FTD Companies, Inc.
Form 10-Q
August 09, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2018
Or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-35901

FTD Companies, Inc.
(Exact name of registrant as specified in its charter)

Delaware	32-0255852
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3113 Woodcreek Drive, Downers Grove, Illinois	60515
(Address of principal executive offices)	(Zip Code)

(630) 719-7800
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

There were 27,938,332 shares of the Registrant's common stock outstanding as of August 3, 2018.

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In this document, references to "FTD Companies," "FTD," the "Company," "we," "us," and "our" refer to FTD Companies, In and its consolidated subsidiaries, unless the context otherwise requires.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q (this “Form 10-Q”) contains certain forward-looking statements within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, as amended, based on our current expectations, estimates and projections about our operations, industry, financial condition, performance, results of operations, and liquidity. Statements containing words such as “may,” “believe,” “anticipate,” “expect,” “intend,” “pl “project,” “projections,” “business outlook,” “estimate,” or similar expressions constitute forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding the exploration of strategic alternatives; the strategic and financial evaluation of our business; our corporate restructuring and cost savings plan and other strategies; and future financial performance, including our 2018 financial outlook; our ability to continue as a going concern, repay or refinance indebtedness and invest in initiatives; expectations about future business plans, prospective performance and opportunities, including potential acquisitions; future financial performance; revenues; segment metrics; operating expenses; market trends, including those in the markets in which we compete; liquidity; cash flows and uses of cash; dividends; capital expenditures; depreciation and amortization; impairment charges; tax payments; foreign currency exchange rates; hedging arrangements; our products and services; pricing; marketing plans; competition; settlement of legal matters; and the impact of accounting changes and other pronouncements. Potential factors that could affect such forward-looking statements include, among others, uncertainties associated with being able to identify, evaluate or complete any strategic alternative or strategic transaction; the impact of the announcement of our review of strategic alternatives, as well as any strategic alternative or strategic transaction that may be pursued, on our business, including our financial and operating results and our employees, suppliers and customers; our ability to implement and realize anticipated benefits from our corporate restructuring and cost savings plan and other initiatives; our ability to repay, refinance or restructure our outstanding debt, and the other factors disclosed in the section entitled “Risk Factors” in our most recent Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”), and in this Quarterly Report on Form 10-Q, as updated from time to time in our subsequent filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis only as of the date hereof. Such forward-looking statements are not guarantees of future performance or results and involve risks and uncertainties that may cause actual performance and results to differ materially from those predicted. Reported results should not be considered an indication of future performance. Except as required by law, we undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
FTD COMPANIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$20,436	$ 29,496
Accounts receivable, net of allowances of $6,242 and $4,957 as of June 30, 2018 and December 31, 2017, respectively	21,319	26,028
Inventories	24,816	25,356
Prepaid expenses and other current assets	11,705	14,911
Total current assets	78,276	95,791
Property and equipment, net	44,779	33,880
Intangible assets, net	104,958	181,965
Goodwill	211,978	277,041
Other assets	10,311	21,648
Total assets	$450,302	$ 610,325
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$69,943	$ 70,480
Accrued liabilities	61,430	77,058
Accrued compensation	9,203	14,261
Deferred revenue	6,377	5,280
Income taxes payable	3,846	872
Current portion of long-term debt	189,690	189,666
Total current liabilities	340,489	357,617
Deferred tax liabilities, net	9,311	30,854
Other liabilities	7,538	7,330
Total liabilities	357,338	395,801
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, 5,000,000 shares, par value $0.0001, authorized; no shares issued and outstanding	—	—
Common stock, 60,000,000 shares, par value $0.0001, authorized; 30,364,811 and 30,073,087 shares issued as of June 30, 2018 and December 31, 2017, respectively	3	3
Treasury stock, 2,430,897 shares as of June 30, 2018 and December 31, 2017	(65,221)	(65,221)
Additional paid-in capital	710,750	705,388
Accumulated deficit	(508,913)	(384,232)
Accumulated other comprehensive loss	(43,655)	(41,414)
Total stockholders' equity	92,964	214,524
Total liabilities and stockholders' equity	$450,302	$ 610,325

The accompanying notes are an integral part of these condensed consolidated financial statements.

