,919 $ 82,125

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. No material impairments were recognized for the years ended July 3, 2016, June 28, 2015 and June 29, 2014.

The amortization of intangible assets for the years ended July 3, 2016, June 28, 2015 and June 29, 2014 was $1.9 million, $2.1 million and $1.6 million, respectively. Future estimated amortization expense is as follows: 2017 - $1.5 million, 2018 – $1.3 million, 2019 - $0.7million, 2020 - $0.6 million, 2021 - $1.0 million and thereafter - $2.6 million.

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

Notes to Consolidated Financial Statements

Note 7. Property, Plant and Equipment

	July 3, 2016	**June 28, 2015**
(in thousands)		
Land	$ 30,789	$ 31,077
Orchards in production and land improvements	9,483	9,028
Building and building improvements	54,950	55,121
Leasehold improvements	21,584	19,459
Production equipment and furniture and fixtures	72,912	63,132
Computer and telecommunication equipment	52,737	56,582

Software	136,333	150,695
Capital projects in progress - orchards	8,513	7,335
Property, plant and equipment, gross	387,301	392,429
Accumulated depreciation and amortization	(215,939)	(222,329)
Property, plant and equipment, net	$ 171,362	$ 170,100

Depreciation expense for the years ended July 3, 2016, June 28, 2015 and June 29, 2014 was $30.5 million, $27.0 million and $18.2 million, respectively.

Note 8. Accrued Expenses

Accrued expenses consisted of the following:

	July 3, 2016	**June 28, 2015**
(in thousands)		
Payroll and employee benefits		

$ 25,892 $ 36,370

Other

40,174 37,269

Accrued Expenses

$ 66,066 $ 73,639

Note 9. Long-Term Debt

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

July 3, 2016

June 28, 2015

(in thousands)

Revolver (1)

$ - $ -

Term Loan (1)

117,563 131,813

Bank loan (2)

- 293

Total debt

117,563 132,106

Less: current maturities of long-term debt

	19,594	14,543
Long-term debt	$ 97,969	$ 117,563

(1)

In order to finance the Harry & David acquisition, on September 30, 2014, the Company entered into a Credit Agreement with JPMorgan Chase Bank as administrative agent, and a group of lenders (the "2014 Credit Facility"), consisting of a $142.5 million five-year term loan (the "Term Loan") with a maturity date of September 30, 2019, and a co-terminus revolving credit facility (the "Revolver"), with a seasonally adjusted limit ranging from $100.0 to $200.0 million, which may be used for working capital (subject to applicable sublimits) and general corporate purposes. The Term Loan is payable in 20 quarterly installments of principal and interest beginning in December 2014, with escalating principal payments at the rate of 10% in years one and two, 15% in years three and four, and 20% in year five, with the remaining balance of $42.75 million due upon maturity. Upon closing of the acquisition, the Company borrowed $136.7 million under the Revolver to repay amounts outstanding under the Company's and Harry & David's previous credit agreements, as well as to pay acquisition-related transaction costs. There were no amounts outstanding under the Revolver as of July 3, 2016 or June 28, 2015.

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

Notes to Consolidated Financial Statements

The 2014 Credit Facility requires that while any borrowings are outstanding the Company comply with certain financial and non-financial covenants, including the maintenance of certain financial ratios. The Company was in compliance with these covenants as of July 3, 2016. Outstanding amounts under the 2014 Credit Facility bear interest at the Company's option at either: (i) LIBOR, plus a spread of 175 to 250 basis points, as determined by the Company's leverage ratio, or (ii) ABR, plus a spread of 75 to 150 basis points. The 2014 Credit Agreement is secured by substantially all of the assets of the Company and the Subsidiary Guarantors.

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

(2)

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

Note 10. Fair Value Measurements

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

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

Level 1

Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2

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

Level 3

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

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

Notes to Consolidated Financial Statements

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

Carrying

Value

Fair Value Measurements

Assets (Liabilities)

Level 1

Level 2

Level 3

(in thousands)

Assets (liabilities) as of July 3, 2016:

Trading securities held in a “rabbi trust” (1)

$ 4,852	$ 4,852	$ -	$ -	$ 4,852	$ 4,852	$ -	$ -

Assets (liabilities) as of June 28, 2015:

Trading securities held in a “rabbi trust” (1)

$ 3,118	$ 3,118	$ -	$ -	$ 3,118	$ 3,118	$ -	$ -

(1)

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

Note 11. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is currently being audited by the Internal Revenue Service for fiscal year 2014, while fiscal years 2012, 2013 and 2015 remain subject to federal examination. Due to ongoing state examinations and non-conformity with the federal statute of limitations for assessment, certain states also remain open from fiscal 2012. The Company’s foreign income tax filings are open for examination by its respective foreign tax authorities in Canada, Brazil, and the United Kingdom from fiscal 2012.

