



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

accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 29, 2006, was approximately \$156,548,000. The registrant has no non-voting common stock.

25,707,302

(Number of shares of class A common stock outstanding as of September 5, 2007)

36,858,465

(Number of shares of class B common stock outstanding as of September 5, 2007)

### DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Definitive Proxy Statement for the 2007 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 1, 2007

### INDEX

PART I		
Item 1.	Business	1
Item 1A.	Risk Factors	11
Item 1B.	Unresolved Staff Comments	19
Item 2.	Properties	20
Item 3.	Legal Proceedings	20
Item 4.	Submission of Matters to a Vote of Security Holders	20
PART II		
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities	23
Item 6.	Selected Financial Data	25
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	40
Item 8.	Financial Statements and Supplementary Data	40
Item 9.	Changes in and Disagreements with Accountants on Accounting	

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

	and Financial Disclosure	40
Item 9A.	Controls and Procedures	40
Item 9B.	Other Information	43
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	44
Item 11.	Executive Compensation	44
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	44
Item 13.	Certain Relationships and Related Transactions, and Director Independence	44
Item 14.	Principal Accountant Fees and Services	44
Part IV		
Item 15.	Exhibits and Financial Statement Schedules	45
	Signatures	47

### PART I

#### Item 1. BUSINESS

##### The Company

For more than 30 years, 1-800-FLOWERS.COM, Inc. - "Your Florist of Choice(R)" - has been providing customers around the world with the freshest flowers and finest selection of plants, gift baskets, gourmet foods and confections, and plush stuffed animals perfect for every occasion. 1-800-FLOWERS.COM(R) offers the best of both worlds: exquisite, florist-designed arrangements individually created by some of the nation's top floral artists and hand-delivered the same day, and spectacular flowers delivered through its "Fresh From Our Growers(TM)" program.

Customers can "call, click, or come in" to shop 1-800-FLOWERS.COM(R) 24 hours a day, 7 days a week at 1-800-356-9377 or [www.1800flowers.com](http://www.1800flowers.com). Sales and Service Specialists are available 24/7, and fast and reliable delivery is offered same day, any day. As always, 100 percent satisfaction and freshness is guaranteed. The 1-800-FLOWERS.COM collection of brands also includes home decor and children's gifts from Plow & Hearth(R) (1-800-627-1712 or [www.plowandhearth.com](http://www.plowandhearth.com)); Wind & Weather(R) ([www.windandweather.com](http://www.windandweather.com)), HearthSong(R) ([www.hearthsong.com](http://www.hearthsong.com)) and Magic Cabin(R) ([www.magiccabin.com](http://www.magiccabin.com)); gourmet gifts including popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or [www.thepopcornfactory.com](http://www.thepopcornfactory.com)); exceptional cookies and baked gifts from Cheryl&Co(R) (1-800-443-8124 or [www.cherylandco.com](http://www.cherylandco.com)); premium chocolates and confections from Fannie May Confections Brands ([www.fanniemay.com](http://www.fanniemay.com) and [www.harrylondon.com](http://www.harrylondon.com)); gourmet foods from Greatfood.com(R) ([www.greatfood.com](http://www.greatfood.com)), wine gifts from Ambrosia.com ([www.ambrosia.com](http://www.ambrosia.com)); gift baskets from 1-800-BASKETS.COM(R) ([www.1800baskets.com](http://www.1800baskets.com)) and the BloomNet(R) international wire service, which provides quality products and diverse services to a select network of florists.

1-800-FLOWERS.COM, Inc. stock is traded on the NASDAQ market under ticker symbol FLWS.

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

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, its Chairman and Chief Executive Officer, 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(R), a nationwide network including independent local florists selected for their high-quality products, superior customer service and order fulfillment and delivery capabilities.

The Company's online presence has enabled it to expand the number and types of products it can effectively offer to its customers. 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. Since 1995, the Company has broadened its product offering to include products that a customer could expect to find in a high-end flower shop, including a wide assortment of cut flowers and plants, candy, balloons, plush toys, giftware and gourmet gift baskets. In addition, the Company has further expanded its product

1

offering to include home and garden merchandise through its April 1998 acquisition of The Plow & Hearth, Inc.; unique and educational children's gifts through its acquisition of the HearthSong and Magic Cabin product lines in June 2001 and, more recently, weather-themed gifts and instruments through the acquisition of Wind & Weather in October 2005. The Company has also significantly expanded its presence in the gourmet food and gift baskets category through a combination of organic initiatives and strategic acquisitions beginning with the purchase of GreatFood.com, Inc. in November 1999, followed by the purchase of certain assets of The Popcorn Factory in May 2002, the addition of wine gifts through the acquisition of The WineTasting Network in November 2004, the addition of cookies and other bakery gift items through the purchase of Cheryl & Co. in March 2005 and, most recently, adding premium chocolates and confections with the acquisition of Fannie May Confections Brands in May 2006.

### The Company's Strategy

1-800-FLOWERS.COM's objective is to become the leading authority on thoughtful gifting, to serve an expanding range of our customers celebratory needs, thereby helping our customers 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.

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

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 home and garden merchandise, children's toys and games, gourmet popcorn, cookies and related baked and snack food products, premium chocolate and confections, as well as wine gifts. This extension of product offerings through its brands has enabled 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 believes its brands are characterized by:

- o Convenience. All of the Company's product offerings can be purchased either via the web, 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.
- o 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.
- o Delivery. 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 and Local Fulfillment or Design Centers ("LFC's"), Company-owned stores, LFC's, and franchise stores), with its nine distribution centers located in California, Illinois, New York, Nevada, Ohio, and Virginia, and third-party vendors who ship directly to the Company's customers. These fulfillment points are connected by the Company's proprietary "BloomLink(R)" communication system, a secure internet-based system through which orders and related information are transmitted.
- o Selection. Over the course of a year, the Company offers more than 2,200 varieties of fresh-cut flowers, floral arrangements and plants, more than 4,900 SKUs of gifts, gourmet foods, cookies, chocolates and wines, more than 10,000 different SKUs for the home, including garden accessories, casual lifestyle furnishings, weather themed instruments and gift items, and unique and educational toys and games.
- o Customer Service. The Company strives to ensure that customer service, whether online, via the telephone, or in one of its retail stores is of the highest caliber. The Company operates five customer service facilities 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, where appropriate, the Company intends to market other high-quality brands in addition to the 1-800-Flowers.com brand. The Company intends to accomplish this through organic growth, and where appropriate, through acquisition of complementary businesses.

In keeping with this strategy, in May 2006, the Company acquired Fannie May Confections Brands, a manufacturer and direct retailer of premium chocolates and confections, through its Fannie May(R), Harry London(R) and Fanny Farmer(R)

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

brands, while in March 2005, the Company acquired Cheryl & Co., a manufacturer and direct marketer of premium cookies and related baked gift items, and, in November 2004, The Winetasting Network, a distributor and direct-to-consumer marketer of wine. These acquisitions have enabled the Company to more fully develop its gourmet food and gift baskets product line, which the Company has identified as having significant revenue and earnings growth potential. In November 2005, the Company acquired Wind & Weather, a direct-marketer of weather-themed instruments and gift items. In June 2001 the Company acquired The Children's Group, Inc., including its two brands of unique and educational children's toys and games, HearthSong and Magic Cabin, deepening its product assortment in the home and children's gift category which the Company first entered in 1998, through its acquisition of The Plow & Hearth, Inc., a direct marketer of home decor and garden merchandise. As a complement to the Company's own brands and product lines, the Company has formed relationships with Lenox(R), Waterford(R), Godiva(R) and Junior's Cheesecake(R), as well as developing signature products with renowned celebrity floral artisans and celebrity chefs in order to provide its customers with differentiated signature products and further its position as a destination for all of their gifting needs.

Having now achieved a solid base of business, through organic efforts and strategic acquisitions, management's current focus is on improving the Company's earnings performance through a combination of gross margin improvement from expanded overseas product sourcing and expected manufacturing efficiencies, leveraging the Company's operating platform to reduce operating expenses, and changes in advertising and marketing strategies designed to increase effectiveness.

### Business Category Reorganization

With the addition of Fannie May Confections Brands in May 2006, and the growing importance of BloomNet to the Company's operating results, the Company restructured its organization during fiscal 2007 in order to strengthen its execution and customer focus, and align resources to better meet the demands of the consumers that it serves and to deliver improved financial performance. To enhance the visibility of the growth and profit characteristics of its different business categories, the Company has provided results for its Consumer Floral, Home & Children's Gifts, Gourmet Food and Gift Baskets, and BloomNet Wire Service businesses (see Management Discussion and Analysis of Financial Condition and Results of Operations section for details). The Consumer Floral business category includes the operations of the Company's flagship brand, 1-800-Flowers.com, while the Home & Children's Gifts business category includes the Company's Plow & Hearth, Wind & Weather, HearthSong and Magic Cabin brands. The Gourmet Food and Gift Baskets category includes the operations of Fannie May Confections Brands, Cheryl & Co., The Popcorn Factory and The Winetasting Network. The BloomNet Wire Service includes the operations of BloomNet and BloomNet Technologies.

### The Company's Products and Service Offerings

The Company offers a wide range of products including fresh-cut flowers, floral arrangements and plants, gifts, popcorn, gourmet foods, cookies, candy and wine, home and garden merchandise and unique toys and games for children. In order to maximize sales opportunities, products are not exclusive to certain brands, and may be sold across business categories. In addition to selecting its core products, the Company's merchandising team works closely with manufacturers and suppliers to select and design products that meet the seasonal, holiday and other special needs of its customers.

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

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

merchandising team works closely with manufacturers and suppliers to select and design its floral, gourmet foods and gift baskets, home and garden and children's toys, as well as other gift-related products that accommodate our customers' needs to celebrate a special occasion, convey a sentiment or cater to a casual lifestyle. As part of this continuing effort, the Company intends to continue to develop differentiated products and signature collections that our customers have embraced and come to expect from us, while we eliminate marginal performers from our product offerings.

Over the course of a year, the Company's product selection consists of:

3

**Flowers & Plants.** The Company offers more than 1,800 varieties of fresh-cut flowers and floral arrangements for all occasions and holidays, available for same-day delivery. The Company provides its customers with a choice of florist designed products, flowers delivered through its "Fresh From Our Growers(TM)" program, and its successful "celebrity" gift collections, including the unique floral creations of Jane Carroll, Julie McCann Mulligan, Jane Packer and Preston Bailey. The Company also offers approximately 400 varieties of popular plants to brighten the home and/or office, and accent gardens and landscapes.

**Gourmet Foods, Wine and Gifts.** The Company offers more than 1,000 premium popcorn and specialty snack products from The Popcorn Factory brand, as well as approximately 600 carefully selected gourmet food and sweet products from the GreatFood.com brand. Additionally, the Company has more than 1,100 premium cookies and baked gift items from Cheryl & Co., which are delivered in beautiful and innovative gift baskets and containers, providing customers with a variety of assortments to choose from. Through The Winetasting Network, the Company now offers its customers more than 500 different wines, primarily from the prestigious wine regions in California. Currently, restrictions exist in many states regarding interstate shipment of wine. As such, these items are only available in selected states. Through the Company's Fannie May Confections Brands, the Company offers more than 900 different selections of premium chocolate and candy. Many of the Company's gourmet products can be packaged in seasonal, occasion specific or decorative tins, fitting the "giftable" requirement of our individual customers, while also adding the capability to customize the tins with corporate logos and other personalized features for the Company's corporate customer's gifting needs. The Company offers more than 300 specially selected gift items, including plush toys, balloons, bath and spa items and gift baskets, candles, wreaths, ornaments, collectibles, home accessories and giftware.

**Home and Children's Gifts.** Through the Company's Plow & Hearth and Wind & Weather brands, the Company offers in excess of 10,000 SKUs for the home, hearth and outdoor living, including casual lifestyle furniture and home accessories, clothing, footwear, candles and lighting, vases, kitchen items and accents and gardening items, including tools and accessories, pottery, nature and weather-related products, books and related products. Through the HearthSong and Magic Cabin brands, the Company offers environmentally friendly toys, plush stuffed animals, crafts and books with educational, nature and art themes, as well as, natural-fiber soft dolls, kits and accessories for children ages 3 through 12.

### BloomNet Products and Services

In order to further strengthen its florist designed fulfillment capabilities, and to compete in the profitable florist-to-florist business, during fiscal 2005, the Company began expanding its network of BloomNet florists. 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

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

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(R), the Company's proprietary electronic communication system, (iv) 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 and (v) newly introduced other services including web hosting and point of sale. 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. With the completion of the Company's BloomNet investment phase in fiscal 2006, the company expects that BloomNet operations will continue to generate increasing profitability during fiscal 2008.

### Marketing and Promotion

The Company's marketing and promotion 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 make its brands synonymous with thoughtful gifting. To do this, the Company intends to continue to invest in its brands and acquisition of 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.

Enhance its Customer Relationships. The Company intends to deepen its relationship with its customers and be their trusted resource to fulfill their

4

need for quality, tasteful gifts. We plan to encourage more frequent and extensive use of our branded web sites, 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. Through customer panel research, the 1-800-Flowers.com brand recently introduced a number of new signature products designed to increase everyday purchases. From its celebrity floral artisan collection to the successful launch of its "Happy Hour" collection of margarita, martini and daiquiri inspired floral arrangements, which were advertised using innovative outdoor bus and billboard campaigns, the Company's marketing and product offerings continue to evolve to meet consumer needs. The Company will also continue to improve its customers' shopping experience by personalizing the features of its web site and, in compliance with the Company's privacy policy, utilizing customer information to target product promotions, identify individual and mass market consumption trends, remind customers of upcoming occasions and convey other marketing messages. In addition, the Company plans to drive purchase frequency improvements through the use of loyalty, thank-you and reminder programs, as well as targeting catalog content and mailings based on consumers changing purchasing habits. For example, the 1-800-Flowers.com brand recently introduced its Fresh Rewards Program(R) whereby customers earn credit towards future purchases upon achieving targeted spending levels, and the Fannie May Confections Brands implemented bounce back programs during its key holiday selling seasons. As of July 1, 2007, the Company's total database of unique customers numbered approximately 31.7 million (14.4 million of which have transacted business with the Company within the past 36 months).

Through its Business Gift Services division, the Company believes it has significant opportunity to expand its corporate customer base and leverage existing and/or develop successful gifting programs with corporate customers,



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

many of which are included in the Fortune 1000, such as AT&T, Bank of America, General Electric, Deloitte, PricewaterhouseCoopers, IBM, Verizon, Honeywell, Microsoft, Hewlett Packard, Ford, and UPS, to name a few. These programs focus on developing and/or strengthening strategic partnerships through the coordinated development of customized and personalized gifts for their clients and employees, and are tailored to meet the needs of small, mid-sized and large businesses. The Company helps its partners manage the Life Celebrations at Work(SM) programs, which include occasions such as Sympathy, Get Well, Anniversary, Birthday, Thank You and other daily floral needs. Additionally, through the many brands supported by the Company, the Business Gift Services division supports partners' holiday gifting, rewards and recognition programs, conferences and events, as well as client acquisition and customer retention programs to support their growth strategies.

Increase the Number of Online Customers. Online transactions are more cost efficient to process. Although the Company expects its customers to choose the most convenient channel available to them at the time of their purchase, the Company expects its trend of online growth to continue. In order to maximize the value of this trend, the Company intends to continue to:

- o further build brand awareness to drive customers directly to the Company's URLs, further reducing reliance on internet portals and search engines; currently, greater than 75% of online revenues comes directly to the Company's websites;
- o cost effectively promote its web site through internet portals, online networks and search engines and affiliates;
- o aggressively market the Company's web site in its marketing campaigns;
- o facilitate access to the Company's web site for its corporate customers by implementing direct links from their internal corporate networks, and develop customized co-branded micro-sites for larger corporate partners; and
- o actively promote the Company's Fresh Rewards loyalty program to increase customer frequency and average order value.