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FTD COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Products	$268,006	$293,228	$551,009	$574,192
Services	31,915	34,918	67,082	70,447
Total revenues	299,921	328,146	618,091	644,639
Operating expenses:				
Cost of revenues—products	189,946	198,682	396,217	390,809
Cost of revenues—services	4,536	4,497	9,012	8,744
Sales and marketing	71,067	76,224	153,349	145,120
General and administrative	23,133	27,039	48,834	55,794
Amortization of intangible assets	1,495	3,819	2,997	7,639
Restructuring and other exit costs	—	136	—	944
Impairment of goodwill, intangible assets, and other long-lived assets	136,861	—	139,216	—
Total operating expenses	427,038	310,397	749,625	609,050
Operating income/(loss)	(127,117)	17,749	(131,534)	35,589
Interest income	120	122	241	237
Interest expense	(4,509)	(2,562)	(7,116)	(4,950)
Other income, net	160	223	136	198
Income/(loss) before income taxes	(131,346)	15,532	(138,273)	31,074
Provision for/(benefit from) income taxes	(13,261)	5,816	(13,592)	12,335
Net income/(loss)	$(118,085)	$9,716	$(124,681)	$18,739
Earnings/(loss) per common share:				
Basic earnings/(loss) per share	$(4.25)	$0.35	$(4.49)	$0.67
Diluted earnings/(loss) per share	$(4.25)	$0.35	$(4.49)	$0.67

The accompanying notes are an integral part of these condensed consolidated financial statements.

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FTD COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income/(loss)	$(118,085)	$9,716	$(124,681)	$18,739
Other comprehensive income/(loss):				
Foreign currency translation	(6,396)	4,124	(2,461)	5,846
Cash flow hedges:				
Changes in net gains on derivatives, net of tax of $23 and $53 for the three months ended June 30, 2018 and 2017, respectively, and $59 and $107 for the six months ended June 30, 2018 and 2017, respectively.	116	87	220	172
Other comprehensive income/(loss)	(6,280)	4,211	(2,241)	6,018
Total comprehensive income/(loss)	$(124,365)	$13,927	$(126,922)	$24,757

The accompanying notes are an integral part of these condensed consolidated financial statements.

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FTD COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited, in thousands)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2017	30,073	$ 3	(2,431)	$(65,221)	$705,388	$ (41,414)	$(384,232)	$214,524
Net loss	—	—	—	—	—	—	(124,681)	(124,681)
Other comprehensive loss	—	—	—	—	—	(2,241)	—	(2,241)
Stock-based compensation	—	—	—	—	5,410	—	—	5,410
Vesting of restricted stock units and related repurchases of common stock	187	—	—	—	(460)	—	—	(460)
Issuance of common stock through employee stock purchase plan	105	—	—	—	412	—	—	412
Balance as of June 30, 2018	30,365	$ 3	(2,431)	$(65,221)	$710,750	$ (43,655)	$(508,913)	$92,964

The accompanying notes are an integral part of these condensed consolidated financial statements.

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FTD COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income/(loss)	$(124,681)	$18,739
Adjustments to reconcile net income/(loss) to net cash provided by/(used for) operating activities:		
Depreciation and amortization	8,220	18,583
Impairment of goodwill, intangible assets, and other long-lived assets	139,216	—
Stock-based compensation	5,410	5,870
Provision for doubtful accounts receivable	1,067	779
Amortization of deferred financing fees	1,058	680
Deferred taxes, net	(20,432)	1,758
Other, net	92	(69)
Changes in operating assets and liabilities:		
Accounts receivable, net	3,585	3,887
Inventories	529	170
Prepaid expenses and other assets	3,492	5,049
Accounts payable and accrued liabilities	(23,087)	(36,060)
Deferred revenue	1,144	1,154
Income taxes receivable or payable	2,514	66
Other liabilities	287	(997)
Net cash provided by/(used for) operating activities	(1,586)	19,609
Cash flows from investing activities:		
Purchases of property and equipment	(16,280)	(6,370)
Proceeds from life insurance	10,003	—
Net cash used for investing activities	(6,277)	(6,370)
Cash flows from financing activities:		
Proceeds from revolving lines of credit	185,000	70,000
Payments on term debt and revolving lines of credit	(182,000)	(85,000)
Purchases from employee stock plan	412	1,042
Payments for debt financing fees	(4,034)	—
Repurchases of common stock withheld for taxes	(460)	(1,969)
Net cash used for financing activities	(1,082)	(15,927)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(115)	1,042
Change in cash and cash equivalents	(9,060)	(1,646)
Cash and cash equivalents, beginning of period	29,496	81,002
Cash and cash equivalents, end of period	$20,436	$79,356

