

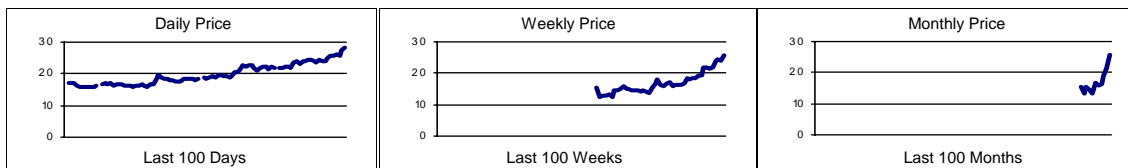
**SFLY SHUTTERFLY INC**

**Current Price \$27.15**

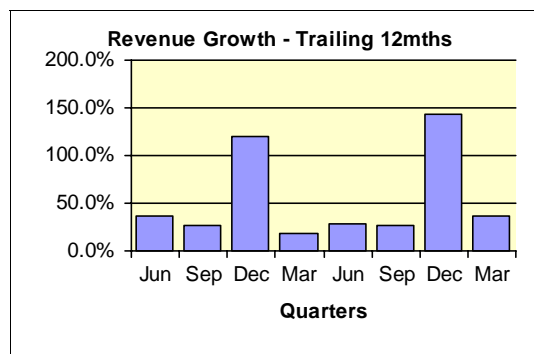
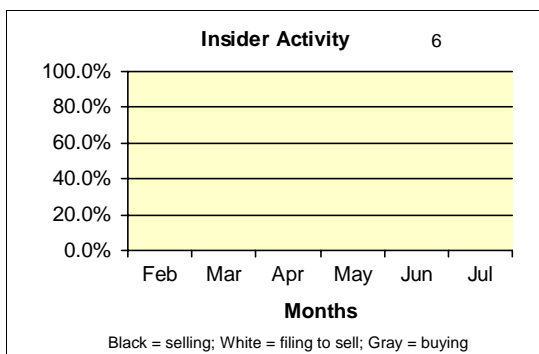
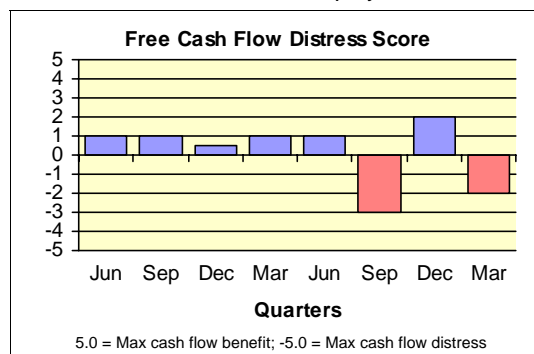
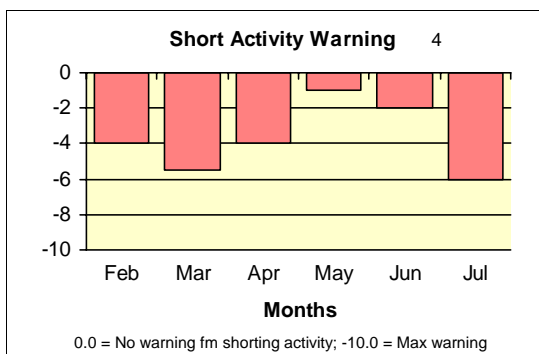
Market cap \$661

Price, 52-wk Hi/Lo \$25.91 / \$12.05

Shutterfly Inc. provides an Internet-based social expression and personal publishing service that enables consumers to share print and preserve their memories through the medium of photos.



Options?	No	Recent convertible	No	Convertible debts and pfd <sup>1</sup>	\$0
PE TTM	90.5x	Insider ownership	24 %	Next earnings due:	11/7/2007
Estimated PE	71.1x	Potential dilution <sup>2</sup>	9 %	Bankruptcy Z-Score <sup>3</sup>	8.4



## RED FLAGS

- |   |   |   |
|---|---|---|
| <p><i>Ability to meet expectations</i></p> <p>High P/S ratio TTM <sup>7</sup> <input type="checkbox"/></p> <p>Negative free cash flow <sup>8</sup> <input type="checkbox"/></p> <p>Sales growth slowdown <sup>9</sup> <input type="checkbox"/></p> <p><i>Accounting issues</i></p> <p>Change in actg principles <sup>10</sup> <input type="checkbox"/></p> <p>Qualified audit language <sup>11</sup> <input type="checkbox"/></p> | <p><i>Early balance sheet warnings</i></p> <p>Rising inventory to sales <sup>12</sup> <input type="checkbox"/></p> <p>Rising accounts receivable <sup>13</sup> <input type="checkbox"/></p> <p>High long-term debt to capital <sup>14</sup> <input type="checkbox"/></p> <p><i>Stock and debt ratings</i></p> <p>Recent downward earns ests <sup>15</sup> <input type="checkbox"/></p> <p>S+P Debt Downgrade <sup>16</sup> <input type="checkbox"/></p> | <p><i>Stock selling signals</i></p> <p>High insider selling <sup>17</sup> <input type="checkbox"/></p> <p>Large institutional ownership <sup>18</sup> <input type="checkbox"/></p> <p>Co sales of common stock <sup>19</sup> <input type="checkbox"/></p> |
|---|---|---|

## INVESTMENT CONCERNS

Current market trends appear to be moving away from Shutterfly, which stores and prints photos online. The site has three distinctive features -- high prices per print, storage and viewing but no sharing, and a simplicity that is not always user-friendly. The online world, however, is moving towards photo-sharing as Photobucket and similar sites take share, and a recent WSJ review panned Shutterfly's site. Apple's announcement today also emphasizes community-building aspects. None of this is consistent with a multiple of 80x earnings.