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:

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 the Plow & Hearth, Wind & Weather, HearthSong, Magic Cabin, Popcorn Factory and Cheryl & Co. catalogs,

5

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 web sites. For the year ended July 1, 2007, the Company mailed in excess of 125 million branded catalogs.

Off-line Media. The Company utilizes off-line media, including television, radio and print to market its 1-800-Flowers.com brand and products. Off-line media allows the Company to reach a large number of customers and to target particular market segments.

The Company's Strategic Online Relationships. The Company promotes its products through strategic relationships with leading internet portals, search engines and online networks. The Company's online relationships include, among others, AOL, Yahoo!, Microsoft, Google and Overture.

Affiliate and Co-Marketing Promotions. In addition to securing alliances with

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

frequently visited web sites, the Company developed an affiliate network that includes thousands of web sites operated by third parties. Affiliate participation may be terminated by them or by the Company at any time. These web sites earn commissions on purchases made by customers referred from their sites to the Company's web site. 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. For example, the Company has established co-marketing arrangements with American, Delta Airlines, Starwood Hotels, Choice Hotels, MyPoints.com, Upromise, Bank Of America, SunTrust, American Express, MasterCard, Visa and Paypal, among others.

E-mails. The Company is able to capitalize on its customer database of approximately 31.7 million unique customers (14.4 million of which have transacted business with the Company within the past 36 months), 17.0 million of which have transacted business with the Company on-line (9.8 million of which have transacted business with the Company online within the past 36 months), by utilizing cost-effective, targeted e-mails to notify customers of product promotions, remind them of upcoming gifting occasions and convey other marketing messages.

### The Company's Web Sites

The Company offers floral, plant, gift baskets, gourmet foods, chocolate and candies, plush and specialty gift products through its 1-800-FLOWERS.COM web site ([www.1800flowers.com](http://www.1800flowers.com)). Customers can come to the web site directly or be linked by one of the Company's portal providers, search engine, or affiliate relationships. These include AOL (keyword:flowers), Yahoo!, Microsoft, Google and Overture, as well as thousands of its online affiliate program members. The Company also offers home and garden products through Plow & Hearth ([www.plowandhearth.com](http://www.plowandhearth.com)), weather-themed gifts through Wind & Weather ([www.windandweather.com](http://www.windandweather.com)) premium chocolates and confections from Fannie May Confections Brands, ([www.fanniemay.com](http://www.fanniemay.com) and [www.harrylondon.com](http://www.harrylondon.com)), gourmet food products through GreatFood.com ([www.greatfood.com](http://www.greatfood.com)), premium popcorn and specialty food products through The Popcorn Factory ([www.thepopcornfactory.com](http://www.thepopcornfactory.com)), exceptional baked cookies and baked gifts from Cheryl&Co. ([www.cherylandco.com](http://www.cherylandco.com)), children's gifts through its HearthSong ([www.hearthsong.com](http://www.hearthsong.com)) and Magic Cabin ([www.magiccabin.com](http://www.magiccabin.com)), and wine gifts from The Winetasting Network ([www.ambrosiawine.com](http://www.ambrosiawine.com) and [www.winetasting.com](http://www.winetasting.com)) web sites. Greater than 75% of online revenues are derived from traffic coming directly to one of the Company's Universal Resource Locators ("URL's").

The Company's web sites 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 web sites offer customers detailed product information, complete with photographs, personalized shopping services, including search and order tracking, contests, sweepstakes, gift-giving suggestions and reminder programs, home decorating and how-to-tips and information about special events and offers. The Company has designed its web sites to be fast, secure and easy to use and allows customers to order products with minimal effort. The Company's web sites include the following key features in addition to the variety of delivery and shipping options (same day/next day) and 24 hour/7 day customer service that are available to all its customers:

### Technology Infrastructure

The Company believes it has been and continues to be a leader in implementing new technologies and systems to give its customers the best possible shopping experience, whether online or over the telephone. Through the use of customized

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

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 web sites, 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 warehouse, or for florist fulfilled or drop-shipped items, selects a vendor to fulfill the customer's order and electronically transmits the necessary information using BloomLink(R), 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.

In prior years, the Company has invested heavily in building a scalable technology platform to support the Company's order volume growth. The Company employs a combination of in-house personnel which concentrate on core competencies, including strategic direction and system and project management and implementation. However, more recently, the Company began outsourcing certain of its programming and support services in order to achieve cost efficiencies, allowing the Company to focus its resources on customer specific projects to ensure an enjoyable shopping experience while providing improved operational flexibility, additional capacity and system redundancy.

The Company's technology infrastructure, primarily consisting of the Company's web sites, 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. The Company plans to continue to invest in technologies that will improve and expand its e-commerce and telecommunication capabilities and utilize its informational technology expertise to improve the technology infrastructure of its recently acquired businesses to accommodate anticipated growth and improve their customers' shopping experiences.

### 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 LFC's, Company-owned stores, LFC's, and franchise stores), 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 internally-developed BloomLink(R), 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 independent wire services and direct relationships.

The Company intends to improve its fulfillment capabilities to make its operations more efficient by:

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

- o strengthening relationships and increasing the number of its vendors and BloomNet member florists, as appropriate, to ensure geographic coverage and shorten delivery times;
- o continuing to improve warehousing operations and reduce fulfillment times in support of its floral, gifts, gourmet food and wines, and home product lines; and
- o expanding the use of cross-dock logistics, and work with additional third party carriers to increase volume capability and utilizing cross brand fulfillment capabilities to mitigate the impact of fuel cost increases.

Fulfillment 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 products on a same-day or next-day basis to ensure freshness and to meet

7

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.

The Company's relationships with its BloomNet members are non-exclusive. Many florists, including many BloomNet florists, also are members of other floral fulfillment organizations. The BloomNet agreements generally are cancelable by either party with ten days notification and do not guarantee any orders, dollar amounts or exclusive territories from the Company to the florist. In fiscal 2001, the Company began entering into Order Fulfillment Agreement(s) with selected BloomNet members to operate LFC's in high volume markets to facilitate the fulfillment of the Company's floral and gift orders, improving the economics of florist fulfilled transactions, and improving the Company's ability to control product quality and branding. In consideration of the operator's satisfactory performance, the Company agrees to use reasonable efforts to forward orders with a specified minimum merchandise value during each year of the agreement. The Company has not granted an exclusive territory to any operator.

In certain instances, the Company is required to fulfill orders through non-BloomNet members, and transmits these orders to the fulfilling florist using the communication system of an independent wire service or via telephone.

In addition to its Florist Designed product, the Company offers its customers an alternative to florist designed products through its Fresh From Our Growers™ program, and by providing for a full array of products from bouquets to unique floral celebrity expert designed products.

As of July 1, 2007, the Company operates 8 floral retail stores, located in New York and 3 fulfillment centers. In addition, the Company has 95 franchised stores, located primarily in California, Colorado, Florida, New Jersey, New York and Texas. Company-owned stores serve as local points of fulfillment and enable the Company to test new products and marketing programs.

Gourmet Foods and Gift Baskets. In order to take advantage of improved margins, better control quality and to offer premium branded signature products in the

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

Gourmet Food and Gift Baskets product category, which was identified by the Company as one of its fastest growing and most profitable product lines, the Company has recently acquired several gourmet food retailers with manufacturing operations. The Company's premium chocolates are manufactured and distributed from its 200,000 square foot production facility in Akron, Ohio, and the Company's cookie and baked gifts are fulfilled from its 176,000 square foot baking 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. Most wine gift and fulfillment services are provided through the Company's 52,000 square foot fulfillment center in Napa, California and 42,000 square foot fulfillment center in Albany, New York. The remainder of the Company's wine and wine-related items are fulfilled by third-party gift vendors that ship products directly to the customer by next-day or other delivery options chosen by the customer.

Home and Children's Gifts. The Company packages and ships its home and children's gift products primarily from three locations; (i) a 300,000 square foot distribution center located in Madison, Virginia, (ii) a 200,000 square foot distribution center in Vandalia, Ohio and (iii) a 140,000 square foot distribution center in Reno, Nevada. A smaller portion of the Company's home and children's items are shipped by third-party product suppliers using next-day or other delivery options selected by the customer.

### Seasonality

The Company's quarterly results may experience seasonal fluctuations. Due to the Company's expansion into non-floral products, the Thanksgiving through Christmas holiday season, which falls within the Company's second fiscal quarter, generates the highest proportion of the Company's annual revenues. In addition, as the result of a number of major floral gifting occasions, including Mother's Day and Administrative Professionals Week, revenues also rise during the

8

Company's fiscal fourth quarter. Finally, results during the Company's fiscal first quarter are negatively impacted by the lack of major gift-giving holidays, and the disproportionate amount of overhead incurred during this slow period.

### 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 web site, 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:

- o undertake more extensive marketing campaigns for their brands and services;
- o adopt more aggressive pricing policies; and
- o 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:

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

- o retail floral shops, some of which maintain toll-free telephone numbers and web sites;
- o online floral retailers;
- o catalog companies that offer floral products;
- o floral telemarketers and wire services; and
- o supermarkets, mass merchants and specialty retailers with floral departments.

Similarly, the plant, gift basket, gourmet foods and wine, unique gifts, children's toys and home and garden 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:

- o price reductions, decreased revenues and lower profit margins;
- o loss of market share; and
- o 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:

- o user privacy;
- o pricing;
- o content;
- o connectivity;
- o intellectual property;
- o distribution;
- o taxation;
- o liabilities;

9

- o antitrust; and
- o 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.

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

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", "Plow & Hearth", "Wind & Weather", "GreatFood.com", "The Popcorn Factory", "TheGift.com", "HearthSong", "Magic Cabin", "Winetasting Network", "Cheryl&Co.", "Fannie May" and "Harry London". The Company also has rights to numerous domain names, including www.1800flowers.com, www.800flowers.com, www.flowers.com, www.plowandhearth.com, www.windandweather.com, www.greatfood.com, www.thepopcornfactory.com, www.hearthsong.com, www.magiccabin.com, www.ambrosiawine.com, www.winetasting.com, www.cherylandco.com, www.fanniemay.com and www.harrylondon.com. In addition, the Company has 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.

The Company intends to continue to license technology from third parties, including Oracle, Microsoft, Verizon and AT&T, for its communications technology and the software that underlies its business systems. The market is evolving and the Company may need to license additional technologies to remain competitive. The Company may not be able to license these technologies on commercially reasonable terms or at all.

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.

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

Intellectual property litigation is expensive and time-consuming and could divert management resources away from running the Company's business.

### Employees

As of July 1, 2007, the Company had a total of approximately 4,000 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. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks and uncertainties.

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 assumes that revenues will continue to grow; however, some of the Company's operating expenses are fixed in the short term. Sales of the Company's products are



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

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.

11

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:

- o seasonality;
- o the retail economy;
- o the timing and effectiveness of marketing programs;
- o the timing of the introduction of new products and services;
- o the Company's ability to find and maintain reliable sources for certain of its products;
- o the timing and effectiveness of capital expenditures;
- o the Company's ability to enter into or renew online marketing agreements; and
- o 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.

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.

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

Although the Company has been successful in its expanded product lines including plants, gift baskets, popcorn, gourmet food and wine, unique or specialty gifts, home and garden accessories, and children's gifts, 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.

12

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 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 web sites, 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

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

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 amount 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 located in California, Illinois, New York, Nevada, Ohio and Virginia. 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 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.

13

If the Company fails to continuously improve its web site, it may not attract or retain customers. If potential or existing customers do not find the Company's web site 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 web site, it must continuously improve its accessibility, content and ease of use. Customer traffic and the Company's business would be adversely affected if competitors' web sites are perceived as easier to use or better able to satisfy customer needs.

Competition in the floral, plant, gift basket, gourmet food and wine, specialty gift, children's toys and games and home and garden 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:

- o retail floral shops, some of which maintain toll-free telephone numbers, and web sites;
- o online floral retailers;
- o catalog companies that offer floral products;
- o floral telemarketers and wire services; and
- o supermarkets, mass merchants and specialty gift retailers with floral departments.

Similarly, the plant, gift basket, gourmet food, cookie, candy, wine, specialty gift, children's toys and home and garden 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:

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

- o price reductions, decreased revenue and lower profit margins;
- o loss of market share; and
- o increased marketing expenditures.

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, the Company will be 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 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:

- o import duties and quotas;
- o agricultural limitations and restrictions to manage pests and disease;
- o changes in trading status;
- o economic uncertainties and currency fluctuations;
- o severe weather;
- o work stoppages;
- o foreign government regulations and political unrest; and
- o trade restrictions, including United States retaliation against foreign trade practices.

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 Offering Circulars, 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

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

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](http://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).

A lack of security over the Internet may cause Internet usage to decline and cause the Company to expend capital and resources to protect against security breaches. A significant barrier to electronic commerce over the Internet has been the need for secure transmission of confidential information and transaction information. Internet usage could decline if any well-publicized compromise of security occurred. Additionally, computer "viruses" may cause the Company's systems to incur delays or experience other service interruptions. Such interruptions may materially impact the Company's ability to operate its business. If a computer virus affecting the Internet in general is highly publicized or particularly damaging, the Company's customers may not use the Internet or may be prevented from using the Internet, which would have an adverse effect on its revenues. As a result, the Company may be required to expend capital and resources to protect against or to alleviate these problems.

The Company's business could be injured by significant credit card or debit card fraud. Customers typically pay for their on-line or telephone orders with debit or credit cards. The Company's revenues and gross margins could decrease if it experienced significant credit card or debit card fraud. Failure to adequately detect and avoid fraudulent credit card or debit card transactions could cause the Company to lose its ability to accept credit cards or debit cards as forms of payment and result in charge-backs of the fraudulently charged amounts. Furthermore, widespread credit card or debit card fraud may lessen the Company's customers' willingness to purchase products through the Company's web sites 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

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

its web site 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:

- o system interruptions;
- o long response times; and
- o 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 AT&T and Verizon do not adequately maintain the Company's telephone service, the Company may experience system failures and its revenues may decrease. The Company is dependent on AT&T and Verizon to provide telephone services to its customer service centers. Although the Company maintains redundant telecommunications systems, if AT&T and Verizon experience system failures or fail to adequately maintain the Company's systems, the Company may experience interruptions and its customers might not continue to utilize its services. If the Company loses its telephone service, it will be unable to generate revenue. The Company's future success depends upon these third-party relationships because it does not have the resources to maintain its telephone 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.

Interruptions in Teleflora's Dove System or a reduction in the Company's access to this system may disrupt order fulfillment and create customer dissatisfaction. A minimal portion of the Company's customers' orders are communicated to the fulfilling florist through a third party system. This system is an order processing and messaging network used to facilitate the transmission of floral orders between florists. If this system experiences interruptions in the future, the Company could experience difficulties in fulfilling some of its customers' orders and those customers might not continue to shop with the Company.

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 Chairman and Chief Executive Officer, James F. McCann, and its President, 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

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

use of the Internet or the Company's web site. 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.

16

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 web sites, 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 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 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 may lose sales or incur significant expenses should states be

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

successful in imposing broader guidelines to state sales and use taxes. 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. A successful assertion by one or more states that we should collect sales or other taxes on the sale of merchandise could result in substantial tax liabilities for past sales, decrease our ability to compete with traditional retailers, and otherwise harm our business.

Currently, decisions of the U.S. Supreme Court restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the Internet. However, a number of states, as well as the U.S. Congress, have been considering various initiatives that could limit or supersede the Supreme Court's position regarding sales and use taxes on Internet sales. If any of these initiatives addressed the Supreme Court's constitutional concerns and resulted in a reversal of its current position, we could be required to collect additional sales and use taxes. The imposition by state and local governments of various taxes upon Internet commerce could create administrative burdens for us and could decrease our future sales.

A failure to integrate our acquisitions may cause the results of the acquired company to suffer as well as the results of the Company. 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.