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 3, 2016, the Company has an unrecognized tax position of approximately $1.2 million, including accrued interest and penalties of $0.1 million. The Company believes that $0.9 million of unrecognized tax positions will be resolved over the next twelve months.

Significant components of the income tax provision from continuing operations are as follows:

Years ended

July 3, 2016

June 28, 2015

June 29, 2014

(in thousands)

Current provision (benefit):

Federal

$ 15,876 $ 6,630 $ 6,439

State

2,703 1,840 1,247

Foreign

- (11) 11 Current Income tax expense 18,579 8,459 7,697

Deferred provision (benefit):

Federal

(2,949) 1,970 773

State

(7) 631 28

Foreign

(44) (130) (95) Deferred income tax expenses (benefit) (3,000) 2,471 706

Income tax expense

$ 15,579	$ 10,930	$ 8,403

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

Notes to Consolidated Financial Statements

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

	Years ended		
	July 3, 2016	**June 28, 2015**	**June 29, 2014**
Tax at U.S. statutory rates	35.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	3.4	3.8	3.7
Valuation allowance change	1.3	2.6	1.5
Rate differences	(2.6)	1.1	1.2
Tax settlements	1.1	1.4	(1.0)

Deductible stock-based compensation

(0.2) (1.3) (0.2)

Domestic production deduction

(2.6) (2.2) (1.9)

Tax credits

(4.2) (3.9) (1.7)

Other, net

(0.9) (0.4) 1.0 Effective tax rate 30.3 % 36.1 % 37.6 %

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 3 ,

2016

June 28,

2015

(in thousands)

Deferred income tax assets:

Net operating loss and credit carryforwards

	$ 6,901	$ 6,743
Accrued expenses and reserves	7,267	5,921
Stock-based compensation	4,531	3,622
Gross deferred income tax assets	18,699	16,286
Less: Valuation allowance	(4,936)	(4,589)
Deferred tax assets, net	13,763	11,697
Deferred income tax liabilities:		
Other intangibles	(24,357)	(23,307)
Tax in excess of book depreciation	(24,923)	(26,197)
Deferred tax liabilities	(49,280)	(49,504)
Net deferred income tax liabilities	$ (35,517)	$ (37,807)

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 net operating loss carryforwards in certain states and its United Kingdom, Brazilian and Canadian subsidiaries. At July 3, 2016 the Company's federal net operating loss carryforwards were $2.2 million, which if not utilized, will begin to expire in fiscal 2025. The federal net operating loss is subject to Section 382 limitations of $0.3 million per year. The Company's foreign net operating loss carryforward was $10.5 million, while the state net operating losses were $5.7 million, before federal benefit, which if not utilized, will begin to expire in fiscal 2017.

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 2016 and 2015, 4,047,040 and 2,748,550 shares of Class B common stock, respectively, were converted into shares of Class A common stock.

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

Notes to Consolidated Financial Statements

The Company has a stock repurchase plan through which purchases can be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program is financed utilizing available cash. In June 2015, the Company's Board of Directors authorized an increase of $25 million to its stock repurchase plan. The Company repurchased a total of $15.2 million (1,714,550 shares), $8.4 million (1,056,038 shares) and $8.3 million (1,561,206 shares) during the fiscal years ended July 3, 2016, June 28, 2015 and June 29, 2014, respectively, under this program. As of July 3, 2016, $12.0 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 (the "Plan"). The Plan is a broad-based, long-term incentive program that is intended to attract, retain and motivate employees, consultants and directors to achieve the Company's long-term growth and profitability objectives, and therefore align stockholder and employee interests. 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 3, 2016, the Company has reserved approximately 10.5 million shares of common stock for issuance, including options previously authorized for issuance under the 1999 Stock Incentive Plan.