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION, ACCOUNTING POLICIES, AND RECENT ACCOUNTING PRONOUNCEMENTS

Description of Business

FTD Companies, Inc. (together with its subsidiaries, "FTD" or the "Company"), is a premier floral and gifting company with a vision to be the world's floral innovator and leader, creating products, brands, and technology-driven services its customers love. The Company provides floral, specialty foods, gift and related products and services to consumers, retail florists, and other retail locations and companies in need of floral and gifting solutions. The business uses the highly recognized FTD® and Interflora® brands, both supported by the iconic Mercury Man® logo. While the Company operates primarily in the United States ("U.S.") and the United Kingdom ("U.K."), it has worldwide presence as its Mercury Man logo is displayed in approximately 35,000 floral shops in over 125 countries. The Company's diversified portfolio of brands also includes ProFlowers®, ProPlants®, Shari's Berries®, Personal Creations®, RedEnvelope®, Flying Flowers®, Ink Cards™, Postagram™, Gifts.com™, and BloomThat™. While floral arrangements and plants are its primary offerings, the Company also markets and sells gift items, including gourmet-dipped berries and other sweets, personalized gifts, gift baskets, wine and champagne, and jewelry.

The principal operating subsidiaries of FTD Companies, Inc. are Florists' Transworld Delivery, Inc., FTD.COM Inc. ("FTD.com"), Interflora British Unit ("Interflora"), and Provide Commerce, Inc. ("Provide Commerce"). The operations of the Company include those of its subsidiary, Interflora, Inc., of which one-third is owned by a third party. The Company's corporate headquarters is located in Downers Grove, Illinois. The Company also maintains offices in San Diego and San Francisco, California; Woodridge, Illinois; Centerbrook, Connecticut; Sleaford, England; and Hyderabad, India; and distribution centers in various locations throughout the U.S.

Basis of Presentation

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP"). All intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in accordance with GAAP requires management to make accounting policy elections, estimates and assumptions that affect a number of reported amounts and related disclosures in the consolidated financial statements. Management bases its estimates on historical experience and assumptions that it believes are reasonable. Actual results could differ from those estimates and assumptions.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2017.

Going Concern

The condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern.

On May 31, 2018, the Company entered into the Third Amendment to Credit Agreement (the Credit Agreement, dated September 19, 2014, as previously amended and as further amended by the Third Amendment, is referred to in this Form 10-Q as the "Amended Credit Agreement") with its lenders, which includes an agreement by the lenders to waive existing defaults caused by (1) the inclusion of a going concern uncertainty explanatory paragraph in the audit opinion of the Company's financial statements for the year ended December 31, 2017 and (2) the breach of the consolidated net leverage ratio covenant for the quarter ended March 31, 2018. The Amended Credit Agreement also restricts the Company's combined usage of the revolving credit facility portion of the Amended Credit Agreement to (1) $150 million during the period from May 31, 2018 through and including September 30, 2018; (2) $175 million during the period from October 1, 2018 through and including

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December 31, 2018; and (3) $150 million during the period from January 1, 2019 through the September 19, 2019 maturity date, all subject to the Company's obligation to make prepayments of the term loan portion of the Amended Credit Agreement with any net cash proceeds received from the sale of certain non-core or other assets. In addition, the consolidated net leverage ratio and fixed charge coverage ratio covenants were revised for each quarterly period through the September 19, 2019 maturity date as were the interest rates applicable to borrowings under the Amended Credit Agreement. See Note 6—"Financing Arrangements" for additional information regarding the Amended Credit Agreement.

The Company was in compliance with the revised covenants under the Amended Credit Agreement as of June 30, 2018. The ability to continue as a going concern, however, is dependent on the Company generating profitable operating results and continuing to be in compliance with the revised covenants under the Amended Credit Agreement or refinancing, repaying, or obtaining new financing prior to maturity of the Amended Credit Agreement in September 2019. In this regard, on July 19, 2018, the Company announced that its board of directors has initiated a review of strategic alternatives. The strategic alternatives expected to be considered include, but are not limited to, a sale or merger of the Company, the Company continuing to pursue value-enhancing initiatives as a standalone company, a capital structure optimization that may involve potential financings, or the sale or other disposition of certain of FTD's businesses or assets. The Company also announced a corporate restructuring and cost savings plan, under which opportunities to optimize operations, drive efficiency, and reduce costs have been identified.