17

Product liability claims may subject the Company to increased costs. Several of the products the Company sells, including perishable food and alcoholic beverage products, home and garden products, or children's toys 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 wine industry is subject to governmental regulation. The alcoholic beverage industry is subject to extensive specialized regulation under state and federal laws and regulations, including the following matters: licensing; the payment of excise taxes; advertising, trade and pricing practices; product labeling; sales to minors and intoxicated persons; changes in officers, directors, ownership or control; and, relationships among product producers, importers, wholesalers and retailers. While the Company believes that it is in material compliance with all applicable laws and regulations, in the event that it should be determined that the Company is not in compliance with any applicable laws or regulations, the Company could become subject to cease and desist orders, injunctive proceedings, civil fines, license revocations and other penalties which could have a material adverse effect on the Company's business and its results of operations.



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

In addition, the alcoholic beverage industry is subject to potential legislation and regulation on a continuous basis including in such areas as direct and Internet sales of alcohol. Certain states still prohibit the sale of alcohol into their jurisdictions from out of state wineries and/or retailers. There can be no assurance that new or revised laws or regulations, increased licensing fees, specialized taxes or other regulatory requirements will not have a material adverse effect on the Company's business and its results of operations. While, to date, the Company has been able to obtain and retain licenses necessary to sell wine at retail, the failure to obtain renewals or otherwise retain such licenses in one or more of the states in which the Company operates would have a material adverse effect on the Company's business and its results of operations. The Company's growth strategy for its wine business includes expansion into additional states; however, there can be no assurance that the Company will be successful in obtaining the required permits or licenses in any additional states. From time to time, the Company may introduce new marketing initiatives, which may be expected to undergo regulatory scrutiny. There can be no assurance that such initiatives will not be stymied by regulatory criticism.

The Company is dependent on common carriers to deliver its wine shipments. The company uses UPS and FedEx to deliver its wine shipments. If UPS or FedEx were to terminate delivery services for alcoholic beverages in certain states, as it did in 1999 in Florida, Nevada and Connecticut, the Company would likely incur significantly higher shipping rates that would have a material adverse effect on the Company's business and its results of operations. If any state prohibits or limits intrastate shipping of alcoholic beverages by third party couriers, the Company would likely incur significantly higher shipping rates that would have a material adverse effect on the Company's business and its results of operations.

There are various health issues regarding wine consumption. Since 1989, federal law has required health-warning labels on all alcoholic beverages. Although an increasing number of research studies suggest that health benefits may result from the moderate consumption of wine, these suggestions have been widely challenged and a number of groups advocate increased governmental action to restrict consumption of alcoholic beverages. Restrictions on the sale and consumption of wine or increases in the taxes imposed on wine in response to concerns regarding health issues may have a material adverse effect on the Company's business and operating results. There can be no assurance that there will not be legal or regulatory challenges to the industry as a whole, and any such legal or regulatory challenge may have a material adverse effect on the Company's business and results of operations.

18

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 as such, could have a material adverse effect on the Company's business and its results of operations.

Additional Information

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

The Company's internet address is [www.1800flowers.com](http://www.1800flowers.com). We make available, through the investor relations tab located on our website at [www.1800flowers.com](http://www.1800flowers.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 of 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 1, 2007 that remain unresolved.

19

### Item 2. PROPERTIES

Location	Type	Principal Use	Squ Foo
Carle Place, NY	Office	Headquarters and customer service	9
Alamogordo, NM	Office	Customer service	2
Ardmore, OK	Office	Customer service	2
Madison, VA	Office and warehouse	Distribution, administrative and customer service	30
Napa, CA	Office and warehouse	Distribution, administrative and customer service	6
Westerville, OH	Office and warehouse	Distribution and customer service	2

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

Chicago, IL	Office	Administrative and customer service	1
Albany, NY	Warehouse	Distribution	4
Reno, NV	Warehouse	Distribution	14
Vandalia, OH	Warehouse	Distribution	20
Obetz, OH	Warehouse	Distribution	17
Lake Forest, IL	Office, plant and warehouse	Manufacturing, distribution and administrative	14
Akron, OH	Office, plant and warehouse	Manufacturing, distribution and administrative	20
Westerville, OH	Office, plant and warehouse	Manufacturing, distribution and administrative	4

In addition to the above properties, the Company leases approximately 356,000 square feet for owned or franchised retail stores and local fulfillment centers with lease terms typically ranging from 5 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

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

### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the last quarter of our fiscal year ended July 1, 2007.

### EXECUTIVE OFFICERS OF THE REGISTRANT

The following individuals were serving as executive officers of the Company and certain of its subsidiaries on September 5, 2007:

Name	Age	Position with the Company
-----		

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

James F. McCann.....	56	Chairman of the Board and Chief Executive Officer
Christopher G. McCann.....	46	Director and President
Gerard M. Gallagher.....	54	Senior Vice President of Business Affairs, General Counsel, and Corporate Secretary
Thomas G. Hartnett.....	44	Chief Operating Officer of Consumer Floral
Tim Hopkins.....	53	President of Madison Brands
Stephen J. Bozzo.....	52	Senior Vice President and Chief Information Officer
William E. Shea.....	48	Senior Vice President, Treasurer, and Chief Financial Officer
David Taiclet.....	44	Chief Executive Officer - Fannie Mae
Monica Woo.....	51	President of Consumer Floral

James F. McCann has served as the Company's Chairman of the Board and Chief Executive Officer since inception. 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 a member of the board of directors of Gtech Corporation, Willis Holdings Group and Boyd's Collection. James F. McCann is the brother of Christopher G. McCann, a Director and the President of the Company.

Christopher G. 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 serves on the board of directors of Neoware, Inc. and Bluefly, Inc. and is a member of the Board of Trustees of Marist College. Christopher G. McCann is the brother of James F. McCann, the Company's Chairman of the Board and Chief Executive Officer.

Gerard M. Gallagher has been our 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.

Thomas G. Hartnett has been Chief Operating Officer of the 1-800-Flowers.com Consumer Floral brand since July 2006. Before holding this position, Mr. Hartnett held various positions within the Company since joining the Company in 1991, including Senior Vice President of Retail and Fulfillment, Controller, Director of Store Operations, Vice President of Retail Operations and Vice President of Strategic Development.

Tim Hopkins has been President of the Madison Brands division since January 2007 and prior to that served as President of Specialty Brands since joining the Company in March 2005. Before joining the Company, Mr. Hopkins was Chief Executive Officer and Director of Sur La Table, Inc., a multi-channel upscale specialty retailer of gourmet culinary and serveware products. Prior to Sur La

Table, Inc., Mr. Hopkins was President, Corporate Merchandising and Logistics, Worldwide, for Borders Group, Inc. Before this position, Mr. Hopkins held other senior level positions in the multi-channel retailing sector.

Stephen J. Bozzo has been our Chief Information Officer since May 2007. Prior to joining the Company, Mr. Bozzo served as Chief Information Officer for the International Division of MetLife Insurance Company since 2001. Mr. Bozzo's business background includes senior executive positions at Bear Stearns Inc. as Managing Director Principle, AIG as Senior Vice President Telecommunications and Technical Services and Chase Manhattan Bank, where he was Senior Vice President Global Telecommunications.

David Taiclet has been our Chief Executive Officer of the Fannie May Confections Brands since April 2006, upon our acquisition of the company. Prior thereto, Mr. Taiclet was a Co-Founder of 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. Mr. Taiclet spent four years in a variety of management positions, including the Strategy and Business Development Group of Cargill, Inc. 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.

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

Monica L. Woo has been President of the 1-800-Flowers.com Consumer Floral brand since July 2006 after having been the 1-800-Flowers.com brand Chief Marketing Officer since joining the Company in January 2004. Prior to joining the Company, Ms. Woo had founded a successful consulting practice focusing on growth strategies for such multi-national clients as Deutsche Bank, Northwest Airlines and Campbell's Soup. Prior to that, Ms. Woo was the President of Bacardi Global Brands, Inc., of Bacardi Limited. Before holding this position, Ms. Woo had assumed a number of senior executive positions in the financial services and consumer packaged goods sectors, including the Global Marketing Director of Citibank On-line and the Citibank Private Bank, and the Sr. Vice President, European Marketing Director of Diageo PLC.

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

## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

1-800-FLOWERS.COM's Class A common stock trades on The Nasdaq Stock Market under the ticker symbol "FLWS." There is no established public trading market for the Company's Class B common stock. The following table sets forth the reported high and low sales prices for the Company's Class A common stock for each of the fiscal quarters during the fiscal years ended July 1, 2007 and July 2, 2006.

	High	Low
	-----	-----
Year ended July 1, 2007		
July 3, 2006 - October 1, 2006	\$ 6.10	\$ 4.33
October 2, 2006 - December 31, 2006	\$ 6.35	\$ 4.94
January 1, 2007 - April 1, 2007	\$ 8.00	\$ 5.84
April 2, 2007 - July 1, 2007	\$ 9.47	\$ 7.66
Year ended July 2, 2006		
July 4, 2005 - October 2, 2005	\$ 7.86	\$ 6.45
October 3, 2005 - January 1, 2006	\$ 7.65	\$ 5.83
January 2, 2006 - April 2, 2006	\$ 7.10	\$ 6.16
April 3, 2006 - July 2, 2006	\$ 7.90	\$ 5.39

#### 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.

#### Holders

As of September 5, 2007, there were approximately 276 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 5, 2007, there were approximately 21 stockholders of record of the Company's Class B common stock.

#### Dividend Policy

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

Although the Company has never declared or paid any cash dividends on its Class A or Class B common stock, the Company anticipates that it will generate increasing free cash flow in excess of its capital investment requirements. As such, 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.

### Resales of Securities

36,923,303 shares of Class A and Class B common stock are "restricted securities" as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market from time to time only if registered or if they qualify for an exemption from registration under Rule 144 or 701 under the Securities Act. As of September 5, 2007, all of such shares of the Company's common stock could be sold in the public market pursuant to and

23

subject to the limits set forth in Rule 144. Sales of a large number of these shares could have an adverse effect on the market price of the Company's Class A common stock by increasing the number of shares available on the public market.

### Purchases of Equity Securities by the Issuer

On May 12, 2005, the Company's Board of Directors increased the Company's authorization to repurchase the Company's Class A common stock up to \$20 million, from the previous authorized limit of \$10 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. Under this program, as of July 1, 2007, the Company had repurchased 1,534,677 shares of common stock for \$11.3 million, of which \$0.2 million (24,627 shares), \$1.3 million (182,000 shares) and \$9.8 million (1,328,050 shares) were repurchased during the fiscal years ending July 1, 2007, July 2, 2006 and July 3, 2005, respectively. In a separate transaction, during fiscal 2007, the Company's Board of Directors authorized the repurchase of 3,010,740 shares from an affiliate. The purchase price was \$15,689,000 or \$5.21 per share. The repurchase was approved by the disinterested members of the Company's Board of Directors and is in addition to the Company's existing stock repurchase authorization of \$20.0 million, of which \$8.7 remains authorized but unused.

The following table sets forth, for the months indicated, the Company's purchase of Class A common stock during the fiscal year ending July 1, 2007, which includes the period July 3, 2006 through July 1, 2007.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
(in thousands, except average price paid per share)			
7/3/06 - 7/30/06	-	-	-
7/31/06-8/27/06	-	\$-	-
8/28/06-10/01/06	9.1	\$5.11	9.1
10/2/06-10/29/06	-	\$-	-
10/30/06-11/26/06	-	\$-	-
11/27/06-12/31/06	3,011.1	\$5.21	0.3
1/1/07-1/28/07	2.0	\$6.20	2.0
1/29/07-2/25/07	13.2	\$6.90	13.2
2/26/07-4/1/07	-	\$-	-

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

4/2/07-4/29/07	-	\$-	-
4/30/07-5/27/07	-	\$-	-
5/28/07-7/1/07	-	\$-	-
	-----	-----	-----
Total	3,035.4	\$5.22	24.6
	=====	=====	=====

24

Item 6. SELECTED FINANCIAL DATA

The selected consolidated statement of income data for the years ended July 1, 2007, July 2, 2006 and July 3, 2005 and the consolidated balance sheet data as of July 1, 2007 and July 2, 2006, 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 income data for the years ended June 27, 2004 and June 29, 2003, and the selected consolidated balance sheet data as of July 3, 2005, June 27, 2004 and June 29, 2003, 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 Fannie May Confections Brands, Inc. in May 2006, Wind & Weather in October 2005, Cheryl & Co. in March 2005 and The Winetasting Network in November 2004. The following financial data reflects the results of operations of these subsidiaries since their respective dates of acquisition. 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 (1)			
	July 1, 2007	July 2, 2006	July 3, 2005	Ju
	-----			
	(in thousands, except per share d			
Consolidated Statement of Income Data:				
Net revenues:				
E-commerce	\$ 749,238	\$ 706,001	\$ 620,831	\$



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

Other (retail/wholesale)	163,360	75,740	49,848
Total net revenues	912,598	781,741	670,679
Cost of revenues	520,132	456,097	395,028
Gross profit	392,466	325,644	275,651
Operating expenses:			
Marketing and sales	262,303	239,573	198,935
Technology and development	21,316	19,819	14,757
General and administrative	56,017	43,978	35,572
Depreciation and amortization	17,837	15,765	14,489
Total operating expenses	357,473	319,135	263,753
Operating income	34,993	6,509	11,898
Other income (expense), net	(5,984)	(141)	1,349
Income before income taxes	29,009	6,368	13,247
Income tax expense (benefit)	11,891	3,181	5,398
Net income	\$17,118	\$ 3,187	\$ 7,849
Net income per common share:			
Basic	\$0.27	\$0.05	\$0.12
Diluted	\$0.26	\$0.05	\$0.12
Shares used in the calculation of net income per common share:			
Basic	63,786	65,100	66,038
Diluted	65,526	66,429	67,402

Note (1): The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to June 30. Fiscal years ended July 1, 2007, July 2, 2006, June 27, 2004 and June 29, 2003 consisted of 52 weeks, while the fiscal year ended July 3, 2005 consisted of 53 weeks.

Note (2): Effective July 4, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method. The impact of the adoption, which reduced net income per common share by \$0.05 for both of the fiscal years ended July 1, 2007 and July 2, 2006, is described in further detail in Note 2 of the Company's Annual Financial Statements.

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

### Consolidated Balance Sheet Data:

Cash and equivalents and short-term investments	\$ 16,087	\$ 24,599	\$ 46,6
Working capital	51,419	44,250	44,7
Investments-non current	-	-	
Total assets	352,507	346,634	251,9
Long-term liabilities	78,911	79,221	5,2
Total stockholders' equity	201,031	193,183	186,3

26

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

#### Overview

For more than 30 years, 1-800-FLOWERS.COM, Inc. - "Your Florist of Choice(R)" - has been providing customers around the world with the freshest flowers and finest selection of plants, gift baskets, gourmet foods and confections, and plush stuffed animals perfect for every occasion. 1-800-FLOWERS.COM(R) offers the best of both worlds: exquisite, florist-designed arrangements individually created by some of the nation's top floral artists and hand-delivered the same day, and spectacular flowers delivered through its "Fresh From Our Growers(TM)" program.

Customers can "call, click or come in" to shop 1-800-FLOWERS.COM 24 hours a day, 7 days a week via the phone or Internet (1-800-356-9377 or [www.1800flowers.com](http://www.1800flowers.com)) or by visiting a Company-operated or franchised store. Sales and Service Specialists are available 24/7, and fast and reliable delivery is offered same day, any day. As always, 100 percent satisfaction and freshness is guaranteed. The 1-800-FLOWERS.COM collection of brands also includes home decor and

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

children's gifts from Plow & Hearth(R) (1-800-627-1712 or www.plowandhearth.com); Wind & Weather(R) (www.windandweather.com), HearthSong(R) (www.hearthsong.com) and Magic Cabin(R) (www.magiccabin.com); gourmet gifts including popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or www.thepopcornfactory.com); exceptional cookies and baked gifts from Cheryl&Co. (R) (1-800-443-8124 or www.cherylandco.com); premium chocolates and confections from Fannie May Confections Brands (www.fanniemay.com); gourmet foods from GreatFood.com(R) (www.greatfood.com); wine gifts from Ambrosia.com (www.ambrosiawine.com); gift baskets from 1-800-BASKETS.COM(R) (www.1800baskets.com) and the BloomNet(R) international floral wire service, which provides quality products and diverse services to a select network of florists.

