

FAS *Floral Accounting Systems, Inc.*

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

January 20, 2004

Dear FAS Customer,

It's hard to believe that 2003 is a quickly-fading memory, and that we are already almost a month into 2004. While last year was definitely a challenging year for our industry, there are many indications that the economy is recovering. Those who aggressively market their businesses within their own local markets will certainly be able to capitalize on the business opportunities presented in the coming year.

As 2004 unfolds, there are several factors that I believe will have significant impact on the floral industry in the near future. Last October, FTD announced that it had reached an agreement to be acquired by a private investment group, Green Equity of Los Angeles, for \$420 million. It was announced that this transaction will be consummated during the first 3 months of 2004. FTD has always played a significant role in the industry. Over the last year or so, FTD has increased its focus on its consumer-direct business, expanding its product offerings to include many direct-ship, non-floral products. It will be interesting to see how, or if, FTD's role or mission changes under new ownership.

Another occurrence that has already impacted the industry and that will almost certainly continue to do so is the reorganization of the floral distribution channel. Order gatherers, i.e. businesses who collect floral orders using 800 numbers and Internet sites and then forward the orders to full-service florists for fulfillment, have historically used wire services to transmit their orders to the filling shops. Some of these companies are now creating their own fulfillment centers in major metropolitan markets. Others are shipping product directly to the recipient via overnight courier. These trends are obviously contributing to the declining volume of incoming wire orders that so many florists are experiencing. I believe we could also see a reorganization of the traditional wholesale channel, i.e. farmer to importer to wholesaler to retailer. The financial stress that retail shops have experienced over the last year or so has "trickled upward" to these other segments of the industry. Last July I sat in on a meeting between IFA's board of directors and a representative of one of the leading wholesaler associations in the United States. The wholesalers' representative told the group that 20% of the traditional wholesalers had closed their doors within the last year! That is an alarming indication of the financial state of every segment of the industry. It is more important than ever to solidify your relationship with your local wholesalers who have been your business partners for so many years. Sure, you can save money by buying flowers direct over the Internet, but you'll always need the local wholesaler to fulfill those orders that can't wait. Besides, as more and more florists bypass the traditional wholesaler, the wholesaler will be forced to change his business model to survive. A wholesaler seeing his business shrink as more florists buy direct could find it very tempting to become a fulfillment center for order gatherers. After all, who has more product with which to fill the orders than the wholesaler? Some wholesalers are already stocking order gatherers' branded products. All the wholesaler would need is a computer over which the orders could be transmitted--something that could be put in place today. Let your wholesaler know that you respect your relationship with him and that you expect him to reciprocate.

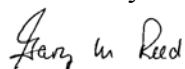
The third trend that I believe will reshape the industry is the skyrocketing growth of "Florist Direct" (FD) orders. Five or ten years ago, one could tell a great deal about a shop by its wire service memberships--how many wire services the shop was in and which ones. That is no longer the case. Part of this change is due simply to the decrease in the number of wire services from the "Big Six" that the industry had a few years ago, but part of this change is also due to florists' changing perception of wire service membership. There are more florists today who are single-wire-service members or who are not

in any wire service than at any other time in recent years. Many florists are finding they just can't afford to pay the dues of more than one wire service, and many florists have found that they can place their wire orders FD using their company credit cards just as easily and effectively as they could place the order through a traditional wire service, without paying thousands of dollars in annual fees. Shops sending 50 to 100 orders a month see their \$150 to \$300 in rebates quickly eaten up by dues and fees. When FAS modified the FASnet network to support the transmission of IFA's FD orders several years ago, the volume of FD orders going through FASnet was tiny compared to the total volume of orders. The volume of FD orders however, has steadily increased over the last three years. I recently ran an analysis of FASnet orders transmitted from early December through early January and was stunned to see, for the first time, that FD orders made up the majority of orders transmitted through FASnet. FD orders were 46.1% of total order volume, while Teleflora orders made up 45.4% of FASnet's volume. The remaining orders were cleared through other wire services. Messages on various Internet message boards, such as www.floristboard.com, indicate that this trend is also growing among shops that are not affiliated with FAS or with IFA. FASnet's operators three years ago had to explain during most calls what was meant by "Florist Direct order". Today, FASnet operators report that the vast majority of shops accept FD orders as readily as they accept traditional wire service orders, indicating a definite reshaping of the industry.

One of FAS's goals over its 20 years in the industry has been and continues to be keeping its customers well-positioned to address the changes that are affecting the industry. It is indisputable fact that FAS users have flexibility in running their businesses that users of other leading systems simply do not have. As a FAS customer, you can use your FAS system to send Teleflora orders over Dove, to send FTD orders over Mercury, and to send Teleflora, FTD, FloralSource International, IFA, and ETFA orders over FASnet. You can process your credit cards through Teleflora, FTD, or through FAS's independent FAScash program. FAS has worked with other respected industry vendors to secure FAS customers business opportunities that might not otherwise be available. For example, FAS users can have their own independent web sites created by www.floristboard.net or by Media99, and these sites can be integrated with their FAS systems. FAS has worked with IFA to develop software and marketing materials, such as the Valentine's Day postcard, that will help you promote your own brand and business. FAS users have reported being in excellent negotiating positions as various vendors continue to "bid" for their business, while florists locked into one camp or another because of their choice of technology have no such bargaining power. Furthermore, users of some products who find that yesterday's "partner" has become today's competitor have no choice except to continue to financially support their new competitor.

One thing that has not changed during the last 20 years is FAS's commitment to the success and well-being of its customers and of the floral industry. FAS is committed to continuing the development of products that will help you grow your business and that will help you run your business more efficiently and more profitably. FAS's new Version 2004 has run very well since it was released in November, and we have already implemented numerous software enhancements based upon feedback from FAS's customers. As always, if you have any suggestions, please feel free to send them to us. In the meantime, if you have any friends considering technology for their shops, I would sincerely appreciate your mentioning FAS to them. If you have any questions about the issues discussed above or about FAS's products, please give us a call at (800) 830-6160 or visit www.fasinc.org. Thanks.

Yours truly



Gary M. Reed
President