Notwithstanding these initiatives, based on the Company's 2018 year-to-date results of operations and outlook for the remainder of the term of the Amended Credit Agreement, the Company currently anticipates that its Adjusted EBITDA (as defined in the Amended Credit Agreement) and other sources of earnings or adjustments used to calculate Consolidated Adjusted EBITDA under the Amended Credit Agreement may result in (1) the Company's consolidated net leverage ratio, as defined in the Amended Credit Agreement, exceeding the maximum permitted consolidated net leverage ratio during the remainder of the term of the Amended Credit Agreement and (2) the Company's fixed charge coverage ratio, as defined in the Amended Credit Agreement, falling below the minimum requirement during the remainder of the term of the Amended Credit Agreement. If the Company is unable to meet the revised covenants under the Amended Credit Agreement and the Company is unable to obtain waivers or amendments from its lenders, the lenders could exercise remedies under the Amended Credit Agreement and repayment of the debt owed under the Amended Credit Agreement could be accelerated. The Company does not expect that it could repay all of its outstanding indebtedness if the repayment of such indebtedness was accelerated. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

There can be no assurance that the strategic alternatives review noted above will result in any particular strategic alternative or strategic transaction or that the Company will be able to refinance its outstanding indebtedness or obtain alternative financing on acceptable terms, when required or if at all. If the Company is not successful in its initiatives, the Company may be forced to limit its business activities or be unable to continue as a going concern, which would have a material adverse effect on its results of operations and financial condition. The financial statements included in this Form 10-Q do not include any adjustments that might result from the outcome of these uncertainties.

Accounting Policies

With the exception of the Company's revenue recognition policy as noted below, refer to the Company's audited consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2017 for a discussion of the Company's accounting policies, as updated below for recently adopted accounting standards.

Revenue Recognition

The Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 606 ("ASC 606"), Revenue from Contracts with Customers effective January 1, 2018, using the modified retrospective method. This method requires that the cumulative effect of the initial application is recognized as an adjustment to the opening balance of the Company's retained earnings at January 1, 2018. However, the adoption did not have a material impact on the Company’s revenue recognition. As such, the Company did not record an adjustment to its beginning balance of retained earnings as of January 1, 2018.

The Company recognizes revenue from short-term contracts for the sale of various products and services to its customers, which include consumers, floral network members, and wholesale customers. Sales to consumers are generated via the Company's websites, mobile sites, or over the telephone with payment made either at the time the order is placed or upon shipment. Product revenues from these short-term contracts are single performance obligations and are considered complete upon delivery to the recipient. Amounts collected from customers upon placement of an order are recorded as deferred revenue and recognized upon delivery of the product. Products revenues, less discounts and refunds, and the related cost of revenues are recognized when control of the goods is transferred to the recipient, which is generally upon delivery. Product sales are not refundable other than as related to customer service issues. Shipping and service fees charged to customers are recognized at the time the related products revenues are recognized and are included in products revenues. Shipping and delivery costs are included in cost of revenues. Sales taxes are collected from customers and remitted to the appropriate taxing authorities and are not reflected in the Company's condensed consolidated statements of operations as revenues.

The Company generally recognizes revenues for sales to consumers on a gross basis because the Company controls the goods before they are transferred to the recipient as the Company (i) bears primary responsibility for fulfilling the promise to the customer; (ii) bears inventory risk before and/or after the good or service is transferred to the customer; and (iii) has discretion in establishing the price for the sale of the good or service to the customer.

Services revenues related to orders sent through the floral network are variable based on either the number of orders or the value of orders and are recognized in the period in which the orders are delivered. Membership and other subscription-based fees are recognized monthly as earned, on a month-to-month basis. Each service offered by the Company is separate and distinct from other services and represents an individual performance obligation.

The Company also sells point-of-sale systems and related technology services to its floral network members and recognizes revenue in accordance with ASC 606. For hardware sales that include software, revenues are recognized when delivery, installation and customer acceptance have all occurred. The transaction price for point-of-sale systems is based on the equipment and the software modules ordered by the customer and include installation and training for the system. The sale of the system is considered a single performance obligation since the installation and training are a significant part of the sale in order for the floral network member to access the clearinghouse to send and receive floral orders. The Company recognizes revenues on hardware which is sold without software at the time of delivery.

Probability of collection for both products and services revenue is assessed based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If it is determined that collectability is not reasonably assured, revenues are not recognized until collectability becomes reasonably assured.