1-800-FLOWERS.COM, Inc. stock is traded on the NASDAQ market under ticker symbol FLWS.

### Category Information

During the first quarter of fiscal 2007, the Company segmented its organization to improve execution and customer focus and to align its resources to meet the demands of the markets it serves. The following table presents the contribution of net revenues, gross profit and "EBITDA" (earnings before interest, taxes, depreciation and amortization) from each of the Company's business categories.

	Years Ended			
	July 1, 2007	% Change	July 2, 2006	% Ch
Net revenues				
	(in thousands)			
Net revenues:				
1-800-Flowers.com Consumer Floral	\$491,404	8.7%	\$452,188	
BloomNet Wire Service	44,379	48.5%	29,884	
Gourmet Food & Gift Baskets	192,698	83.5%	105,002	
Home & Children's Gifts	186,948	(5.1%)	196,919	
Corporate (*)	1,652	19.0%	1,388	(
Intercompany eliminations	(4,483)	(23.2%)	(3,640)	(1
Total net revenues	\$912,598	16.7%	\$781,741	
	=====		=====	

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

	Years Ended			
	July 1, 2007	% Change	July 2, 2006	% Ch
Gross Profit				
			(in thousands)	
Gross profit:				
1-800-Flowers.com Consumer Floral	\$192,921 39.3%	13.2%	\$170,352 37.7%	
BloomNet Wire Service	24,844 56.0%	55.4%	15,989 53.5%	3
Gourmet Food & Gift Baskets	88,207 45.8%	85.9%	47,442 45.2%	9
Home & Children's Gifts	85,899 45.9%	(6.2%)	91,555 46.5%	1
Corporate (*)	764 46.2%	38.7%	551 39.7%	(3
Intercompany eliminations	(169)		(245)	
Total gross profit	\$392,466 =====	20.5%	\$325,644 =====	1
	43.0%		41.7%	

	Years Ended			
	July 1, 2007	% Change	July 2, 2006	% Ch
EBITDA(**)				
			(in thousands)	
Category Contribution Margin:				
1-800-Flowers.com Consumer Floral	\$64,580	38.8%	\$46,518	(
BloomNet Wire Service	14,169	99.4%	7,106	2
Gourmet Food & Gift Baskets	26,377	286.4%	6,827	79
Home & Children's Gifts	(1,215)	(117.0%)	7,134	
Category Contribution Margin Subtotal	103,911	53.7%	67,585	1
Corporate (*)	(51,081)	(12.7%)	(45,311)	(3
EBITDA	\$52,830 =====	137.2%	\$22,274 =====	(1

(\*) 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

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

directly to the above categories based upon usage, are included within corporate expenses as they are not directly allocable to a specific category.

(\*\*) Performance is measured based on category contribution margin or category EBITDA, reflecting only the direct controllable revenue and operating expenses of the categories. As such, management's measure of profitability for these categories does not include the effect of corporate overhead, described above, nor does it include depreciation and amortization, other income (net), and income taxes. Management utilizes EBITDA 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 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 (with additional adjustments) to measure compliance with covenants such as interest coverage and debt incurrence. EBITDA is also used by the Company to evaluate and price potential acquisition candidates. EBITDA has 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

28

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.

### Reconciliation of Net Income to EBITDA:

	Years Ended	
	July 1, 2007	July 2, 2006
	(in thousands)	
Net income	\$17,118	\$3,187
Add:		
Interest expense	7,390	1,407
Depreciation and amortization	17,837	15,765
Income tax expense	11,891	3,181
Less:		
Interest income	1,381	1,260
Other income (expense)	25	6
EBITDA	\$52,830	\$22,274

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

### Results of Operations

The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to June 30. Fiscal years 2007 and 2006, which ended on July 1, 2007 and July 2, 2006, respectively, consisted of 52 weeks, while fiscal year 2005, which ended on July 3, 2005, consisted of 53 weeks.

### Net Revenues

	Years Ended			
	July 1, 2007	% Change	July 2, 2006	% Ch
	(in thousands)			
Net revenues:				
E-Commerce	\$749,238	6.1%	\$706,001	1
Other	163,360	115.7%	75,740	5
	\$912,598	16.7%	\$781,741	1
	=====		=====	

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

The Company's revenue growth of 16.7% during the fiscal year ended July 1, 2007 was due to a combination of organic growth, as well as the acquisitions of Fannie May Confections Brands, a manufacturer and retailer of premium chocolates and other confections, acquired on May 1, 2006 and Wind & Weather, a direct marketer of weather-themed gifts, acquired on October 31, 2005. Organic revenue growth, including post acquisition growth of the aforementioned acquisitions, adjusted for the disposition of certain Company owned floral retail stores, during fiscal 2007 was approximately 8%, reflecting: (i) the Company's strong brand name recognition, (ii) continued leveraging of its existing customer base, and (iii) cost effective spending on its marketing and selling programs, designed to improve customer acquisition and accelerate top-line growth.

The Company's revenue growth of 16.6% during the fiscal year ended July 2, 2006 was due to a combination of organic growth, as well as the acquisitions of Cheryl & Co., acquired on March 28, 2005, Wind & Weather, acquired on October 31, 2005, and Fannie May Confections Brands, acquired on May 1, 2006. Organic revenue growth, including post acquisition growth of the aforementioned acquisitions, during fiscal 2006 was approximately 10%, adjusted for the additional week of sales during fiscal 2005 which consisted of 53 weeks, compared to fiscal 2006 which consisted of 52 weeks.

The Company fulfilled approximately 11,635,000, 11,315,000 and 10,213,000 orders through its e-commerce (combined online and telephonic) sales channel during the fiscal years ended July 1, 2007, July 2, 2006, and July 3, 2005, respectively, representing increases of 2.8% and 10.8% over the respective prior fiscal years. The Company's e-commerce (combined online and telephonic) sales channel average order value increased 3.2% to \$64.37 during fiscal 2007, and 2.6% to \$62.39 during fiscal 2006, as a result of increased service and shipping charges (in line with industry norms) to partially offset the impact of increased fuel costs

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

passed on from freight carriers.

Other revenues for the fiscal years ended July 1, 2007 and July 2, 2006, increased in comparison to the same periods of the prior year, primarily as a result of the retail/wholesale contribution of Fannie May Confections Brands, as well as the continued membership growth and wholesale floral product and service offerings from the Company's BloomNet Wire Service category. Additionally, during fiscal 2006, other revenues increased from the retail/wholesale contribution of Cheryl & Co.

The 1-800-Flowers.com Consumer Floral category includes the 1-800-Flowers brand operations which derives revenue from the sale of consumer floral products through its e-commerce sales channels (telephonic and online sales) and company-owned and operated retail floral stores, as well as royalties from its franchise operations. Net revenues during the fiscal years ended July 1, 2007 and July 2, 2006, increased by 8.7% and 7.2% over the respective prior year periods, primarily from a combination of increased average order value and order volumes from its e-commerce sales channel, offset in part by lower retail sales from its company-owned floral stores due to the planned transition of Company stores to franchise ownership.

The BloomNet Wire Service category includes revenues from membership fees as well as other service offerings to florists. Net revenues during the fiscal years ended July 1, 2007 and July 2, 2006 increased by 48.5% and 37.2% over the respective prior year periods, primarily as a result of increased florist membership, expanded product and service offerings, pricing initiatives and an increase in wholesale floral product sales.

The Gourmet Food & Gift Basket category includes the operations of the Cheryl & Co., Fannie May Confections Brands, The Popcorn Factory and The Winetasting Network brands. Revenue is derived from the sale of cookies, baked gifts, premium chocolates and confections, gourmet popcorn and wine gifts through its E-commerce sales channels (telephonic and online sales) and company-owned and operated retail stores under the Cheryl & Co. and Fannie May Confections brands, as well as wholesale operations. Net revenue during the fiscal year ended July 1, 2007 increased by 83.5% over the prior year period, as a result of the contribution of Fannie May Confections Brands, which was acquired in May 2006, and strong organic growth within the Cheryl & Co. Net revenue during the fiscal year ended July 2, 2006 increased by 93.5% over the prior year period, as a result of the contribution of Cheryl & Co., which was acquired in March 2005, and strong organic growth within The Popcorn Factory brand.

The Home & Children's Gifts category includes revenues from the Plow & Hearth, Wind & Weather, Problem Solvers, Madison Place, HearthSong and Magic Cabin brands. Revenue is derived from the sale of home decor and children's gifts through its e-commerce sales channels (telephonic and online sales) or company-owned and operated retail stores operated under the Plow & Hearth brand. Net revenue during the year ended July 1, 2007 decreased by 5.1% over the prior year period due to a lack of new "hit" products and an overall macro decline in customer demand within this category. During the second quarter of fiscal 2007, efforts to expand titles outside of the core Plow & Hearth brand did not attract the level of customer demand to justify the increase in marketing costs. In response to the poor results, during the third quarter of fiscal 2007, management implemented several changes to improve the performance within this category: (i) revised the aforementioned plans to expand and add titles, (ii) strengthened the management team, (iii) improved the creative look and feel of the catalogs and (iv) revised the circulation plans for all titles to place more

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

focus on the category's existing customer base. Net revenue during the fiscal year ended July 2, 2006 increased by 14.3% over the prior year period as a result of increased average order value and order volumes from its e-commerce sales channel, including the contribution of Wind & Weather, as well as higher retail sales from the Plow & Hearth brand company-owned stores due to the addition of 3 new store locations.

30

Over the past several years, through a combination of organic efforts and strategic acquisitions, the Company has rapidly grown its revenues, achieving a solid base of business which is approaching \$1 billion. For fiscal 2008, the Company anticipates continued strong growth in its key business categories: Consumer Floral, BloomNet Wire Service and Gourmet Food & Gift Baskets, partially offset by anticipated flat growth in its Home and Children's category. As a result, the Company anticipates organic revenue growth for the year in a range of 7-9 percent.

### Gross Profit

	Years Ended			
	July 1, 2007	% Change	July 2, 2006	% Change
	(in thousands)			
Gross profit	\$392,466	20.5%	\$325,644	18.1%
Gross margin %	43.0%		41.7%	

Gross profit consists of net revenues less cost of revenues, which is comprised primarily of florist fulfillment costs (primarily 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 merchandise operations.

Gross profit increased during the fiscal years ended July 1, 2007 and July 2, 2006, in comparison to the same periods of the prior years, primarily as a result of the revenue growth described above and an increase in gross margin percentage. Gross margin percentage increased 130 basis points and 60 basis points during the fiscal years ended July 1, 2007 and July 2, 2006, respectively, as a result of product mix and pricing initiatives as well as continued improvements in customer service, fulfillment, including improved outbound shipping rates, and merchandising programs.

The 1-800-Flowers.com Consumer Floral category gross profit for the fiscal years ended July 1, 2007 and July 2, 2006, increased by 13.2% and 6.8% over the respective prior year periods, as a result of the aforementioned increase in net revenues. During fiscal 2007, gross margin percentage increased 160 basis points to 39.3% as a result of improvements in sourcing, fulfillment logistics, including reduced outbound shipping rates, and pricing initiatives. During fiscal 2006, gross margin percentage decreased 10 basis points to 37.7% as a result of increases in carrier fuel charges.

The BloomNet Wire Service category gross profit for the fiscal years ended July 1, 2007 and July 2, 2006, increased by 55.4% and 35.6% over the respective prior year periods as a result of increases in florist membership, product and service



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

offerings, pricing initiatives and floral wholesale product sales. Gross margin percentage increased 250 basis points to 56.0% primarily as a result of sales mix, whereas, the gross margin percentage during fiscal 2006 decreased by 60 basis points as a result of increases in carrier fuel charges on sales of floral wholesale products.

The Gourmet Food & Gift Basket category gross profit for the fiscal year ended July 1, 2007 increased by 85.9% over fiscal 2006 as a result of the incremental revenue generated by Fannie May Confections Brands and strong organic growth within the Cheryl & Co. brand, combined with an increase in gross margin percentage of 60 basis points, to 45.8%, as a result of improvements in outbound shipping rates and merchandising programs across all brands within the category. Gross profit for the fiscal year ended July 2, 2006 increased by 99.3% over fiscal 2005 as a result of the incremental revenue and higher gross margin percentage generated by Cheryl & Co., combined with the strong organic growth of The Popcorn Factory brand. As a result, during fiscal 2006, gross margin percentage increased by 130 basis points to 45.2%.

The Home & Children's Gift category gross profit for the fiscal year ended July 1, 2007 decreased by 6.2% over the respective prior year period as a result of the aforementioned decline in sales, combined with a lower gross margin percentage, which declined by 60 basis points to 45.9%, due to sales mix and markdowns to move inventory. During the year ended July 2, 2006, gross profit increased by 14.8% as a result of the aforementioned increase in revenue combined with an improvement in gross margin percentage, which increased 20 basis points to 46.5%, as a result of sourcing initiatives.

31

During fiscal year 2008, the Company expects that its gross margin percentage will continue to improve, primarily through: (i) growth of its higher margin business categories including Gourmet Food and Gift Baskets and BloomNet Wire Service, (ii) improved product sourcing, new product development and process improvement initiatives implemented during the fiscal 2007, (iii) continued improvements in performance of the Consumer Floral segment, and (iv) refocus on the core Home and Children's Gifts' businesses.

### Marketing and Sales Expense

	Years Ended			
	July 1, 2007	% Change	July 2, 2006	% Change
	(in thousands)			
Marketing and sales	\$262,303	9.5%	\$239,573	20.4%
Percentage of sales	28.7%		30.6%	

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.

During the fiscal year ended July 1, 2007, marketing and sales expenses decreased from 30.6% to 28.7% of net revenues, reflecting improved operating leverage from a number of cost-saving initiatives and the completion of the

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

investment phase of the Company's BloomNet Wire Service business, including the absorption of incremental personnel to expand membership, increase product and service offerings, and increase BloomNet Technologies penetration. This leverage was achieved through significant improvement within the Company's 1-800-Flowers Consumer Floral, BloomNet Wire Service and Gourmet Food & Gift Baskets categories, as efforts to grow the Home and Children's Gifts businesses through the introduction of titles outside of the core Plow & Hearth brand did not attract the necessary level of customer demand to justify the costs.

During the fiscal year ended July 2, 2006, marketing and sales expense increased as a percentage of net revenues as a result of several factors including: (i) the Company's efforts to increase new customer acquisition and accelerate top-line growth through increased marketing efforts both online and via broadcast advertising, (ii) investments required to expand its BloomNet business-to-business floral operations, (iii) incremental expenses associated with the Company's recent acquisitions, which, while contributing to revenue growth and achieving higher gross product margins, also incur higher marketing expenses, and (iv) the impact of adopting SFAS No. 123(R), "Share-Based Payment" - refer to Footnote 2 of the Company's Annual Financial Statements for further details.

During the fiscal years ended July 1, 2007 and July 2, 2006, marketing and sales expense increased over the respective prior year periods by 9.5% and 20.4% as a result of several factors, including: (i) incremental expenses associated with the acquisition of Fannie May Confections Brands in May 2006 and Cheryl & Co. in March 2005, (ii) incremental variable costs to accommodate higher sales volumes, and (iii) personnel associated with the expansion of the BloomNet Wire Service business. Additionally, as previously mentioned, fiscal 2006 was further impacted by the adoption of SFAS No. 123(R), "Share-Based Payment".

During the fiscal year ended July 1, 2007, the Company added approximately 3,464,000 new e-commerce customers, compared to 3,556,000 and 3,311,000 in fiscal 2006 and fiscal 2005, respectively. Of the 6,630,000 total customers who placed e-commerce orders during the fiscal year ended July 1, 2007, approximately 47.7% were repeat customers, compared to 46.4% in both prior fiscal years, reflecting the Company's ongoing focus on deepening the relationship with its existing customers as their trusted source for gifts and services for all of their celebratory occasions.

