

1 800 FLOWERS COM INC
Form 10-K
September 14, 2018

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 1, 2018**

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

(State or other jurisdiction of incorporation or organization)

One Old Country Road, Carle Place, New York, 11514

(Address of principal executive offices) (Zip code)

11-3117311

(I.R.S. Employer Identification No.)

(516) 237-6000

(Registrant's telephone number, including area code)

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

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, 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.

<input type="checkbox"/> Large accelerated filer	<input type="checkbox"/> Accelerated filer
<input type="checkbox"/> Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/> Smaller reporting company
	<input type="checkbox"/> Emerging growth company

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

Exchange Act.

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

The 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 31, 2017, was approximately \$266,120,000. The registrant has no non-voting common stock.

36,048,548

(Number of shares of class A common stock outstanding as of September 7, 2018)

28,542,823

(Number of shares of class B common stock outstanding as of September 7, 2018)

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Definitive Proxy Statement for the 2018 Annual Meeting of Stockholders (the Definitive Proxy Statement) are incorporated by reference into Part III of this Report.

Table of Contents

1-800-FLOWERS.COM, INC.

FORM 10-K

For the fiscal year ended July 1, 2018

TABLE OF CONTENTS

Part I.

Item 1.	<u>Business</u>	1
Item 1A.	<u>Risk Factors</u>	9
Item 1B.	<u>Unresolved Staff Comments</u>	14
Item 2.	<u>Properties</u>	15
Item 3.	<u>Legal Proceedings</u>	16
Item 4.	<u>Mine Safety Disclosures</u>	16

Part II.

Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	17
Item 6.	<u>Selected Financial Data</u>	19
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	35
Item 8.	<u>Financial Statements and Supplementary Data</u>	35
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	35
Item 9A.	<u>Controls and Procedures</u>	35
Item 9B.	<u>Other Information</u>	38

Part III.

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	38
Item 11.	<u>Executive Compensation</u>	38

Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	38
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	38
Item 14.	<u>Principal Accounting Fees and Services</u>	38
Part IV.		
Item 15.	<u>Exhibits, Financial Statement Schedules</u>	39
Item 16.	<u>Form 10-K Summary</u>	40
	<u>Signatures</u>	41

Table of Contents

PART I

Item 1. BUSINESS

The Company

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

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

On May 30, 2017, the Company completed the sale of the outstanding equity of Fannie May Confections Brands, Inc., including its subsidiaries, Fannie May Confections, Inc. and Harry London Candies, Inc. (“Fannie May”) to Ferrero International S.A., a Luxembourg corporation (“Ferrero”). The Company and Ferrero also entered into a transition services agreement whereby the Company will provide certain post-closing services to Ferrero and Fannie May related to the business of Fannie May and a commercial agreement with respect to the distribution of certain Ferrero and Fannie May products. The operations of Fannie May were previously included within the Company’s Gourmet Foods & Gift Baskets segment.

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.

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 wide 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, further complementing its gift assortment, 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 a leading position in the growing Gourmet Foods & Gift Baskets category.

Table of Contents

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, and gift-quality fruit baskets, as well as steaks, chops and prepared meals. This extension of gift offerings helps our customers with 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. The Company's consolidated customer database and multi-brand website is designed to expose all of our brands to our customers, further enhancing the Company's position as a leading, one-stop destination for all of our customers' gifting and celebratory needs.

The Company believes its brands are characterized by:

Convenience. The Company's product offerings can be purchased through the Company's website via desktop or mobile devices, as well as through Alexa, Facebook Messenger, Google Assistant, Apple Business Chat, Samsung Chatbot, or Google Rich Business Messaging, to help guide customers to the perfect gift across our brands. For those customers who prefer a personal gift advisor to assist them, the Company's toll-free telephone numbers are available 24 hours a day, seven days a week.

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 throughout the world. 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 across the country, and third-party vendors who ship directly to the Company's customers.

Selection. Over the course of a year, the Company offers more than 9,800 varieties of fresh-cut flowers, floral and fruit bouquets and plants, and more than 11,500 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 platform that the Company has built allows it to expand rapidly into new product categories using a "marketplace" concept, providing its customers with a wider selection of solutions to help them express, connect and celebrate for all occasions and recipients – including themselves. 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:

2

Table of Contents

CONSUMER FLORAL SEGMENT

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

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

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

Direct-to-consumer provider of fresh flowers, plants, fruits and gift baskets.

E-commerce provider of personalized gifts and keepsakes.

BLOOMNET WIRESERVICE SEGMENT

Provider of products and services to the professional florist.

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

GOURMET FOODS & 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 Cushman's® brands, acquired in September 2014.

Manufacturer and retailer of indulgent bakery gifts, including super-thick English muffins, toppings, and desserts, acquired in September 2014 in conjunction with the purchase of Harry & David.

Multi-channel retailer and manufacturer of small batch gourmet buttery caramel and chocolate covered popcorn, acquired in September 2014 in conjunction with the purchase of Harry & David.
Manufacturer of giftable premium popcorn and specialty treats, acquired in May 2002.

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.

E-commerce retailer of artisan chocolates and confections.

As a complement to the Company's own brands and product lines, the Company has formed strategic relationships with brands such as Lenox®, Waterford®, Real Simple®, Yankee Candle®, Junior's® Cheesecakes, Southern Living®, 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.