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

Years Ended

July 3, 2016

June 28, 2015

June 29, 2014

(in thousands, except per share data)

Stock options	$ 432	$ 459	$ 420
Restricted stock awards	5,911	5,503	4,244
Total	6,343	5,962	4,664
Deferred income tax benefit	1,987	2,087	1,738
Stock-based compensation expense, net	$ 4,356	$ 3,875	$ 2,926

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

Years Ended

July 3, 2016

(in thousands)	**June 28, 2015**	**July 29, 2014**	
Marketing and sales	$ 2,306	$ 1,866	$ 1,261
Technology and development	493	392	298
General and administrative	3,544	3,704	3,105
Total	$ 6,343	$ 5,962	$ 4,664

Stock-based compensation expense has not been allocated between business segments, but is reflected as part of Corporate overhead. (Refer to Note 15. Business Segments).

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

Notes to Consolidated Financial Statements

Stock Options

The weighted average fair value of stock options on the date of grant, and the assumptions used to estimate the fair value of the stock options using the Black-Scholes option valuation model, were as follows:

	Years ended		
	July 3, 2016 (1)	**June 28, 2015**	**June 29, 2014**
Weighted average fair value of options granted	n/a	$ 4.86	$ 3.16
Expected volatility	n/a	52 %	61 %
Expected life (in years)	n/a	7.3	6.6
Risk-free interest rate	n/a	1.9 %	1.6 %

Expected dividend yield	n/a	0.0 %	0.0 %

(1)

No options were granted during the fiscal year ended July 3, 2016.

The expected volatility of the option is determined using historical volatilities based on historical stock prices. The Company estimated the expected life of options granted based upon the historical weighted average. The risk-free interest rate is determined using the yield available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the option. The Company has never paid a dividend, and as such the dividend yield is 0.0%.

The following table summarizes stock option activity during the year ended July 3, 2016:

Options

Weighted

Average

Exercise

Price

Weighted

Average

Remaining

Contractual

Term

(in years)

Aggregate

Intrinsic

Value (000s)

Outstanding beginning of period

3,345,146 $ 2.93

Granted

- $ -

Exercised

(1,044,255) $ 3.36

Forfeited/Expired

(118,657) $ 7.33

Outstanding end of period

2,182,234 $ 2.49 4.8 $ 14,236

Options vested or expected to vest at end of period

2,117,259	$ 2.49	4.8	$ 13,821
Exercisable at July 3, 2016			
1,261,234	$ 2.45	4.6	$ 8,271

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 2016 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 3, 2016. 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 3, 2016, June 28, 2015 and June 29, 2014 was $4.2 million, $3.6 million, and $0.4 million, respectively.

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

Notes to Consolidated Financial Statements

The following table summarizes information about stock options outstanding at July 3, 2016:

Options Outstanding

Options Exercisable

Exercise Price

Options

Outstanding

Weighted-

Average

Remaining

Contractual Life

(years)

Weighted-

Average

Exercise

Price

Options

Exercisable

Weighted-

Average

Exercise

Price

$1.69 – 1.79	1,001,000	4.3	$ 1.79	626,000	$ 1.79
$2.22 – 2.44	42,000	6.3	$ 2.43	42,000	$ 2.43
$2.63 – 2.63	1,010,000	0.9	$ 2.63	508,000	$ 2.63
$2.88 – 10.20	129,234	4.1	$ 6.85	85,234	$ 6.23
	2,182,234	4.8	$ 2.49	1,261,234	$ 2.45

As of July 3, 2016, the total future compensation cost related to non-vested options not yet recognized in the statement of operations was $1.2 million and the weighted average period over which these awards are expected to be recognized was 2.9 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 3, 2016:

	Shares	**Weighted Average Grant Date Fair Value**
Non-vested – beginning of period	2,342,052	$ 5.62
Granted	1,027,706	$ 9.01
Vested	(879,863)	$ 5.21
Forfeited	(472,826)	$ 8.85
Non-vested - end of period	2,017,069	$ 6.78

The fair value of non-vested shares is determined based on the closing stock price on the grant date. As of July 3, 2016, there was $7.4 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over a weighted-average period of 2.1 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 2016, 2015 and 2014.

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. The Company will match 50% of the deferrals made by each participant during the applicable period, up to a maximum of $2,500. 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 3, 2016 and June 28, 2015, these plan liabilities, which are included in the “Other liabilities” line item within the Company’s consolidated balance sheets, totaled $4.9 million and $3.1 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” line item within the Company’s consolidated balance Sheets. Company contributions during the years ended July 3, 2016, June 28, 2015 and June 29, 2014 were less than $0.1 million. Gains (losses) on these investments, were ($0.1) million, $0.2 million and $0.3 million for the years ended July 3, 2016, June 28, 2015 and June 29, 2014, are included in Other (income) expense, net, within the Company’s consolidated statements of income.