During fiscal 2007, the Company focused on improving its operating expense ratio through a number of cost saving initiatives, including catalog printing and e-mail pricing improvements, as well as a review of the type, quantity and effectiveness of its marketing programs. In addition to the improved operating results expected now that the Company has completed the investment phase of its BloomNet florist business, during fiscal 2008, the Company expects that

32

marketing and sales expense will continue to decrease as a percentage of net revenue in comparison to the prior years.

### Technology and Development Expense

	Years Ended			
	July 1, 2007	% Change	July 2, 2006	% Change
	(in thousands)			
Technology and development	\$21,316	7.6%	\$19,819	34.3%

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

Percentage of sales 2.3% 2.5%

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

During the fiscal year ended July 1, 2007, technology and development expense decreased to 2.3% of net revenue, reflecting improved operating leverage, however, technology and development expense increased by 7.6% over the prior year period, as a result of the incremental expenses associated with Fannie May Confections Brands, as well as for increases in the cost of maintenance and license agreements required to support the Company's technology platform.

During the fiscal year ended July 2, 2006, technology and development expense increased to 2.5% of net revenues primarily as a result of: (i) incremental expenses associated with system improvements required by The Winetasting Network, and integration projects for Wind & Weather, which was absorbed into the Company's Madison, Virginia operations, (ii) content development for the upgrade of the Company's 1-800-Flowers.com branded website which was launched in the fourth quarter of fiscal 2006, (iii) increases in the cost of maintenance and license agreements required to support the Company's technology platform, and (iv) the impact of adopting SFAS No. 123(R), "Share-Based Payment" - refer to Footnote 2 of the Company's Annual Financial Statements for further details.

During the fiscal years ended July 1, 2007, July 2, 2006, and July 3, 2005 the Company expended \$32.3 million, \$33.6 million, and \$24.0 million, respectively, on technology and development, of which \$11.0 million, \$13.8 million, and \$9.2 million, respectively, has been capitalized.

The Company believes that continued investment in technology and development is critical to attaining its strategic objectives. While many of its acquisition-related integration projects are complete, as a result of incremental expenses associated with Fannie May Confections Brands, the Company expects that its spending for the fiscal 2008 will remain consistent, as a percentage of net revenues, in comparison to the prior year.

### General and Administrative Expenses

	Years Ended			
	July 1, 2007	% Change	July 2, 2006	% Change
	(in thousands)			
General and administrative	\$56,017	27.4%	\$43,978	23.6%
Percentage of sales	6.1%		5.6%	

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 increased 27.4% and 23.6% during the fiscal years ended July 1, 2007 and July 2, 2006, respectively, and by 50 basis points and 30 basis points as a percentage of net revenues in comparison to the

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

respective prior year periods, primarily as a result of: (i) incremental expenses associated with the acquisitions of Fannie May Confections Brands in

33

May 2006 and Cheryl & Co. in March 2005, (ii) increased legal and professional fees, and (iii) the achievement of certain performance related bonus targets in fiscal 2007 which were not earned in the prior fiscal years. Additionally, general and administrative expense during fiscal 2006 was further impacted by incremental expenses associated with the Company's corporate headquarters relocation in December 2005, and the impact of adopting SFAS No. 123(R), "Share-Based Payment" - refer to Footnote 2 of the Company's Annual Financial Statements for further details.

Although the Company believes that its current general and administrative infrastructure is sufficient to support existing requirements and drive operating leverage, the Company expects that its general and administrative expenses as a percentage of net revenue during fiscal 2008 will remain consistent with the prior year period.

### Depreciation and Amortization

	Years Ended			
	July 1, 2007	% Change	July 2, 2006	% Change
	(in thousands)			
Depreciation and amortization	\$17,837	13.1%	\$15,765	8.8%
Percentage of sales	2.0%		2.0%	

Depreciation and amortization expense increased by 13.1% and 8.8% during the fiscal years ended July 1, 2007 and July 2, 2006, respectively, in comparison to the prior year periods as a result of the incremental amortization expense related to the intangibles established as a result of the acquisitions of Fannie May Confections Brands and Wind & Weather in fiscal 2006 and Cheryl & Co. in fiscal 2005, as well as depreciation associated with recently completed technology projects designed to provide improved order/warehouse management functionality across the enterprise.

The Company believes that continued investment in its infrastructure, primarily in the areas of technology and development, including the improvement of the technology platforms are critical to attaining its strategic objectives. As a result of these improvements, and the increase in amortization expense associated with intangibles established as a result of recent acquisitions, the Company expects that depreciation and amortization for the fiscal 2008 will remain consistent as a percentage of net revenues in comparison to the prior year.

### Other Income (Expense)

	Years Ended			
	July 1, 2007	% Change	July 2, 2006	% Change
	(in thousands)			

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

Interest income	\$1,381	9.6%	\$1,260	(25.4)%
Interest expense	(7,390)	(425.2)%	(1,407)	(192.5)%
Other, net	25	316.7%	6	(95.7)
	-----		-----	
	\$ (5,984)	(4,144.0)%	\$ (141)	(110.5)%
	=====		=====	

Other income (expense) consists primarily of interest income earned on the Company's investments and available cash balances, offset by interest expense, primarily attributable to the Company's long-term debt, and revolving line of credit. In order to finance the acquisition of Fannie May Confections Brands, on May 1, 2006, the Company entered into a \$135.0 million secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility, as amended on October 24, 2006, currently includes an \$85.0 million term loan and a \$60.0 million revolving facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed \$85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands, Inc.

The decrease in other income (expense) during the fiscal years ended July 1, 2007 and July 2, 2006, respectively, in comparison to prior years was the result

34

of higher interest expense on the Company's 2006 Credit Facility. Additionally, other income (expense) during fiscal 2006 decreased as a result of lower interest income, resulting from a decrease in average cash balances, due to the acquisitions of the The Winetasting Network in November 2004, Cheryl & Co. in March 2005, Wind & Weather in November 2005, and Fannie May Confections Brands in May 2006, which was partially funded from the Company's existing cash balances, as well as the Company's stock buy-back program.

### Income Taxes

During the fiscal years ended July 1, 2007, July 2, 2006 and July 3, 2005, the Company recorded income tax expense of \$11.9 million, \$3.2 million and \$5.4 million, respectively. The Company's effective tax rate for the fiscal years ended July 1, 2007, July 2, 2006 and July 3, 2005 was 41.0%, 50.0% and 40.7%, respectively. The decrease in the effective tax rate during the fiscal year ended July 1, 2007 resulted from the dilution of the impact of stock-based compensation recognized in accordance with SFAS No. 123(R), over an increased level of income before taxes in comparison the prior fiscal year. The increase in the effective tax rate during the fiscal year ended July 2, 2006, resulted from the impact of stock-based compensation recognized in accordance with SFAS No. 123(R) which was adopted in fiscal 2006, thus resulting in an increase in the annual effective income tax rate for fiscal 2006 of approximately 8.5% from the associated book/tax differences in accounting for incentive stock options. Additionally, the Company's effective tax rate for the fiscal years ended July 1, 2007, July 2, 2006 and July 3, 2005 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, partially offset by various tax credits.

At July 1, 2007, the Company's net operating loss carryforwards were approximately \$27.7 million, which, if not utilized, will begin to expire in fiscal year 2020.

## Quarterly Results of Operations

The following table provides unaudited quarterly consolidated results of operations for each quarter of fiscal years 2007 and 2006. 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.

	Three months ended					
	Jul. 1, 2007	Apr. 1, 2007	Dec.31, 2006	Oct. 1, 2006	Jul. 2, 2006	Apr. 2, 2006
	(in thousands, except per share data)					
Net revenues:						
Ecommerce (telephonic/online)	\$194,228	\$175,592	\$270,159	\$109,259	\$185,042	\$161,8
Other	37,593	38,187	59,707	27,873	26,088	18,1
Total net revenues	231,821	213,779	329,866	137,132	211,130	180,0
Cost of revenues	132,833	127,092	177,889	82,318	126,778	109,7
Gross profit	98,988	86,687	151,977	54,814	84,352	70,2
Operating expenses:						
Marketing and sales	61,873	59,023	99,037	42,370	60,287	53,1
Technology and development	5,485	5,469	5,201	5,161	5,083	5,1
General and administrative	14,545	14,198	13,931	13,343	11,804	11,1
Depreciation and amortization	4,812	4,447	3,834	4,744	4,555	3,8
Total operating expenses	86,715	83,137	122,003	65,618	81,729	73,4
Operating income (loss)	12,273	3,550	29,974	(10,804)	2,623	(3,1
Other income (expense), net	(979)	(1,347)	(2,178)	(1,480)	(678)	5
Income (loss) before income taxes	11,294	2,203	27,796	(12,284)	1,945	(2,6
Income tax expense (benefit)	4,732	1,150	10,874	(4,865)	928	(1,0
Net income (loss)	\$6,562	\$1,053	\$16,922	\$ (7,419)	\$1,017	\$ (1,5
Basic and diluted net income (loss) per share:	\$0.10	\$0.02	\$0.26	(\$0.11)	\$0.02	\$(0.

=====

The Company's quarterly results may experience seasonal fluctuations. Due to the Company's expansion into non-floral products, including the acquisitions of Wind & Weather and Fannie May Confections Brands. during fiscal 2006, the Thanksgiving through Christmas holiday season, which falls within the Company's second fiscal quarter, generates the highest proportion of the Company's annual revenues. Additionally, as the result of a number of major floral gifting occasions, including Mother's Day, Administrative Professionals Week and Easter, revenues also rise during the Company's fiscal fourth quarter. For fiscal 2008, however, the Easter holiday will occur in the Company's third fiscal quarter, thus creating high growth in the Company's third fiscal quarter and lower growth in the Company's fourth fiscal quarter.

#### Liquidity and Capital Resources

At July 1, 2007, the Company had working capital of \$51.4 million, including cash and equivalents of \$16.1 million, compared to working capital of \$44.3 million, including cash and equivalents of \$24.6 million, at July 2, 2006.

Net cash provided by operating activities of \$32.3 million for the fiscal year ended July 1, 2007 was primarily attributable to net income, adjusted to add back non-cash charges for depreciation and amortization, deferred income taxes and stock-based compensation, offset in part by increases in inventory (primarily due to the strong growth in the Gourmet Food and Gift Baskets category as well as slower growth in the Home & Children's Gifts category) and

36

receivables (due to the strong growth in the Gourmet Food and Gift Baskets category as well as the BloomNet Wire Service category).

Net cash used in investing activities of \$16.7 million for the fiscal year ended July 1, 2007 was primarily attributable to capital expenditures related to the Company's technology and distribution infrastructure, offset in part by the sale of certain Company owned floral retail stores to franchise operators.

Net cash used in financing activities of \$24.2 million for the fiscal year ended July 1, 2007, was primarily due to the scheduled repayments (net) of the Company's debt and bank borrowings against the Company's 2006 Credit Facility and capital lease obligations of \$10.3 million, and the repurchase of 3,035,367 shares of treasury stock in the amount of \$15.9 million, offset by the net proceeds received upon the exercise of employee stock options.

On May 1, 2006, the Company entered into a secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility includes an \$85.0 million term loan and a \$60.0 million revolving credit facility, as adjusted, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed \$85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands, Inc. The Company is required to pay the outstanding term loan in quarterly installments, with the final installment payment due on May 1, 2012. The 2006 Credit Facility contains various conditions to borrowing, and affirmative and negative financial covenants.

The Company had historically utilized cash generated from operations to meet its cash requirements, including all operating, investing and debt repayment activities. However, due to the Company's continued expansion into non-floral products, including the acquisition of Fannie May Confections Brands, as well as its recent acquisition of \$15.9 million of treasury stock, during the second

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

half of fiscal 2007, the Company expects to borrow against its existing line of credit to fund working capital requirements related to pre-holiday manufacturing and inventory purchases. At July 1, 2007, the Company had no outstanding amounts under its revolving credit facility, but anticipates borrowing against the facility prior to the end of its first quarter. The Company anticipates that such borrowings will peak during its fiscal second quarter, before being repaid prior to the end of that quarter.

On May 12, 2005, the Company's Board of Directors increased the Company's authorization to repurchase the Company's Class A common stock up to \$20 million, from the previous authorized limit of \$10 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. Under this program, as of July 1, 2007, the Company had repurchased 1,534,677 shares of common stock for \$11.3 million. In a separate transaction, during fiscal 2007, the Company's Board of Directors authorized the repurchase of 3,010,740 shares (\$15.7 million) from an affiliate. The purchase price was \$15,689,000, or \$5.21 per share. The repurchase was approved by the disinterested members of the Company's Board of Directors and is in addition to the Company's existing stock repurchase authorization of \$20.0 million, of which \$8.7 million remains authorized but unused.

At July 1, 2007, the Company's contractual obligations consist of:

	Total	Payments due by period		
		Less than 1 year	1 - 3 years	3 - 5 years
			(in thousands)	
			1 - 3	3 - 5
			years	years
Long-term debt (including interest)	\$ 93,113	\$14,741	\$32,610	\$45,762
Capital lease obligations	99	41	27	25
Operating lease obligations	68,577	10,812	16,436	13,182
Sublease obligations	6,232	2,099	2,904	976
Purchase commitments (*)	33,788	33,788	-	-
Total	\$201,809	\$61,481	\$51,977	\$59,945

37

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

### 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,



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

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, less discounts, returns and credits. Net revenues are recognized upon product shipment. Shipping terms are FOB shipping point. 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 of 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. 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

The Company states inventory at the lower of cost or market. In assessing the realization of inventories, we are required to make judgments as to future demand requirements and compare that with inventory levels. It is possible that changes in consumer demand could cause a reduction in the net realizable value of inventory.

### Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired and is evaluated annually for impairment. The cost of intangible assets with determinable lives is amortized to reflect the pattern of economic benefits consumed, on a straight-line basis, over the estimated periods benefited, ranging from 3 to 16 years.

The Company performs an annual impairment test as of the first day of its fiscal fourth quarter, or earlier if indicators of potential impairment exist, to evaluate goodwill. Goodwill is considered impaired if the carrying amount of the reporting unit exceeds its estimated fair value. In assessing the recoverability of goodwill, the Company reviews both quantitative as well as qualitative factors to support its assumptions with regard to fair value. Judgment regarding the existence of impairment indicators is based on market conditions and operational performance of the Company. Future events could cause the Company to conclude that impairment indicators exist and that goodwill and other intangible assets associated with our acquired businesses is impaired.

### Capitalized Software

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

The carrying value of capitalized software, both purchased and internally developed, is periodically reviewed for potential impairment indicators. Future events could cause the Company to conclude that impairment indicators exist and that capitalized software is impaired.

### Stock-based Compensation

SFAS No. 123R requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. The Company determines the fair value of stock options issued by using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model considers a range of assumptions related to volatility, dividend yield, risk-free interest rate and employee exercise behavior. Expected volatilities are based on historical volatility of the Company's stock price. The dividend yield is based on historical experience and future expectations. The risk-free interest rate is derived from the US Treasury yield curve in effect at the time of grant. The Black-Scholes model also incorporates expected forfeiture rates, based on historical behavior. Determining these assumptions are subjective and complex, and therefore, a change in the assumptions utilized could impact the calculation of the fair value of the Company's stock options.

### Income Taxes

The Company has established deferred income 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 has recognized as a deferred tax asset the tax benefits associated with losses related to operations, which are expected to result in a future tax benefit. Realization of this deferred tax asset assumes that we will be able to generate sufficient future taxable income so that these assets will be realized. The factors that we consider 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.

### Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 applies to all tax positions accounted for under SFAS No. 109, "Accounting for Income Taxes" and defines the confidence level that a tax position must meet in order to be recognized in the financial statements. The interpretation requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained by the taxing authority as of the reporting date. If a tax position is not considered "more-likely-than-not" to be sustained then no benefits of the position are to be recognized. FIN 48 requires additional disclosures and is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("Statement No. 157") which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. Statement No. 157 is effective for fiscal years beginning after November 15, 2007. The transition adjustment of the difference between the carrying amounts and the fair values of those financial instruments should be recognized as a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The company is currently evaluating the

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

impact of adopting the provisions of Statement No. 157.