The Company incurs contract costs that are incremental costs incurred for obtaining a contract. These contract costs are short-term (less than a year) and are expensed as incurred based on the practical expedient provided in ASC 606. As such, the Company does not capitalize costs incurred for obtaining a contract.

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In March 2018, the FASB issued Accounting Standards Update ("ASU") 2018-05, Income Taxes (Topic 740)—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which provides guidance from the SEC allowing for the recognition of provisional amounts in the financial statements for the year ended December 31, 2017 as a result of the U.S. Tax Cuts and Jobs Act ("TCJA") that was signed into law in December 2017. The guidance allows for a measurement period of up to one year from the enactment date to finalize the accounting related to the TCJA. The Company has applied the guidance in this update in its financial statements for the six months ended June 30, 2018 and will finalize and record any adjustments related to the TCJA within the one year measurement period.

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In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016, and December 2016 within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20, respectively (collectively, “Topic 606”). Topic 606 supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The Company adopted the guidance under this topic as of January 1, 2018 with no material impact to its consolidated financial statements. See Accounting Policies—Revenue Recognition above. The disclosures required by ASC 606 have been included in Note 2—Segment Information.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The updated guidance enhances the reporting model for financial instruments, and includes amendments to address aspects of recognition, measurement, presentation and disclosure. The Company adopted the guidance under this topic as of January 1, 2018 with no impact to its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This update was issued to address the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows by adding or clarifying guidance on eight specific cash flow issues. The Company adopted the guidance under this topic as of January 1, 2018 with no impact to its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. This update was issued to provide clarity and reduce diversity in practice as well as cost and complexity when applying the guidance in Topic 718 to the modification of terms or conditions of a share-based payment award. The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards would require an entity to apply modification accounting under Topic 718. The Company adopted the guidance under this topic as of January 1, 2018 with no impact to its consolidated financial statements.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This update requires the recognition of certain lease assets and lease liabilities on the balance sheet as well as the disclosure of key information about leasing arrangements. The amendments in this ASU require the recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients which may be elected by the Company. The amendments in this ASU will be effective for the Company for fiscal years, and the interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The Company is currently assessing the impact of this update on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326). This update seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments, including trade receivables, and other commitments to extend credit held by a reporting entity at each reporting date. The amendments require an entity to replace the incurred loss impairment methodology in current GAAP with a methodology that reflects current expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The amendments will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which guidance is effective, which is a modified-retrospective approach. The Company is currently assessing the impact of this update on its consolidated financial statements.

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In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This update seeks to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. For cash flow and net investment hedges as of the adoption date, this ASU requires a modified retrospective approach. The amended presentation and disclosure guidance is required only prospectively. The amendments in this ASU are effective for the Company's fiscal year beginning after December 31, 2018, with early adoption permitted. The Company is currently assessing the impact of this update on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This update allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the TCJA. This update also requires certain disclosures about stranded tax effects. The amendments in this ASU will be effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is currently assessing the impact of this update on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. This update allows existing employee guidance to apply to non-employee share-based transactions (as long as the transaction is not effectively a form of financing), with the exception of specific guidance related to the attribution of compensation cost. The cost of nonemployee awards will continue to be recorded as if the grantor had paid cash for the goods or services. The amendments in this ASU will be effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is currently assessing the impact of this update on its consolidated financial statements.

2. SEGMENT INFORMATION

The Company reports its business in three reportable segments: U.S. Consumer, Florist, and International. Prior to January 1, 2018, the Company reported its business in four reportable segments. As a result of a change in the information provided to and utilized by the Company's then-current Chief Executive Officer (who was also the Company's Chief Operating Decision Maker ("CODM")) to assess the performance of the business, the Company combined the previous Provide Commerce and Consumer segments into one reportable segment. There have been no changes to the Company's reporting units, which remain FTD.com (previously referred to as Consumer), Florist, International, ProFlowers/Gourmet Foods, and Personal Creations.

The Company follows the reporting requirements of ASC 280, Segment Reporting. Management measures and reviews the Company's operating results by segment in accordance with the "management approach" defined in ASC 280. The reportable segments identified below were the segments of the Company for which separate financial information was available and for which segment results were regularly reviewed by the Company's CODM to make decisions about the allocation of resources and to assess performance. The CODM uses segment operating income to evaluate the performance of the business segments and make decisions about allocating resources among segments. Segment operating income is operating income excluding depreciation, amortization, litigation and dispute settlement charges or gains, transaction-related costs, restructuring and other exit costs, and impairment of goodwill, intangible assets and other long-lived assets. Stock-based and incentive compensation and general corporate expenses are not allocated to the segments. Segment operating income is prior to intersegment eliminations and excludes other expense, net.