Although the Company's family of brands maintain their own sense of identity, the Company has taken a holistic approach towards examining and operating the entire enterprise. A key feature of this approach is that the Company proactively shares best practices across its operational and functional areas, utilizing centers of excellence focused on identifying initiatives designed to enhance top and bottom-line growth opportunities.

Table of Contents

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 2017, 1-800-Flowers.com was awarded the Gold 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. In December 2016, the Company amended and restated the previous credit agreement to, among other things, extend the maturity date of the \$115.0 million outstanding term loan and the revolving credit facility by approximately two years to December 23, 2021. In May 2017, the Company sold its underperforming Fannie May business, generating more than \$100 million in cash.

Continue to Innovate and Invest for the Future - by investing in technology and new growth opportunities. In 2017, 1-800-FLOWERS.COM, Inc. was named to the Stores® 2017 Hot 100 Retailers list. This prestigious list, compiled annually by the National Retail Federation (NRF), ranks the nation’s fastest-growing retailers by year-over-year domestic sales growth. The Company also received the Gold award in the “Best Artificial Intelligence” category at the Data & Marketing Association’s 2017 International ECHO Awards, and was awarded the Gold Stevie “e-Commerce Customer Service” Award, recognizing the company’s innovative use of online technologies and social media to service the needs of customers. The Company also continues to build on its reputation as an “innovator” and an “early adopter” of new technologies that can enhance customer engagement. This is illustrated by the Company’s initiatives in:

o conversational commerce, such as:
industry-first applications on Facebook’s Messenger platform,
voice-enabled skill on Amazon’s Alexa platform,
Google Assistant applications,
Apple Business Chat applications,
Samsung Chatbot applications, and
Google Rich Business Messaging;

o new Progressive Web App (“PWA”) technology deployed on the Company’s category-leading mobile platform,
o significantly ramping up speed and functionality for its growing volume of mobile customers;

o Smart Gift – a digital gifting application that enables customers to send a gift even when they don’t have their
o recipient’s address – and allows the recipient to:
choose their gift from our family of brands,
choose their preferred delivery address, and
even pick their delivery date – involving the recipient in the full gifting experience;

o a new, responsive, widescreen website design we rolled out across our family of brands with enhanced navigation functionality; and

o our digital self-service portal, allowing customers to:
track their orders,
make modifications to delivery dates, addresses and even their gift message;
further enhancing our already historically high customer satisfaction metrics;

Business Segments

The Company operates in the following three business segments: Consumer Floral, Gourmet Foods & 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, Flowerama, Personalization Universe and Goodsey, while the Gourmet Foods & Gift Baskets segment includes the operations of Harry & David (which includes Wolferman's®, Moose Munch and Stockyards.com), Cheryl's (which includes Mrs. Beasley's), The Popcorn Factory, DesignPac and 1-800-Baskets (which includes Simply Chocolate). The BloomNet Wire Service segment includes the operations of BloomNet and Napco.

On May 30, 2017, the Company sold its Fannie May subsidiary, which was previously included within the Gourmet Foods & Gift Baskets segment – see Note 4. in Item 15 below for details.

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 each of fiscal 2018, 2017 and 2016, approximately 1%, 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, 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 boxes and containers, providing customers with a variety of assortments from which to choose. The Popcorn Factory brand pops premium popcorn and specialty snack products. The 1-800-BASKETS.COM® brand features a collection of gourmet gift baskets and related products confectioned by DesignPac, as well as through third parties. Simply Chocolates®, launched in November 2017, offers artisan chocolates and confections. 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.

Table of Contents

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” every day. 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 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, while our “Summer of a Million Smiles” charitable efforts deliver smiles to local charities, communities and service initiatives across the country. 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 providing value-added loyalty programs such as Celebrations Reminders and Passport and continually investing and innovating how and where it engages with its customers. 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 Facebook’s Messenger, Amazon’s Alexa voice-enabled platform, Google Assistant, Apple Business Chat or Samsung Chatbot. The Company also launched *Smart Gift*, a digital gifting application that enables customers to send a gift even when they don’t have their recipient’s address. The Company strives to improve our customer’s experience, and recently launched a digital self-service portal, allowing customers to

track their orders, make modifications to delivery dates, addresses, and even their gift message, further enhancing the Company's already historically high customer satisfaction metrics. In addition, through customer panel research, the Company has created a number of signature products designed to increase everyday purchases, including the "a DOG-able™" and "Fabulous Feline™" collections, Cookie Flower and Emoji arrangements, Cookie Cards, Fruit Bouquets, as well as Harry & David'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.

Strategic Online and Digital Relationships. The Company promotes its products through strategic relationships with leading Internet portals, search engines, and mobile and online social networks. The Company continues to leverage its experience and expertise in digital marketing where it is increasingly utilizing machine-learning in our search, display, video and other marketing programs.

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, while maintaining user privacy.

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 its 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 Universal Resource

Locators (“URL”), as well as through the URL of any of our family of brands, all with full multi-brand functionality. Customers can come directly to the Company’s websites or be linked by one of the Company’s portal providers, search engine, affiliate or social media relationships. A majority of the Company’s online revenues are derived from traffic coming directly to one of the Company’s URLs.

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.

Table of Contents

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 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 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 inter