39

### Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's earnings and cash flows are subject to fluctuations due to changes in interest rates primarily from its investment of available cash balances in money market funds and investment grade corporate and U.S. government securities, as well as from outstanding debt. As of July 1, 2007, the Company's outstanding debt, including current maturities, approximated \$78.1 million, of which \$76.5 million was variable rate debt. Each 25 basis point change in interest rates would have a corresponding effect on our interest expense of approximately \$0.2 million as of July 1, 2007. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

### 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

None.

### 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) or 15d-15(e) of the Securities Exchange Act of 1934, as of July 1, 2007. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of July 1, 2007.

40

#### Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13-a-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 and includes those policies and procedures that:

- o pertain to the maintenance of records that, in reasonable detail,

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

accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- o 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 authorization of management and directors of the Company; and
- o 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.

Management assessed the effectiveness of the Company's internal control over financial reporting as of July 1, 2007. In making this assessment, management used the criteria established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this assessment, management believes that, as of July 1, 2007 the Company's internal control over financial reporting is effective.

Ernst & Young LLP, the Company's independent registered public accounting firm, has issued a report on the effectiveness of the Company's internal control over financial reporting, as of July 1, 2007; their report is included below.

41

### Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of 1-800-FLOWERS.COM, Inc. and Subsidiaries

We have audited 1-800-FLOWERS.COM, Inc. and Subsidiaries (the "Company") internal control over financial reporting as of July 1, 2007, based on criteria established in Internal Control--Integrated Framework 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.

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

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, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and 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 1, 2007, 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 1, 2007 and July 2, 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended July 1, 2007 and our report dated September 10, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Melville, New York  
September 10, 2007

42

### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended July 1, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

43

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information set forth in the Proxy Statement for the 2007 annual meeting of stockholders is incorporated herein by reference.

The Company maintains a Code of 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](http://www.1800flowers.com). Any amendment or waiver to the Code of 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. A copy of the Code of 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

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

The information set forth in the Proxy Statement for the 2007 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 set forth in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information set forth in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference.

44

### PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

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

	Page
	----
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of July 1, 2007 and July 2, 2006	F-2
Consolidated Statements of Income for the years ended July 1, 2007, July 2, 2006 and July 3, 2005	F-3
Consolidated Statements of Stockholders' Equity for the years ended July 1, 2007, July 2, 2006 and July 3, 2005	F-4
Consolidated Statements of Cash Flows for the years ended July 1, 2007, July 2, 2006 and July 3, 2005	F-5
Notes to Consolidated Financial Statements	F-6

(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 not required, or because the required information is included in the consolidated financial statements or notes thereto.

(a) (3) Index to Exhibits

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

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 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8 are management contracts or compensatory plans or arrangements.

Exhibit	Description
-----	-----
*2.1	Stock Purchase Agreement dated as of April 5, 2006, by and among 1-800-FLOWERS.COM, Inc., FMCB Acquisition Co., Inc., Fannie May Confections Brands, Inc. (formerly known as Alpine Confections, Inc.), Alpine Confections Holdings, Inc., Alpine Confections Canada, ULC, Maxfield Candy Company, Kencraft, Inc., the security holders of Fannie May Confections Brands, Inc. whose names are set forth on the signature pages thereto and R. Taz Murray, as Sellers' Representative. (Current Report on Form 8-K filed on May 4, 2006, Exhibit 2.1)
*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/A (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.
*10.2	Credit Agreement dated as of May 1, 2006 among 1-800-FLOWERS.COM, Inc. the Subsidiary Borrowers party thereto, the Guarantors party thereto and JP Morgan Chase Bank, N.A. as administrative agent. (Current Report on Form 8-K filed on May 5, 2006, Exhibit 99.1).
*10.3	1997 Stock Option Plan, as amended. (Registration Statement on Form S-1 (No. 333-78985) filed on May 21, 1999, Exhibit 10.10)
*10.4	1999 Stock Incentive Plan. (Registration Statement on Form S-1/A (No. 333-78985) filed on July 27, 1999, Exhibit 10.18)
45	
*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	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)
*10.7	2003 Long Term Incentive and Share Award Plan (Definitive Proxy Statement filed on October 27, 2003 (No. 000-26841), Annex D)
*10.8	Employment Agreement, dated as of May 2, 2006 by and among 1-800-FLOWERS.COM, Inc., Fannie May Confections Brands, Inc. and David Taiclet.
*10.9	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)
10.10	Amendment No. 1 dated as of October 24, 2006 to the Credit Agreement dated as of May 1, 2006 among 1-800-FLOWERS.COM, Inc. the Subsidiary Borrowers party thereto, the Guarantors party thereto and JP Morgan Chase Bank, N.A., as administrative agent.
10.11	Revolving Credit Commitment Increase Letter, effective as of October 25, 2006, pursuant to the Credit Agreement dated as of May 1, 2006



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

among 1-800-FLOWERS.COM, Inc. the Subsidiary Borrowers party thereto, the Guarantors party thereto and JPMorgan Chase Bank, N.A., as administrative agent.

- 21.1 Subsidiaries of the Registrant.
  - 23.1 Consent of Independent Registered Public Accounting Firm.
  - 24.1 Powers of Attorney (included in the signature page).
  - 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 

### 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 12, 2007

1-800-FLOWERS.COM, Inc.

By: /s/ James F. McCann

-----

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

James F. McCann  
Chief Executive Officer  
Chairman of the Board of Directors  
(Principal Executive Officer)

POWER OF ATTORNEY

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 12, 2007

By: /s/ James F. McCann  
-----

James F. McCann  
Chief Executive Officer  
Chairman of the Board of Directors  
(Principal Executive Officer)

Dated: September 12, 2007

By: /s/ William E. Shea  
-----

William E. Shea  
Senior Vice President Finance and  
Administration (Principal Financial  
and Accounting Officer)

47

Dated: September 12, 2007

By: /s/ Christopher G. McCann  
-----

Christopher G. McCann  
Director, President

Dated: September 12, 2007

By: /s/ Lawrence Calcagno  
-----

Lawrence Calcagno  
Director

Dated: September 12, 2007

By: /s/ James A. Cannavino  
-----

James A. Cannavino  
Director

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

Dated: September 12, 2007

By: /s/ John J. Conefry, Jr.  
-----

John J. Conefry, Jr.  
Director

Dated: September 12, 2007

By: /s/ Leonard J. Elmore  
-----

Leonard J. Elmore  
Director

Dated: September 12, 2007

By: /s/ Jan L. Murley  
-----

Jan L. Murley  
Director

Dated: September 12, 2007

By: /s/ Jeffrey C. Walker  
-----

Jeffrey C. Walker  
Director

F-3

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of  
1-800-FLOWERS.COM, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of 1-800-FLOWERS.COM, Inc. and Subsidiaries (the "Company") as of July 1, 2007 and July 2, 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended July 1, 2007. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of 1-800-FLOWERS.COM, Inc. and Subsidiaries at July 1, 2007 and July 2, 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended July 1, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement

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

schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," as revised, effective July 4, 2005.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of 1-800-FLOWERS.COM, Inc.'s internal control over financial reporting as of July 1, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 10, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Melville, New York  
September 10, 2007

F-1

1-800-FLOWERS.COM, Inc. and Subsidiaries  
Consolidated Balance Sheets  
(in thousands, except share data)

	July 1, 2007
Assets	
Current assets:	
Cash and equivalents	\$ 16,087
Receivables, net	17,010
Inventories	62,051
Deferred income taxes	19,260
Prepaid and other	9,576
Total current assets	123,984
Property, plant and equipment, net	62,561
Goodwill	112,131
Other intangibles, net	52,750
Deferred income taxes	-
Other assets	1,081
Total assets	\$352,507
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable and accrued expenses	\$ 62,433

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

Current maturities of long-term debt and obligations under capital leases	10,132
<hr style="border-top: 1px dashed black;"/>	
Total current liabilities	72,565
Long-term debt and obligations under capital leases	68,000
Deferred income taxes	8,230
Other liabilities	2,681
<hr style="border-top: 1px dashed black;"/>	
Total liabilities	151,476
Commitments and contingencies	
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, 30,298,019 and 29,872,183 shares issued in 2007 and 2006, respectively	303
Class B common stock, \$.01 par value, 200,000,000 shares authorized, 42,138,465 shares issued in 2007 and 2006	421
Additional paid-in capital	269,270
Retained deficit	(38,893)
Treasury stock, at cost-4,590,717 and 1,555,350 Class A shares in 2007 and 2006, respectively, and 5,280,000 Class B shares	(30,070)
<hr style="border-top: 1px dashed black;"/>	
Total stockholders' equity	201,031
<hr style="border-top: 1px dashed black;"/>	
Total liabilities and stockholders' equity	\$352,507
<hr style="border-top: 1px dashed black;"/>	

See accompanying notes.

F-2

### 1-800-FLOWERS.COM, Inc. and Subsidiaries Consolidated Statements of Income (in thousands, except per share data)

	Years ended	
	July 1, 2007	July 2, 2006
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net revenues	912,598	\$781,741
Cost of revenues	520,132	456,097
<hr style="border-top: 1px dashed black;"/>		<hr style="border-top: 1px dashed black;"/>
Gross profit	392,466	325,644
Operating expenses:		
Marketing and sales	262,303	239,573
Technology and development	21,316	19,819
General and administrative	56,017	43,978
Depreciation and amortization	17,837	15,765
<hr style="border-top: 1px dashed black;"/>		<hr style="border-top: 1px dashed black;"/>
Total operating expenses	357,473	319,135
<hr style="border-top: 1px dashed black;"/>		<hr style="border-top: 1px dashed black;"/>
Operating income	34,993	6,509
Other income (expense):		
Interest income	1,381	1,260

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

Interest expense	(7,390)	(1,407)
Other, net	25	6
	-----	-----
Total other income (expense), net	(5,984)	(141)
	-----	-----
Income before income taxes	29,009	6,368
Income tax expense	11,891	3,181
	-----	-----
Net income	\$17,118	\$3,187
	=====	=====
Net income per common share:		
Basic	\$0.27	\$0.05
	=====	=====
Diluted	\$0.26	\$0.05
	=====	=====
Weighted average shares used in the calculation of net income per common share:		
Basic	63,786	65,100
	=====	=====
Diluted	65,526	66,429
	=====	=====

See accompanying notes.

F-3

1-800-FLOWERS.COM, Inc. and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
Years ended July 1, 2007, July 2, 2006 and July 3, 2005  
(in thousands, except share data)

	Common Stock				Additional Paid-in Capital	Retained Deficit	Unearned Stock-Based Compensation
	Class A		Class B				
	Shares	Amount	Shares	Amount			
Balance at June 27, 2004	29,428,143	\$295	42,144,465	\$421	\$255,829	\$(67,047)	\$ -
Exercise of employee stock options	228,695	2	-	-	1,247	-	-
Employee stock purchase plan	75,846	1	-	-	466	-	-
Issuance of restricted stock	161,795	2	-	-	1,355	-	(1,357)
Amortization of unearned restricted stock, net	-	-	-	-	-	-	192
Forfeiture of unvested restricted stock	(5,876)	-	-	-	(49)	-	49

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

Stock repurchase program	-	-	-	-	-	-	-
Net Income	-	-	-	-	-	7,849	-
-----							
Balance at July 3, 2005	29,888,603	300	42,144,465	421	258,848	(59,198)	(1,116)
-----							
Exercise of employee stock options and vesting of restricted stock	133,499	1	-	-	649	-	-
Stock-based compensation	-	-	-	-	4,284	-	-
Reclassification of unvested restricted stock upon adoption of SFAS No.123R-Share Based Payment	(155,919)	(2)	-	-	(1,114)	-	1,116
Stock repurchase program	-	-	-	-	-	-	-
Conversion of Class B common stock into Class A common stock	6,000	-	(6,000)	-	-	-	-
Net Income	-	-	-	-	-	3,187	-
-----							
Balance at July 2, 2006	29,872,183	299	42,138,465	421	262,667	(56,011)	-
-----							
Exercise of employee stock options and vesting of restricted stock	425,836	4	-	-	2,003	-	-
Stock-based compensation	-	-	-	-	4,600	-	-
Stock repurchase program	-	-	-	-	-	-	-
Net Income	-	-	-	-	-	17,118	-
-----							
Balance at July 1, 2007	30,298,019	\$ 303	42,138,465	\$421	\$269,270	\$(38,893)	-

See accompanying notes.

F-4

1-800-FLOWERS.COM, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(in thousands)

Years e  
-----  
July 1, 2007 July 2,

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

Operating activities:		
Net income	\$17,118	\$3,1
Reconciliation of net income to net cash provided by operations:		
Depreciation and amortization	17,837	15,7
Deferred income taxes	10,325	2,1
Bad debt expense	1,880	4
Stock-based compensation	4,600	4,3
Other non-cash items	(791)	1
Changes in operating items, excluding the effects of acquisitions:		
Receivables	(5,737)	1,3
Inventories	(9,800)	(9,1
Prepaid and other	771	5,5
Accounts payable and accrued expenses	(5,562)	(1,0
Other assets	177	(6,2
Other liabilities	1,523	(1,7
Net cash provided by operating activities	32,341	14,7
Investing activities:		
Capital expenditures	(18,043)	(20,4
Acquisitions, net of cash acquired	(347)	(96,8
Dispositions	1,463	
Purchases of investments	-	
Proceeds from sales of investments	-	6,6
Other	242	
Net cash used in investing activities	(16,685)	(110,7
Financing activities:		
Acquisition of treasury stock	(15,877)	(1,3
Proceeds from employee stock options/stock purchase plan	2,007	5
Proceeds from bank borrowings and revolving line of credit	110,000	105,0
Repayment of notes payable and bank borrowings	(119,913)	(22,4
Repayment of capital lease obligations	(385)	(1,2
Other	-	
Net cash provided by (used in) financing activities	(24,168)	80,6
Net change in cash and equivalents	(8,512)	(15,3
Cash and equivalents:		
Beginning of year	24,599	39,9
End of year	\$16,087	\$ 24,5

Supplemental Cash Flow Information:

- Interest paid amounted to \$7,390, \$1,407, and \$481 for the years ended July 1, 2007, July 2, 2006 and July 3, 2005, respectively.
- The Company paid income taxes of approximately \$1,429, \$23 and \$762, net of tax refunds received, for the years ended July 1, 2007, July 2, 2006, and July 3, 2005.

See accompanying notes.



## Notes to Consolidated Financial Statements

## Note 1. Description of Business

For more than 30 years, 1-800-FLOWERS.COM, Inc. - "Your Florist of Choice(R)" - has been providing customers around the world with the freshest flowers and finest selection of plants, gift baskets, gourmet foods, confections and plush stuffed animals perfect for every occasion. 1-800-FLOWERS.COM(R) offers the best of both worlds: exquisite, florist-designed arrangements individually created by some of the nation's top floral artists and hand-delivered the same day, and spectacular flowers shipped overnight "Fresh From Our Growers™" program. Customers can "call, click or come in" to shop 1-800-FLOWERS.COM twenty four hours a day, 7 days a week at 1-800-356-9377 or [www.1800flowers.com](http://www.1800flowers.com). Sales and Service Specialists are available 24/7, and fast and reliable delivery is offered same day, any day. As always, 100 percent satisfaction and freshness are guaranteed. The 1-800-FLOWERS.COM collection of brands also includes home decor and children's gifts from Plow & Hearth(R) (1-800-627-1712 or [www.plowandhearth.com](http://www.plowandhearth.com)), Wind & Weather(R) ([www.windandweather.com](http://www.windandweather.com)), HearthSong(R) ([www.hearthsong.com](http://www.hearthsong.com)) and Magic Cabin(R) ([www.magiccabin.com](http://www.magiccabin.com)); gourmet gifts including popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or [www.thepopcornfactory.com](http://www.thepopcornfactory.com)); exceptional cookies and baked gifts from Cheryl&Co.(R) (1-800-443-8124 or [www.cherylandco.com](http://www.cherylandco.com)); premium chocolates and confections from Fannie May Confections Brands ([www.fanniemay.com](http://www.fanniemay.com) and [www.harrylondon.com](http://www.harrylondon.com)); gourmet foods from GreatFood.com(R) ([www.greatfood.com](http://www.greatfood.com)); wine gifts from Ambrosia.com ([www.ambrosia.com](http://www.ambrosia.com)); gift baskets from 1-800-BASKETS.COM(R) ([www.1800baskets.com](http://www.1800baskets.com)) and the BloomNet(R) international floral wire service, which provides quality products and diverse services to a select network of florists. 1-800-FLOWERS.COM, Inc. stock is traded on the NASDAQ market under ticker symbol FLWS.

