

FAS *Floral Accounting Systems, Inc.*

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Dear FAS Customer,

As more and more florists make the decision to go “wire service-free” and as florists send an ever-increasing volume of Florist Direct orders, the question of how to handle sales tax often comes up. Florist Direct (FD) orders are wire orders sent from one florist to another florist without using a traditional wire service. The sending shop pays the filling shop for the order using a credit card. Most Independent Florists’ Association (IFA) members retain a sales commission (discount) while others choose to send 100% of the order value to the filling shop and retain a service charge paid by their customer. According to the sales tax laws of the various states, the filling shop is *not* required to charge the sending shop for sales tax on these orders.

The wording of these statutes is very similar from state to state. For example, Florida’s tax law 12A-1.047 states, “In cases where Florida florists receive telegraphic instructions from other florists located either within or outside of Florida for delivery of flowers, the receiving florist will not be held liable for tax with respect to any receipts which he may realize from the transaction.” Illinois statute 130.1965 states, “Where Illinois florists receive telegraphic instructions from other florists located either within or outside of Illinois for the delivery of flowers, the receiving florist will not be held liable for tax with respect to any receipts which he may realize from the transaction.” California’s tax regulation 1571 states, “Tax applies to amounts charged by a florist to his customers for the delivery of flowers, wreaths, etc., to points within California, even though he instructs another florist to make the delivery, but in such case tax does not apply to amounts received by the florist making the delivery. ... Tax does not apply to amounts received by California florists who make deliveries in this state pursuant to instructions received from florists outside the state.”

These laws have been in effect for many years as indicated by the reference to “telegraphic instructions”. In fact, California’s law originally became effective on August 1, 1933. Other states sometimes include the phrase “telephonic instructions” in these laws as well. Over time, these laws have also covered orders placed by phone, computer, and fax. In no case however, do these laws require that these orders be processed through any particular wire service, network, or association. These laws make no mention of the phrase “wire service”, nor do they include any reference to the name of any wire service. Some states discuss, as part of their tax laws, orders transmitted through a “telegraphic association”, and IFA clearly meets the “association” requirements of these statutes as well as any other organization. These laws also make no reference to the method of payment used for these orders. Nowhere does the law require that the orders be processed through a wire service clearinghouse. Payments through a credit card “clearinghouse”, or even by cash or check, meet the legal requirements for allowing the filling shop to process these orders without charging sales tax to the sending shop.

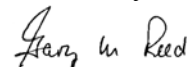
Over the years wire service publications have attacked the practice of sending orders Florist Direct. One article said that accepting credit cards from florists was risky and suggested that florists who use credit cards to place orders may have questionable credit. These arguments simply have no logical or factual basis. Virtually every shop in the U.S. accepts credit card payments from their customers all day, every day. How is charging an order to The House of Flowers' American Express card any riskier than charging an order to John Doe's Mastercard? As far as credit worthiness is concerned, all credit card companies check the credit histories of applicants before issuing a card, and they require their customers to pay their credit card bills on time. Do the wire services do any more to assure credit worthiness? Shops are frequently expelled from wire services because of credit issues, so wire service membership is no guarantee of credit worthiness, proficiency, or professionalism. By authorizing a card before delivering the arrangement, you can verify that the purchase can be charged to the card. Credit card companies have implemented fraud prevention features such as address verification, CVV, and mod-10 algorithms that help ensure that a credit card number is valid and that the customer is authorized to charge purchases to the card. There are no such safeguards with wire service ID numbers.

When you send FD orders you still have an average of 30 days to pay your "wire-out bill", i.e. your credit card bill. However, when you receive FD orders you are paid immediately, rather than having to wait 30 days to be paid. A florist who receives a \$50 order through a traditional wire service is paid \$36.50 (73%) for the order, and he has to pay \$1 (another 2%) to receive the order over Mercury or Dove. Even after allowing a 20% discount to the FD sending shop, a florist is paid \$40 (10% more than \$36.50) for the same order, and he is paid immediately. And you don't have to pay thousands of dollars in annual dues and fees to be a "member of the club"! Greater profits. Quicker payments. It's no surprise that FD orders represent one of the fastest-growing segments of wire orders in the industry. Don't let some companies' scare tactics concerning sales tax issues or security issues deprive you of your fair share of these orders. Visit www.myifa.org to learn more about FD orders.

Welcome to new FAS customers

I would like to take this opportunity to thank FAS's new customers for choosing our products and to welcome these shops into the FAS users group. We have had a busy year thus far, and we are scheduling installations throughout the summer. Responses to FAS's marketing efforts have been excellent this year, indicating that shops have a positive outlook about the future of the industry. While there have been some shops close throughout the U.S. during the last couple of years, we have seen a significant number of new shops springing up across the country. The owners of these businesses bring a fresh, new perspective to the industry, along with the energy and enthusiasm required to grow their businesses. When owners of some of these shops say, almost apologetically, "Well, I'm just a small, new shop", I try to point out that even the largest of florists, at some time in the past, began as a small, new shop. Of course, I would also like to once again thank FAS's "old timers", some of whom have been with us for as long as 21 years. You represent FAS's greatest asset, and you have acted as our sales force by referring potential new customers to FAS and by providing testimonials to prospective customers. Everyone at FAS appreciates your ongoing support. If you have any questions about the issues discussed above, please call FAS at (800) 830-6160. We look forward to hearing from you soon. Thanks.

Yours truly



Gary M. Reed
President