

# **FAS** *Floral Accounting Systems, Inc.*

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

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Dear FAS Customer,

It's been a few months since my last customer letter. In talking to florists from around the United States during the last few months, I have heard that sales for the spring holidays and early summer have either been flat or slightly increased. Various segments of the industry continue to report experiencing challenges as importers, wholesalers, and retailers all look for ways to increase sales and profits. The good news is that it appears the economy is rebounding. During the last four months there has been strong growth in job creation, manufacturing, and construction. Consumer confidence remains high. Interest rates, although expected to rise slowly as the economy heats up, are still near record lows, encouraging investment. And fuel prices, setting record highs just weeks ago, appear to be on their way downward to more normal levels.

While many florists and wholesalers feel they face uncertainties, wire services continue to report record performance. On February 23rd, Teleflora reported, "Hot on the heels of the most successful Christmas season ever, Teleflora is pleased to announce positive results for their members for Valentine's Day." On April 19th, Teleflora announced, "phenomenal results: Teleflora.com orders, all direct from consumers to Teleflora florists, saw a staggering 55% increase over last year. Teleflora keepsake orders sent over Dove were up 22% over Easter last year, the second consecutive year of growth, and overall Dove orders were up 16%." On May 28th, Teleflora reported it "is pleased to report another record-breaking Mother's Day for their members." One would assume that Teleflora measured this record-setting performance using the volume of Teleflora wire orders sent by its members, since Teleflora would have no knowledge of florists' local, non-wire sales volume. Ironically, most florists I have talked to concerning wire order volume have reported decreasing numbers of wire orders.

Similarly, on May 12th, FTD announced an 11% increase in revenues for its third quarter (January through March), from \$95.6 million last year to \$106.3 million in 2004. According to FTD's announcement, FTD saw a "14.2% increase in revenues in the Consumer Business segment and a 7.8% increase in revenues in the Florist Business segment". FTD's net loss for the quarter was \$12.7 million. According to the FTD announcement, the Consumer Business segment of its company reflects the operations of FTD.COM and had third-quarter revenues of \$57.2 million! You may recall from my previous letter that FTD was acquired by Leonard Green & Partners earlier this year.

Interestingly, although Teleflora and FTD continue to report impressive accomplishments, these companies have not been immune to change. Many florists were stunned when Teleflora announced on May 5th--in the middle of Mother's Day week--that Gregg Coccari, Teleflora's long-time president, was no longer with the company. The same press release announced that Michael Weinman, a 14-year company veteran and then-Chief Operating Officer, had been promoted to President. Then, the industry was even more shocked when Teleflora announced just 49 days later, on June 23rd, that Michael Weinman was leaving the company as well. Teleflora name Phil Kleweno its second new president in as many months.

Incredibly, on May 13th, the week after Mother's Day and only one day after FTD's press release concerning its strong third-quarter financial performance, FTD announced the departure of its Chairman

and CEO, Bob Norton. FTD announced that Michael Soenen, a former FTD executive, had been named the company's new President and CEO.

It is interesting that these companies are making these significant changes in management while they continue to announce new performance records every holiday. With FTD and Teleflora being FAS's primary competitors in technology, FAS has a great interest in these companies, particularly in the area of technology. Numerous sources have reported interesting developments in this area as well.

FAS's attention has been drawn to FTD and Teleflora primarily because a number of our customers have reported receiving offers for converting from FAS that seem "too good to be true". Indeed, some of the offers being made to FAS's customers are far more generous than what FTD and Teleflora offer their own current technology customers for upgrades and services. Specifically, numerous florists have reported being offered systems that are "basically free", if they would convert from FAS. The basis of these offers has been that the wire services will increase the shops' rebates to offset the cost of the systems. You would be very concerned if a large floral retailer came to your town and offered your customers free flowers. As you might expect, FAS is equally concerned about these offers, and I have expressed my concern to both companies. These actions are offensive and questionable on various grounds. I consider these actions attacks against FAS and against the hundreds of florists who choose to use FAS systems to manage their businesses. If you are fortunate enough to receive such an offer and choose not to take advantage of the deal, I would sincerely appreciate your providing the relevant information about the offer extended to you.