## Note 2. Significant Accounting Policies

## Fiscal Year

The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to June 30. Fiscal years 2007 and 2006, which ended on July 1, 2007, July 2, 2006, respectively, consisted of 52 weeks, while fiscal year 2005, which ended on July 3, 2005, consisted of 53 weeks.

## Basis of Presentation

The consolidated financial statements include the accounts of 1-800-FLOWERS.COM, Inc. and its wholly-owned subsidiaries (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

## 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.

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

### Cash and Equivalents

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

### Inventories

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

### Property, Plant and Equipment

Property, plant and equipment is recorded at cost reduced by accumulated depreciation. Depreciation expense is recognized over the assets' estimated useful lives using the straight-line method. Amortization of leasehold improvements and capital leases are calculated using the straight-line method over the shorter of the lease terms, including renewal options expected to be

F-6

exercised, or estimated useful lives of the 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:

Buildings	40 years
Leasehold Improvements	3-10 years
Furniture, Fixtures and Equipment	3-10 years
Software	3-5 years

### Goodwill and Other Intangible Assets

Goodwill and indefinite-lived intangibles are not amortized, but are evaluated annually for impairment. The Company performs its annual impairment test as of the first day of its fiscal fourth quarter, or earlier if indicators of potential impairment exist, to evaluate goodwill. Goodwill is considered impaired if the carrying amount of the reporting unit exceeds its estimated fair value. In assessing the recoverability of goodwill, the Company reviews both quantitative factors to support its assumptions with regard to fair value. To date, there has been no impairment of these assets.

The cost of intangible assets with determinable lives is amortized to reflect the pattern of economic benefits consumed, on a straight-line basis, over the estimated periods benefited, ranging from 3 to 16 years.

### Deferred Catalog Costs

The Company capitalizes the costs of producing and distributing its catalogs. These costs are amortized in direct proportion with actual sales from the corresponding catalog over a period not to exceed 26-weeks. Included within prepaid and other current assets was \$4.3 million at both July 1, 2007 and July 2, 2006, relating to prepaid catalog expenses.

### Investments

The Company considers all of its debt and equity securities, for which there is a determinable fair market value and no restrictions on the Company's ability to sell within the next 12 months, as available-for-sale. Available-for-sale

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

securities are carried at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity. For the years ended July 1, 2007, July 2, 2006 and July 3, 2005, there were no significant unrealized gains or losses. Realized gains and losses are included in other income. The cost basis for realized gains and losses on available-for-sale securities is determined on a specific identification basis.

### Fair Values of Financial Instruments

The recorded amounts of the Company's cash and equivalents, short-term investments, receivables, accounts payable, and accrued liabilities approximate their fair values principally because of the short-term nature of these items. The fair value of investments, including available-for-sale securities, is based on quoted market prices where available. The fair value of the Company's long-term obligations, the majority of which are carried at a variable rate of interest, are estimated based on the current rates offered to the Company for obligations of similar terms and maturities. Under this method, the Company's fair value of long-term obligations was not significantly different than the carrying values at July 1, 2007 and July 2, 2006.

### Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and equivalents, investments and accounts receivable. The Company maintains cash and equivalents and investments with high credit, quality financial institutions. Concentration of credit risk with respect to accounts receivable are 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 (\$1.4 million and \$2.3 million at July 1, 2007 and July 2, 2006, respectively) have been recorded based upon previous experience and management's evaluation.

F-7

### 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, less discounts, returns and credits. Net revenues are recognized upon product shipment. Shipping terms are FOB shipping point. 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 of 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 direct-to-consumer merchandise 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

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

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 \$133.2 million, \$127.4 million and \$107.8 million for the years ended July 1, 2007, July 2, 2006 and July 3, 2005, 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 web sites, 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 five years. Costs associated with repair, maintenance or the development of web site content are expensed as incurred as the useful lives of such software modifications are less than one year.

### Stock-Based Compensation

The Company's employee stock-based compensation plans are described more fully in Note 11. Prior to July 4, 2005, as permitted under SFAS No. 123, the Company accounted for its stock option plans following the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no stock-based compensation had been reflected in net income for stock options, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant and the related number of shares granted was fixed at that point in time.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), "Share-Based Payment." This Statement revised SFAS No. 123 by eliminating the option to account for employee stock options under APB No. 25 and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (the "fair-value-based" method).

Effective July 4, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method. Under this transition method, compensation cost recognized on a straight-line basis during the year ended July 2, 2006 includes amounts of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, July 4, 2005 (based on grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and previously presented in the pro-forma footnote disclosures), and (b) compensation cost for all stock-based payments granted subsequent to July 3, 2005 (based on the grant-date fair value estimated in accordance with the new provision of SFAS No. 123(R)). In accordance with the modified prospective method, results for prior periods have not been restated. Prior to the Company's adoption of SFAS No. 123(R), benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows. SFAS No. 123(R) requires excess tax benefits be reported as a financing

F-8

cash inflow rather than as a reduction of taxes paid. There were no significant excess tax benefits for the years ended July 1, 2007 or July 2, 2006.

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

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

	Years End	
	July 1, 2007	July 2, 2006
	(in thousands, except	
Stock options	\$2,736	\$3,710
Restricted stock awards	1,864	626
Total	4,600	4,336
Deferred income tax benefit	1,353	1,120
Stock-based compensation expense, net	\$3,247	\$3,216
Impact on basic and diluted net income per common share	\$(0.05)	\$(0.05)

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

	Years End	
	July 1, 2007	July 2, 2006
	(in thousands, except	
Marketing and sales	\$1,605	\$1,504
Technology and development	690	642
General and administrative	2,305	2,190
Total	\$4,600	\$4,336

The amounts above include the impact of recognizing compensation expense relating to stock options and restricted stock awards. For the periods prior to our implementation of SFAS 123(R) on July 4, 2005, only compensation expense related to restricted stock awards was recognized and included in general and administrative expenses.

Stock-based compensation expense has not been allocated between business segments, but is reflected in Corporate. (Refer to Note 14 - Business Segments)

F-9

Under the modified prospective application method, results for prior periods have not been restated to reflect the effects of implementing SFAS No. 123(R). The following pro-forma information is presented for comparative purposes and illustrates the effect on net income and net income per common share for the periods presented as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation prior to July 4, 2005:

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

	Year Ended July 3, 2005 (1)
(in thousands, except per share data)	
Net income (loss) - As reported	\$ 7,849
Less: Stock option compensation expense	10,499
	-----
Net income (loss) - Pro forma	\$(2,650)
	=====
Net income (loss) per share:	
Basic and diluted - As reported	\$0.12
Basic and diluted - Pro forma	\$(0.04)

(1) During fiscal 2005, the Company accelerated the vesting of all unvested stock options awarded to employees and officers which had an exercise price greater than \$10.00 per share. Options to purchase approximately 0.8 million shares became exercisable immediately as a result of the vesting acceleration. The Company sought to balance the benefit of eliminating the requirement to recognize compensation expense in future periods with the need to continue to motivate employee performance through previously issued, but currently unvested, stock option grants. With those factors being considered, management determined it to be appropriate to accelerate only those unvested stock options where the strike price was reasonably in excess of the Company's then current stock price.

The effect of the acceleration was an increase in pro-forma stock based employee compensation expense for the year ended July 3, 2005 of \$3.0 million (\$0.05 per basic and diluted share).

### Comprehensive Income

For the years ended July 1, 2007, July 2, 2006 and July 3, 2005, the Company's comprehensive income was equal to the respective net income for each of the periods presented.

### 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 restricted stock awards) outstanding during the period.

### Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 applies to all tax positions accounted for under SFAS No. 109, "Accounting for Income Taxes" and defines the confidence level that a tax position must meet in order to be recognized in the financial statements. The interpretation requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained by the taxing authority as of the reporting date. If a tax position is not considered "more-likely-than-not" to be sustained then no benefits of the position are to be recognized. FIN 48 requires additional disclosures and is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of

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

operations and financial condition.

F-10

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("Statement No. 157") which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. Statement No. 157 is effective for fiscal years beginning after November 15, 2007. The transition adjustment of the difference between the carrying amounts and the fair values of those financial instruments should be recognized as a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The company is currently evaluating the impact of adopting the provisions of Statement No. 157.

### Reclassifications

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

### Note 3 - Net Income Per Common Share

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

	Years End	
	July 1, 2007	July 2, 2006
	(in thousands, except per share amounts)	
<b>Numerator:</b>		
Net income	\$17,118	\$ 3,187
<b>Denominator:</b>		
Weighted average shares outstanding	63,786	65,100
Effect of dilutive securities:		
Employee stock options (2)	1,282	1,282
Employee restricted stock awards	458	47
	1,740	1,329
Adjusted weighted-average shares and assumed conversions	65,526	66,429
<b>Net income per common share:</b>		
Basic	\$0.27	\$0.05
Diluted	\$0.26	\$0.05

Note (1): The Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method on July 4, 2005. Accordingly, results for the fiscal year ended July 3, 2005 do not reflect compensation expense associated with stock options, which is more fully discussed above in Note 2.

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

Note (2): The effect of options to purchase 5.8 million, 5.9 million and 3.8 million shares for the years ended July 1, 2007, July 2, 2006, and July 3, 2005, respectively, were excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.

### Note 4. Acquisitions

The Company accounts for its business combinations in accordance with SFAS No. 141, "Business Combinations," which addresses financial accounting and reporting for business combinations and requires that all such transactions be accounted for using the purchase method. Under the purchase method of accounting for business combinations, the aggregate purchase price for the acquired business is allocated to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date.

F-11

#### Acquisition of Fannie May Confections Brands, Inc.

On May 1, 2006, the Company acquired all of the outstanding common stock of Fannie May Confections Brands, Inc. (hereafter referred to as "Fannie May Confections Brands"), a manufacturer and multi-channel retailer and wholesaler of premium chocolate and other confections under the well-known Fannie May, Harry London and Fanny Farmer brands. The acquisition, for a purchase price of approximately \$96.6 million in cash (including the achievement of \$4.4 million of "earn-out" incentives for financial targets achieved during fiscal 2007 and estimated working capital adjustments and transaction costs), included a 200,000-square foot manufacturing facility in North Canton, Ohio and 52 Fannie May retail stores in the Chicago area, where the chocolate brand has been a tradition since 1920. The purchase price is subject to "earn-out" incentives which amount to a maximum of \$4.5 million during the year ending July 1, 2007 (of which \$4.4 million was achieved) and \$1.5 million during the year ending June 29, 2008, upon achievement of specified earnings targets. Prior to the acquisition, Fannie May Confections Brands had generated revenues of approximately \$75.0 million during its most recent fiscal year which ended on April 30, 2006.

As described further under "Long-Term Debt," in order to finance the acquisition, on May 1, 2006, the Company entered into a \$135.0 million secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility, as amended on October 24, 2006, includes an \$85.0 million term loan and a \$60.0 million revolving facility, which bear interest at LIBOR plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio. At closing, the Company borrowed \$85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands.

During fiscal 2007, the Company completed the process of allocating the Fannie May Confections Brands purchase price to the estimated fair values of assets acquired and liabilities assumed:

	Fannie May Confections Brands Purchase Price Allocation
	-----
	(in thousands)
Current assets	\$19,718
Property, plant and equipment	4,642
Intangible assets	37,879
Goodwill	44,096



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

Other	156	
	-----	
Total assets acquired	106,491	
	-----	
Current liabilities	5,045	
Deferred tax liability	4,485	
Other	399	
	-----	
Total liabilities assumed	\$9,929	
Net assets acquired	\$96,562	
	=====	

Of the \$37.9 million of acquired intangible assets related to the Fannie May Confections Brands acquisition, \$28.2 million was assigned to trademarks that are not subject to amortization, while the remaining acquired intangibles of \$9.7 million were allocated primarily to customer related intangibles which are being amortized over the assets' determinable useful life of 3-10 years. Of the \$44.1 million of goodwill, approximately \$2.1 million is deductible for tax purposes.

F-12

### Acquisition of Wind & Weather

On October 31, 2005, the Company acquired all of the outstanding common stock of Wind & Weather, a Fort Bragg, California based direct marketer of weather-themed gifts, with annual revenues of approximately \$14.4 million during its then most recently completed fiscal year ended March 31, 2005. The purchase price of approximately \$5.2 million, including acquisition costs, was funded utilizing the Company's then existing line of credit which was repaid during the Company's second quarter of fiscal 2006 utilizing cash generated from operations, and excludes the assumption of Wind & Weather's \$1.2 million balance on its seasonal working capital line. The Company has since relocated the operations of Wind & Weather to its Madison, Virginia facility, and terminated operations in California.

### Acquisition of Cheryl & Co.

On March 28, 2005, the Company acquired all of the outstanding common stock of Cheryl & Co., a Westerville, Ohio-based manufacturer and direct marketer of premium cookies and related baked gift items, with annual revenues of approximately \$33 million during its then most recent year ended January 29, 2005. The purchase price of approximately \$41.1 million, including acquisition costs, was funded utilizing the Company's available cash and investment balance, and included \$6.3 million used to retire Cheryl & Co.'s outstanding debt.

### Acquisition of The Winetasting Network

On November 15, 2004, the Company acquired all of the outstanding common stock of The Winetasting Network, a Napa, California based distributor and direct-to-consumer wine marketer. The purchase price of approximately \$9.7 million, including acquisition costs was funded utilizing the Company's available cash and investment balance and included \$2.4 million used to retire The Winetasting Network's outstanding long-term debt.

### Pro forma Results of Operation

The following unaudited pro forma consolidated financial information has been prepared as if the acquisitions of Fannie May Confections Brands, Wind & Weather, Cheryl & Co. and The Winetasting Network had taken place at the beginning of fiscal year 2005. The following unaudited pro forma information is not necessarily indicative of the results of operations in future periods or

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

results that would have been achieved had the acquisitions taken place at the beginning of the periods presented.

	Years Ended	
	July 2, 2006	July 3, 2006
	(in thousands, except per share data)	
Net revenues	\$854,333	\$780,199
Operating income	\$16,182	\$23,462
Net income	\$ 5,321	\$12,246
Basic and diluted net income per common share	\$ 0.08	\$ 0.18

### Note 5. Inventory

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

	July 1, 2007	July 2, 2006
	(in thousands)	
Finished goods	\$43,113	\$36,689
Work-in-process	3,911	3,370
Raw materials	15,027	12,895
	\$62,051	\$52,954

F-13

### Note 6. Goodwill and Intangible Assets

The change in the net carrying amount of goodwill is as follows (in thousands):

	1-800- Flowers.com Consumer Floral	BloomNet Wire Service	Gourmet Food and Gift Baskets	C
Balance at July 3, 2005	\$6,919	\$-	\$40,449	
Acquisition of Winetasting Network	-	-	273	
Acquisition of Cheryl & Co.	-	-	2,461	
Acquisition of Wind & Weather	-	-	-	
Acquisition of Fannie May Confections Brands	-	-	62,752	
Other	(267)	-	-	
Balance at July 2, 2006	6,652	-	105,935	

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

Acquisition of Wind & Weather	-	-	-
Acquisition of Fannie May Confections	-	-	6,023
Purchase Price Allocation of Fannie May Confections- Reclassification of goodwill to intangible assets	-	-	(24,679)
Other	(300)	-	-
Balance at July 1, 2007	\$6,352	\$-	\$87,279

The Company's intangible assets consist of the following:

	July 1, 2007				
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount
(in thousands)					
Intangible assets with determinable lives:					
Investment in licenses	14 - 16 years	\$ 4,927	\$4,085	\$ 842	\$ 4,927
Customer lists	3 -10 years	14,260	3,919	10,341	18,500
Other	3 - 8 years	2,639	748	1,891	1,754
		21,826	8,752	13,074	25,181
Trademarks with indefinite lives	-	39,676	-	39,676	10,886
Total intangible assets		\$61,502	\$8,752	\$52,750	\$36,067

The amortization of intangible assets for the years ended July 1, 2007, July 2, 2006 and July 3, 2005 was \$2.5 million, \$1.6 million, and \$0.8 million, respectively. Future estimated amortization expense is as follows: 2008 - \$2.7 million, 2009 - \$2.6 million, 2010 - \$2.5 million, 2011 - \$1.9 million, and 2012 - \$0.8 million, and thereafter - \$2.6 million.