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

Notes to Consolidated Financial Statements

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 Food and Gift Baskets

Segment performance is measured based on contribution margin, which includes only the direct controllable revenue and operating expenses of the segments. As such, management's measure of profitability for these segments does not include the effect of corporate overhead (see (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.

Years ended

Net revenues

July 3, 2016

June 28, 2015

June 29, 2014

(in thousands)

Net revenues:

1-800-Flowers.com Consumer Floral	$ 418,492	$ 422,199	$ 421,336
BloomNet Wire Service	85,483	85,968	84,199
Gourmet Food & Gift Baskets	670,453	613,953	251,990
Corporate	1,066	1,020	797
Intercompany eliminations	(2,470)	(1,634)	(1,977)
Total net revenues	$ 1,173,024	$ 1,121,506	$ 756,345

Years ended

Operating Income from Continuing Operations

July 3, 2016

June 28, 2015

June 29, 2014

(in thousands)

Segment Contribution Margin:

1-800-Flowers.com Consumer Floral	$ 50,773	$ 43,529	$ 40,252
BloomNet Wire Service	30,629	29,398	26,715
Gourmet Food & Gift Baskets	79,398	74,889	27,122
Segment Contribution Margin Subtotal	160,800	147,816	94,089
Corporate (a)	(85,134)	(81,075)	(50,535)
Depreciation and amortization	(32,384)	(29,124)	(19,848)
Operating income	$ 43,282	$ 37,617	$ 23,706

(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.

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

Notes to Consolidated Financial Statements

Note 16. Discontinued Operations

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 and Gift Baskets business segment. The Company closed on the sale of its e-commerce and procurement businesses on December 31, 2013. The Company had originally estimated a loss of $2.3 million ($1.5 million, net of tax), which was provided for during the fourth quarter of fiscal 2013, but the loss was reduced to $1.0 million, upon finalization of terms and closing on the sale. As a result, the Company reversed $1.3 million ($0.8 million, net of tax) of its accrual for the estimated loss during the fiscal year ended June 29, 2014. The Company has classified the results of the e-commerce and procurement business of The Winetasting Network as a discontinued operation in fiscal 2014.

Results for discontinued operations are as follows:

Years Ended

July 3, 2016

June 28, 2015

June 29, 2014

(in thousands, except per share data)

Net revenues from discontinued operations	$ -	$ -	$ 1,669
Loss from discontinued operations, net of tax	$ -	$ -	$ (86)
Gain (loss) on sale of discontinued operations, net of tax	$ -	$ -	$ 815
Income (loss) from discontinued operations	$ -	$ -	$ 729

Note 17. 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 3, 2016 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)

2017	$ 19,671
2018	16,990
2019	15,093
2020	11,611
2021	9,727
Thereafter	48,781
Total minimum lease payments	$ 121,873

At July 3, 2016, the total future minimum sublease rentals under non-cancelable operating sub-leases for land and buildings were $2.3 million. Rent expense was approximately $33.4 million, $28.3 million and $17.7 million for the years ended July 3, 2016, June 28, 2015 and June 29, 2014, respectively.

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

Notes to Consolidated Financial Statements

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 3, 2016, the Company had fixed and determinable off-balance sheet purchase commitments with remaining terms in excess of one year of approximately $3.8 million, primarily related to the Company’s technology infrastructure.

The Company had approximately $2.5 million in unused stand-by letters of credit as of July 3, 2016.

Litigation

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

Edible Arrangements:

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

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

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

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

Notes to Consolidated Financial Statements

Note 18. Fire at the Fannie May Warehouse and Distribution Facility

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

The following table reflects the costs related to the fire and the insurance recovery and associated gain as of 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)

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

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

Schedule II - Valuation and Qualifying Accounts

Additions

Description

Balance at

Beginning

of Period

Charged to

Costs

and Expenses

Charged to

Other

Accounts-

Describe

Deductions-

Describe (a)

Balance at

End of

Period

Reserves and allowances deducted from asset accounts:

Reserve for estimated doubtful accounts-accounts/notes receivable

Year Ended July 3, 2016					
	$ 2,235,000	$ 1,278,000	$ -	$ (1,409,000)	$ 2,104,000
Year Ended June 28, 2015					
	$ 2,443,000	$ 1,295,000	$ -	$ (1,503,000)	$ 2,235,000
Year Ended June 29, 2014					
	$ 2,488,000	$ 1,656,000	$ -	$ (1,701,000)	$ 2,443,000

(a)

Reduction in reserve due to write-off of accounts/notes receivable balances.