

FAS *Floral Accounting Systems, Inc.*

1503 Farmerville Highway
Ruston, Louisiana 71270
(318) 251-2146

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Dear FAS Customer,

I hope things are going well for you. With skyrocketing fuel prices and a sluggish economy, things can certainly seem challenging. Of course, these challenges are not limited to the floral industry. Businesses in every industry can and do feel the pinch in times like these. I have stressed the importance of a shop's promoting itself within its local market many, many times in the past. Shops with a dominant local market presence will endure these economic storms much better than shops that rely on other entities to generate sales for them, primarily in the form of incoming wire orders. As consumers become more sophisticated and as the Internet becomes an even greater force within the floral industry, the volume of traditional wire orders will continue to decline. Virtually every florist I talk to says that both the traditional incoming and outgoing orders are disappearing. This trend will undoubtedly continue. On the bright side, shops that establish an effective presence on the Internet will be well positioned to take advantage of the consumer's changing shopping habits. Many of the same shops that have reported declining wire orders are reporting steadily increasing Internet sales. This trend too, will only continue. As I have written many times before, it is more important than ever for you to have your own, independent web site through which your customers—whether located across town or half-way around the world—can shop with you online 24 hours a day, 7 days a week.

When I wrote to you in April, I reminded FAS's customers of FTD's deadline for converting to FAS's Internet-based Mercury interface. FAS had a surprisingly large number of customers who had to scramble to meet that deadline in March and April. Actually, there were times when I felt it would not be possible to get everyone converted before the deadline, but FAS's support staff did a tremendous job in meeting this goal, in addition to providing normal support services to our customers. I want to once again thank everyone who has expressed continued confidence in FAS by reinvesting in FAS's products.

FAS users who have upgraded to new systems should remember to cancel or adjust third-party services which are no longer necessary. For example, users of the older, dial-up Mercury interfaces were paying from \$150 to almost \$300 a month in fees for FTD equipment, maintenance, and network access. By converting to the Internet-based Mercury interface, FAS users were able to reduce those fees to \$84-\$89 per month. Actually, the agreement that most FAS users signed with FTD states that the access fee would be \$79. Examine the section of your FTD statement titled "MERCURY CHARGES" to verify that you are being charged correctly. Some FAS users have also been charged a monthly fee by FTD for anti-virus software. However, FAS customers are not using any FTD-provided anti-virus software on their FAS systems, and you should request that this fee be removed if it appears on your statement. Also remember to cancel any phone lines which are no longer required. It is a good idea to periodically take an inventory of the phone lines for which you are being charged. How many lines are you paying for? What is each line being used for? These things have a way of slipping through the cracks and eating away at a shop's profitability. Shops which use FAS's Internet-enabled servers can eliminate (dial-up) phone lines which were being used

for Mercury, credit cards, support, and multi-shop integration. Remember, a *pair* of phone lines (one at the main shop and one at the branch shop) was being used for *each* remote location that is accessing your FAS server. Eliminating and/or reducing these expenses can generate substantial savings—possibly thousands of dollars—over the course of a year.

FTD Sold—Again

On April 30th, FTD announced that it had been purchased by United Online (UO), Inc. UO is a provider of dial-up Internet services and owns NetZero, Juno, and social networking site Classmates.com. The move came as a surprise to people inside and outside of the floral industry. One article in the Wall Street Journal called the transaction the “‘Say What?’ deal of the day”. An article in The Motley Fool joked that possible reasons UO bought FTD was to have “easy access to funeral wreaths for (UO’s) dying dial-up business” or that “After watching Classmates get trumped by more successful social networking sites, United mistakenly thinks that FTD stands for Facebooked to Death”. In an article discussing the FTD buy-out posted under CNNMoney.com, the author wrote, “An Internet company buying a flower company smacks of desperation, ...”.

UO bought FTD with a combination of cash (\$7.34 per share of FTD stock), stock (0.4087 of a share of UO stock for each share of FTD), and IOU’s (valued at \$3.31 per share of FTD stock). With a purchase price of \$456 million and the assumption of FTD’s debt, the total deal was valued at about \$800 million.

There were already signs that changes were coming to FTD before the buyout. On November 9, 2007, FTD announced that it was looking for a replacement for its president and CEO, Mike Soenen. Eleven days later FTD announced that its Executive Vice President William Van Cleave was leaving the company, effective December 1st.