F-14

Note 7. Property, Plant and Equipment

	July 1, 2007	July 2, 2006
(in thousands)		
Land	\$ 2,516	\$ 2,516
Building and building improvements	16,209	16,409
Leasehold improvements	19,087	20,474
Furniture and fixtures	5,637	5,182
Equipment	21,278	18,346

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

Computer equipment	54,942	51,449
Telecommunication equipment	9,106	8,344
Software	57,763	51,086
	-----	-----
	186,538	173,806
Accumulated depreciation and amortization	123,977	114,074
	-----	-----
	\$ 62,561	\$59,732
	=====	=====

Note 8. Long-Term Debt

	July 1, 2007	July 2, 2006
	-----	-----
	(in thousands)	
Term loan and revolving credit line (1)	\$76,500	\$85,000
Commercial note (2)	1,553	2,942
Other	-	23
Obligations under capital leases (see Note 14)	79	458
	-----	-----
	78,132	88,423
Less current maturities of long-term debt and obligations under capital leases	10,132	10,360
	-----	-----
	\$68,000	\$78,063
	=====	=====

(1) Term loan and revolving credit line - In order to finance the acquisition of Fannie May Confections Brands, on May 1, 2006, the Company entered into a secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a group of lenders (the "2006 Credit Facility"). The 2006 Credit Facility, as amended on October 24, 2006, includes an \$85.0 million term loan and a \$60.0 million revolving facility, which bear interest at LIBOR (5.35%) plus 0.625% to 1.125%, with pricing based upon the Company's leverage ratio (6.23% at July 1, 2007). At closing, the Company borrowed \$85.0 million of the term facility to acquire all of the outstanding capital stock of Fannie May Confections Brands. The Company is required to pay the outstanding term loan in escalating quarterly installments, with the final installment payment due on May 1, 2012. The 2006 Credit Facility contains various conditions to borrowing, and affirmative and negative financial covenants. Concurrent with the establishment of the 2006 Credit Facility, the Company's previous \$25.0 million revolving credit facilities were terminated. The obligations of the Company and its subsidiaries under the 2006 Credit Facility are secured by liens on all personal property of the Company and its subsidiaries. No amounts were outstanding under the revolving credit facility at July 1, 2007.

(2) Commercial note - Bank note relating to obligations arising from, and collateralized by, the underlying assets of the Company's Plow & Hearth facility in Madison, Virginia. The note, dated June 27, 2003, in the amount of \$6.6 million, bears interest at 5.44% per annum, and resulted from the consolidation and refinancing of a series of fixed and variable rate mortgage and equipment notes. The note is payable in 60 equal monthly installments of principal and interest commencing August 1, 2003, of which \$1.6 million is outstanding at July 1, 2007.

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

F-15

As of July 1, 2007, long-term debt maturities, excluding amounts relating to capital leases, are as follows:

Year ----	Debt Maturities ----- (in thousands)
2008	\$10,053
2009	12,750
2010	12,750
2011	17,000
2012	25,500
Thereafter	-
	----- \$78,053 =====

Note 9. Income Taxes

Significant components of the income tax provision are as follows:

	Years ended -----	
	July 1, 2007	July 2, 2006
	----- (in thousands)	
Current provision:		
Federal	\$ (275)	\$ 351
State	1,841	655
	-----	-----
	1,566	1,006
Deferred provision:		
Federal	9,082	2,120
State	1,243	55
	-----	-----
	10,325	2,175
	-----	-----
Income tax provision	\$11,891	\$3,181
	=====	=====

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

	Years ended -----	
	July 1, 2007	July 2, 2006
	-----	
Tax at U.S. statutory rates	35.0%	35.0%
State income taxes, net of federal tax benefit	6.9	7.3
Non-deductible stock-based compensation	1.7	8.5
Non-deductible goodwill amortization	0.4	2.2
Tax credits	(0.4)	(5.0)
Tax settlements	(3.1)	-

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

Other, net	0.5	2.0
	-----	-----
	41.0%	50.0%
	=====	=====

F-16

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

	Years ended	
	July 1, 2007	July 2, 2006
	-----	
	(in thousands)	
Deferred income tax assets:		
Net operating loss carryforwards	\$12,944	\$25,963
Accrued expenses and reserves	6,318	6,325
Stock-based compensation	2,529	1,098
Deferred income tax liabilities:		
Other intangibles	(9,112)	(9,285)
Installment sales	-	(25)
Tax in excess of book depreciation	(1,649)	(425)
	-----	-----
Net deferred income tax assets	\$11,030	\$23,651
	=====	=====

At July 1, 2007, the Company's net operating loss carryforwards were approximately \$27.7 million, which, if not utilized, will begin to expire in fiscal year 2020.

Note 10. Capital Stock

Holder 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.

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

On May 12, 2005, the Company's Board of Directors increased the Company's authorization to repurchase the Company's Class A common stock up to \$20 million, from the previous authorized limit of \$10 million. Any such purchases could be made from time to time in the open market and through privately negotiated transactions, subject to general market conditions. The repurchase program will be financed utilizing available cash. Under this program, as of July 1, 2007, the Company had repurchased 1,534,677 shares of common stock for \$11.3 million, of which \$0.2 million (24,627 shares), \$1.3 million (182,000 shares) and \$9.8 million (1,328,050 shares) were repurchased during the fiscal years ending July 1, 2007, July 2, 2006 and July 3, 2005, respectively. In a separate transaction, during fiscal 2007, the Company's Board of Directors authorized the repurchase of 3,010,740 shares from an affiliate. The purchase price was \$15,689,000 or \$5.21 per share. The repurchase was approved by the disinterested members of the Company's Board of Directors and is in addition to the Company's existing stock repurchase authorization of \$20.0 million, of which \$8.7 remains authorized but unused.

### Note 11. Stock Based Compensation

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"). Options are also outstanding under the Company's 1999 Stock Incentive Plan, but no further options may be granted under this 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").

F-17

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"). Unless otherwise determined by the Board, the Committee will consist of two or more members of the Board who are non-employee directors within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934 and "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. The Committee will determine which eligible employees, consultants and directors receive awards, the types of awards to be received and the terms and conditions thereof. The Chief Executive Officer shall have the power and authority to make Awards under the Plan to employees and consultants not subject to Section 16 of the Exchange Act, subject to limitations imposed by the Committee.

At July 1, 2007, the Company has reserved approximately 14.8 million shares of common stock for issuance, including options previously authorized for issuance under the 1999 Stock Incentive Plan.

### Stock Options Plans

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:

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

	Years ended	
	July 1, 2007	July 2, 2006
Weighted average fair value of options granted	\$3.29	\$3.16
Expected volatility	46%	46%
Expected life (in years)	5.3	5.3
Risk-free interest rate	4.6%	4.6%
Expected dividend yield	0.0%	0.0%

The expected volatility of the option is determined using historical volatilities based on historical stock prices. The expected life of options granted in fiscal 2005 was based on the Company's historical share option exercise experience. Due to minimal exercising of stock options, in fiscal 2006 and fiscal 2007, the Company estimated the expected life of options granted to be the average of the Company's historical expected term from vest date and the midpoint between the average vesting term and the contractual term. 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 1, 2007:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding - beginning of period	10,103,491	\$8.09	
Granted	187,500	\$6.82	
Exercised	(395,379)	\$4.94	
Forfeited/Expired	(742,947)	\$9.33	
Outstanding - end of period	9,152,665	\$8.10	4.8 years
Options vested or expected to vest at end of period	8,888,395	\$8.13	4.7 years
Exercisable at end of period	7,322,901	\$8.36	4.0 years

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 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on July 1, 2007. This amount changes based on the fair market value of the company's stock. The total intrinsic value

F-18

of options exercised for the years ended July 1, 2007, July 2, 2006 and July 3, 2005 was \$1.0 million, \$0.3 million, and \$0.7 million, respectively.

The following table summarizes information about stock options outstanding at July 1, 2007:



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

Exercise Price	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
\$1.61 - 4.50	2,461,805	2.9 years	\$3.83	2,461,805	\$3.83
\$5.25 - 6.52	2,206,431	6.3 years	\$6.40	1,380,381	\$6.40
\$6.53 - 8.45	1,852,490	7.1 years	\$7.43	854,076	\$7.24
\$8.47 - 12.87	2,025,893	4.1 years	\$12.18	2,020,593	\$12.19
\$12.95 - 21.00	606,046	2.3 years	\$20.01	606,046	\$20.01
	9,152,665	4.8 years	\$8.10	7,322,901	\$8.36

As of July 1, 2007, the total future compensation cost related to nonvested options not yet recognized in the statement of income was \$4.9 million and the weighted average period over which these awards are expected to be recognized was 2.9 years.

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). In fiscal 2005, the Company recorded the grant date fair value of unvested shares of Restricted Stock as unearned stock-based compensation ("Deferred Compensation"). In accordance with SFAS No. 123(R), in fiscal 2006, the Company reclassified the balance of Deferred Compensation against additional paid-in capital, and reduced its shares of Class A Common Stock issued accordingly.

The following table summarizes the activity of non-vested restricted stock during the year ended July 1, 2007:

	Shares	Weighted Average Grant Date Fair Value
Non-vested - beginning of period	293,681	\$7.44
Granted	984,536	\$5.22
Vested	(39,913)	\$6.48
Forfeited	(136,322)	\$5.81
Non-vested - end of period	1,101,982	\$5.70

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of July 1, 2007, there was \$3.8 million of total unrecognized compensation cost related to non-vested restricted stock-based compensation to be recognized over a weighted-average period of 2.0 years.

Note 12. Employee Stock Purchase Plan

In December 2000, the Company's Board of Director's approved the 1-800-FLOWERS.COM, Inc. 2001 Employee Stock Purchase Plan (ESPP), a non-compensatory employee stock purchase plan under Section 423 of the Internal Revenue Code, to provide substantially all employees who have completed six

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

months of service, an opportunity to purchase shares of the Company's Class A common stock. Employees may contribute a maximum of 15% of eligible compensation, but in no event can an employee purchase more than 500 shares on any purchase date. Offering periods have a duration of six months, and the purchase price per share will be the lower of: (i) 85% of the fair market value of a share of Class A common stock on the last trading day of the applicable offering period, or (ii) 85% of the fair market value of a share of Class A common stock on the last trading day before the commencement of the offering period. The ESPP was terminated effective as of June 30, 2005.

F-19

### Note 13. Profit Sharing Plan

The Company has a 401(k) Profit Sharing Plan covering substantially all of its eligible employees. All full-time employees who have attained the age of 21 are eligible to participate upon completion of one year 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 made contributions of \$0.5 million, \$0.4 million, and \$0.3 million, for the years ended July 1, 2007, July 2, 2006 and July 3, 2005, respectively.

### Note 14. Business Segments

During the first quarter of fiscal 2007, the Company segmented its organization to improve execution and customer focus and to align its resources to meet the demands of the markets it serves. The Company's management reviews the results of the Company's operations by the following four business categories:

- o 1-800-Flowers.com Consumer Floral;
- o BloomNet Wire Service;
- o Gourmet Food and Gift Baskets; and
- o Home and Children's Gifts.

Category performance is measured based on contribution margin, which includes only the direct controllable revenue and operating expenses of the categories. As such, management's measure of profitability for these categories does not include the effect of corporate overhead (see \* below), which are operated under a centralized management platform, providing services throughout the organization, nor does it include stock-based compensation, depreciation and amortization, other income (net), and income taxes. Assets and liabilities are reviewed at the consolidated level by management and not accounted for by category.

	Years ended		
	July 1, 2007	July 2, 2006	July 3 2005
	(in thousands)		
Net revenues:			
1-800-Flowers.com Consumer Floral	\$491,404	\$452,188	\$422,
BloomNet Wire Service	44,379	29,884	21,
Gourmet Food & Gift Baskets	192,698	105,002	54,
Home & Children's Gifts	186,948	196,919	172,
Corporate (*)	1,652	1,388	1,

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

Intercompany eliminations	(4,483)	(3,640)	(1,640)
Total net revenues	\$912,598	\$781,741	\$670,000

F-20

	Years ended		
	July 1, 2007	July 2, 2006	July 3, 2005
	(in thousands)		
Category Contribution Margin:			
1-800-Flowers.com Consumer Floral	\$64,580	\$46,518	\$47,030
BloomNet Wire Service	14,169	7,106	5,910
Gourmet Food & Gift Baskets	26,377	6,827	7,600
Home & Children's Gifts	(1,215)	7,134	6,740
Category Contribution Margin Subtotal	103,911	67,585	60,450
Corporate (*)	(51,081)	(45,311)	(34,070)
Depreciation and amortization	(17,837)	(15,765)	(14,480)
Operating income (loss)	\$34,993	\$6,509	\$11,890

(\*) Corporate expenses consist of the Company's enterprise shared service cost centers, and include, among others, 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 category.

Note 15. Commitments and Contingencies

Leases

The Company currently leases office, store facilities, and equipment under various operating leases through fiscal 2019. 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. All leases and subleases

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

with an initial term of greater than one year are accounted for under SFAS No. 13, Accounting for Leases. These leases are classified as either capital leases, operating leases or subleases, as appropriate.

As of July 1, 2007, future minimum payments under non-cancelable capital lease obligations and operating leases with initial terms of one year or more consist of the following:

	Obligations Under Capital Leases	Operating Leases
	-----	
	(in thousands)	
2008	\$40	\$11,416
2009	14	9,141
2010	13	7,289
2011	13	7,006
2012	13	6,176
Thereafter	6	28,146
	-----	-----
Total minimum lease payments	\$99	\$69,174
		=====
Less amounts representing interest	(20)	
	-----	
Present value of net minimum lease payments	\$79	
		=====

F-21

At July 1, 2007, the aggregate future sublease rental income under long-term operating sub-leases for land and buildings and corresponding rental expense under long-term operating leases were as follows:

	Sublease Income	Su E
	-----	
	(in thousand)	
2008	\$2,099	\$
2009	1,713	
2010	1,191	
2011	635	
2012	341	
Thereafter	253	
	-----	-----
	\$6,232	\$
		=====

Rent expense was approximately \$18.9 million, \$13.7 million, and \$9.7 million for the years ended July 1, 2007, July 2, 2006 and July 3, 2005, respectively.

Litigation

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

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

F-22

1-800-FLOWERS.COM, INC.

Schedule II - Valuation and Qualifying Accounts

Description	Balance at Beginning of Period	Additions		Deductions- Describe (a)	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts- Describe (b)		
Reserves and allowances deducted from asset accounts:					
Reserve for estimated doubtful accounts-accounts/notes receivable					
Year Ended					
July 1, 2007	\$2,090,000	\$1,040,000	\$ -	\$ (2,017,000)	\$1,113,000
Year Ended					
July 2, 2006	\$1,537,000	\$ 537,000	\$694,000	\$ (678,000)	\$2,090,000
Year Ended					
July 3, 2005	\$1,449,000	\$ 270,000	\$ -	\$ (182,000)	\$1,537,000

- (a) Reduction in reserve due to write-off of accounts/notes receivable balances.
- (b) Amount represents opening balances from acquired businesses.

S-1