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FTD COMPANIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Below is a reconciliation of segment revenues to consolidated revenues (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Products revenues:				
U.S. Consumer	$233,082	$259,804	$456,443	$488,476
Florist	11,703	12,813	26,474	28,982
International	27,319	25,446	76,411	65,887
Segment products revenues	272,104	298,063	559,328	583,345
Services revenues:				
Florist	28,213	31,277	57,658	61,614
International	3,795	3,755	9,618	9,051
Segment services revenues	32,008	35,032	67,276	70,665
Intersegment eliminations	(4,191)	(4,949)	(8,513)	(9,371)
Consolidated revenues	$299,921	$328,146	$618,091	$644,639

Intersegment revenues represent amounts charged from one segment to the other for services provided based on order volume at a set rate per order. Intersegment revenues by segment were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Intersegment revenues:				
U.S. Consumer	$(4,098)	$(4,835)	$(8,319)	$(9,153)
Florist	(93)	(114)	(194)	(218)
Total intersegment revenues	$(4,191)	$(4,949)	$(8,513)	$(9,371)

The U.S. Consumer segment is comprised of the FTD.com, ProFlowers, Gourmet Foods, and Personal Creations business units. The revenues for the business units were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
U.S. Consumer segment revenues:				
FTD.com	$65,881	$80,113	$137,599	$152,917
ProFlowers	96,963	106,515	176,786	197,226
Gourmet Foods	45,536	49,205	96,617	101,198
Personal Creations	24,702	23,971	45,441	37,135
Total U.S. Consumer segment revenues	$233,082	$259,804	$456,443	$488,476

Geographic revenues from sales to external customers were as follows for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
U.S.	$268,807	$298,945	$532,062	$569,701
U.K.	31,114	29,201	86,029	74,938
Consolidated revenues	$299,921	$328,146	$618,091	$644,639

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FTD COMPANIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Below is a reconciliation of segment operating income/(loss) to consolidated operating income/(loss) and income/(loss) before income taxes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Segment operating income/(loss)[a]				
U.S. Consumer	$6,474	$21,120	$(1,761)	$40,227
Florist	10,849	12,248	23,115	26,202
International	2,710	3,066	9,765	8,598
Total segment operating income	20,033	36,434	31,119	75,027
Unallocated expenses[b]	(6,171)	(9,400)	(15,217)	(20,855)
Impairment of goodwill, intangible assets, and other long-lived assets	(136,861)	—	(139,216)	—
Depreciation expense and amortization of intangible assets	(4,118)	(9,285)	(8,220)	(18,583)
Operating income/(loss)	(127,117)	17,749	(131,534)	35,589
Interest expense, net	(4,389)	(2,440)	(6,875)	(4,713)
Other income, net	160	223	136	198
Income/(loss) before income taxes	$(131,346)	$15,532	$(138,273)	$31,074

(a) Segment operating income/(loss) is operating income/(loss) excluding depreciation, amortization, impairment of goodwill, intangible assets, and other long-lived assets, litigation and dispute settlement charges and gains, transaction-related costs, and restructuring and other exit costs. In addition, stock-based and incentive compensation and general corporate expenses are not allocated to the segments. Segment operating income is prior to intersegment eliminations and excludes other income/(expense), net.

(b) Unallocated expenses include various corporate costs, such as executive management, corporate finance, and legal costs. In addition, unallocated expenses include stock-based and incentive compensation, restructuring and other exit costs, transaction-related costs, and litigation and dispute settlement charges and gains.

3. FINANCING RECEIVABLES

The Company has financing receivables related to equipment sales to its floral network members. The current and noncurrent portions of financing receivables are included in accounts receivable and other assets, respectively, in the condensed consolidated balance sheets. The Company assesses financing receivables individually for balances due from current floral network members and collectively for balances due from terminated floral network members.

The credit quality and the aging of financing receivables was as follows (in thousands):

	June 30, 2018	December 31, 2017
Current	$9,589	$ 10,571
Past due:		
1 - 150 days past due	229	167
151 - 364 days past due	168	213
365 - 730 days past due	234	184
731 or more days past due	380	357
Total	$10,600	$ 11,492

Financing receivables on nonaccrual status totaled $1.1 million and $1.0 million at June 30, 2018 and December 31, 2017, respectively.

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