In 2005, FTD’s Board of Directors approved a \$30 million stock repurchase program that was effective through September 30, 2007. Public records (Yahoo.com; Finance; symbol: FTD; Insider Transactions) indicate that in the days leading up to September 30th, Mr. Soenen and several other FTD managers were quite busy. Between September 5th and September 27th, Mr. Soenen exercised stock options that generated gross proceeds of over \$4.5 million dollars by buying FTD stock at \$3 a share--well below market value—and selling at prices ranging from about \$15 to \$17 per share. On March 12, 2007, Mr. Soenen exercised options that generated gross proceeds of over \$6.6 million. Not bad for a day’s work. Mr. Van Cleave also did quite well before leaving FTD. In less than 2 weeks between September 14th and September 26th, he exercised options that generated gross proceeds of about \$1.6 million, and on March 12, 2007, he sold about \$1.4 million in options. Similarly, FTD vice president Larry Johnson exercised options which generated \$909,000 between September 12th and 14th, and \$755,000 in March, 2007. And vice president Jon Burney generated over \$1.1 million by exercising options on September 5th and 6th, along with \$755,000 in gross options proceeds in March, 2007. Clearly, high gas prices and a sluggish economy have not negatively affected *all* segments of the floral industry.

UO announced on May 6th that it had retained Mr. Soenen as president and CEO through December 31, 2008, at an annualized base salary of \$750,000, and then UO may retain Mr. Soenen as a consultant through March, 2009, at a rate of \$50,000 per month.

Numerous FAS customers have called me in the last year and asked that I either confirm or deny rumors being spread stating that FAS was for sell. These false tales were being told with the express intent of discouraging florists from investing in FAS’s products. It is particularly ironic that it is FTD and not FAS that has been sold, in spite of these rumors. Indeed, FAS has had the same ownership

and management during the entire span of its almost 25 years in business, while FTD has gone from member ownership to ownership by Richard Perry, then Leonard Green, and now United Online, with other moves that have taken FTD private and public numerous times, all in only about 14 years.

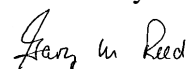
FAS users have also reported that some competing sales reps base most of their presentation on attempts to discredit FAS and its products, rather than trying to present the benefits and advantages of their system. One florist in Tennessee said that a sales rep spent about two hours saying, "Your FAS system won't do this, and your FAS system won't do that." Our customer spent the whole time refuting these false statements, demonstrating that his FAS system was fully capable of doing the things the rep said it could not do. Unfortunately, unscrupulous sales representatives can often exploit a florist's lack of knowledge of any system and cause that shop owner to make a very expensive mistake. If you have any questions about your FAS system's capabilities, please call FAS for information concerning these matters. Remember that a sales rep whose primary goal is to sell you *another* system may not be the most reliable source of information concerning your *existing* system. It would be financially unwise to spend \$5,000, \$10,000, or \$15,000 to purchase "new" functionality that is available in a system you already own.

You should carefully investigate all claims and representations made by any potential technology provider to make sure the claims are true. Last September Teleflora broadcast a message containing a similar warning. Teleflora's message stated, "Some (Teleflora) members are being misled about third party point-of-sale system interfaces with the Dove network. Should you be contacted by a point-of-sale provider giving the impression that their system fully interfaces with the Dove Network (FTD, etc.), these systems may not be authorized to interface with the Dove network or may only have a 'receive' capability that was never authorized by Teleflora. Please note that we do not support any unauthorized interfaces and therefore cannot help resolve problems caused by them."

FTD's last annual report indicated the company was over \$300 million in debt. As of June 30, 2007, 83% of FTD's total assets consisted of goodwill (56%), trademark (25%), and other intangible assets (2%). Visitors to www.ftd.com have been sold non-floral products such as blankets, jewelry, trinket boxes, gourmet baskets, strawberries, cheesecakes, wreaths, bird feeders, music boxes, Teddy bears, bath and beauty products, and dog bowls. Of the floral products that are available on the site, many are delivered by FedEx, DHL, and UPS. FTD has expanded its presence in local Yellow Pages nationwide, increasing its local competition against florists. FTD has publicly stated that its goal is to add more supermarket and mass merchant members. And on June 1, 2008, FTD implemented a new Delayed Response program under which you will be "fined" \$10 when you reject an order after 2 hours, \$20 when you reject an order after 24 hours, and *double the amount of the order* when you reject an order after the cut-off time on the day of delivery! The next time a representative from FTD comes into your shop and begins to criticize FAS or your FAS system, please take the time to find out if he knows as much about his own company as he professes to know about FAS. Ask for answers and explanations for the issues mentioned above. Also, I would appreciate your providing the details of these incidents to FAS.

For more information about FAS and its products, please visit our web site at www.fasinc.org or call (800) 830-6160. Thanks.

Yours truly



Gary M. Reed
President