FAS has no problem whatsoever with fair, honest, and legal competition. FAS is celebrating its 20th anniversary in 2004. Thanks to its customers, FAS has not just survived for 20 years, but it has enjoyed growth and success for two decades, competing against much larger companies. Many other technology companies and a few wire services have either disappeared or they have been bought out during the last 20 years. In fact, this situation reminds me of a very similar situation FAS experienced years ago, when another wire service directed an equally-aggressive campaign at "buying" FAS's customers. Less than a year after the campaign began, the wire service no longer existed, and a state business magazine announced that a "cash shortage" had spurred the sale of the company. Giving away hundreds of thousands or perhaps millions of dollars in products and services tends to cause a company to experience a cash shortage, and ultimately, the florists who took advantage of the "too-good-to-turn-down" offers are the ones who suffer.

Of course, most smart business people understand that nothing is really free. Florists have reported that these deals usually have strings attached, such as requiring the florists to send a certain volume of wire orders. But there are other costs associated with converting to other systems. Your staff doesn't work for free. Spending several weeks or months training your staff on a new system has a real, actual dollar cost in the thousands of dollars. One florist, whose FAS system ran flawlessly for many years, reported losing tons of orders that simply disappeared at one of the biggest holidays of the year after converting to another system. The vendor blamed the problem on electrical interference--electrical interference that *never* affected the shop's FAS system. What was the cost of lost revenue associated with those orders, not to mention the potential loss of those customers forever? Your FAS system "remembers" every customer and recipient that you have ever served. Having that data immediately available saves many hours of labor. Your FAS system remembers every birthday and anniversary order that has been placed in your shop. The system provides numerous marketing tools that allow you to effectively capitalize on these special occasions to generate repeat sales. That wealth of marketing data, which one could easily argue is priceless, is lost in the conversion to another system. No other vendor has legal access to the technical program and file specifications that would be required to legally convert this data without FAS's assistance. And users of some other systems have reported paying more for support alone than FAS users pay for their systems *and* support combined!

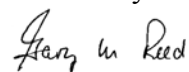
As the wire services deal with their own challenges, one would assume their attention would be focused on addressing the needs of their own customers. I understand there is currently an outstanding legal matter between FTD and Teleflora that could affect their technology customers' technical capabilities and business options. And numerous sources have reported and confirmed that FTD recently terminated the employment of a considerable portion of its technology staff, including some senior personnel. It takes FAS *at least* six months to train a support representative to be able to provide simple basic technical support. It can take years to train a good programmer to be productive working in a large, complex software system such as FAS. FAS is fortunate that its developers, who created the original FAS system 20 years ago, are also owners of the company and are still with FAS today. However, if I was faced with having to lay off support and programming staff, my immediate concern would be "how do I continue to maintain the level of support my current customers deserve?", not preying on a competitor's customers with financially unsound offers. Most companies would find it difficult, if not impossible, to maintain a given level of customer service while simultaneously downsizing its customer support staff and increasing its customer base.

FAS will continue to monitor this situation closely and take all steps necessary to protect its own interests and the interests of its customers. I will advise you of any developments in this area as they occur. Coincidentally, florists would be well advised to closely monitor the wire services' actions geared at competing against retail florists. Most florists are already aware of Teleflora's Flowerclub.com and FTD.com, geared at capturing orders that used to be sold by traditional retail florists. FTD has continued to increase the number of direct-ship items on FTD.com, and another web site, [www.butterfieldblooms.com](http://www.butterfieldblooms.com), whose products are primarily shipped directly to the recipient, lists FTD's address as the contact address for Butterfield Blooms. If overall wire service memberships continue to decline, I believe we could see these companies increase their consumer-direct business, both on the Internet and in traditional retail outlets, in order to grow revenues.

With everything that is going on in the floral industry, it is more important than ever for you to aggressively market your shop to your local customers. One of the many tools FAS provides for "tying" your customers to your shop is the "**Dial-A-Flower**" card. Enclosed are samples of FAS's original Dial-A-Flower card, printed by a dot-matrix printer on continuous forms, and the new laser Dial-A-Flower card. Instead of subsidizing a competitor's marketing efforts against your shop, invest in promoting your own brand and business with FAS's Dial-A-Flower or postcard program. As you can see, the Dial-A-Flower card includes your shop information and the customer's account information. On the back of the card the customer can note birthdays, anniversaries, holidays, and other special occasions. The software that prints these cards is already present on your system. For more information about this software, please call FAS's support staff. The new laser Dial-A-Flower card is available exclusively at Moore-Wallace, formerly Moore Business Forms. Please call Moore-Wallace at (800) 356-9366 to request additional information about the Dial-A-Flower cards.

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](http://www.fasinc.org). In the meantime, if you have any friends considering technology for their shops, I would sincerely appreciate your mentioning FAS to them. Thanks.

Yours truly



Gary M. Reed  
President