



Dear Doubledown Investors,

The past few weeks and months have obviously posed Doubledown Media exceedingly serious challenges. While the Company expects to finish 2008 with revenue growth of approximately 30% over 2007, to \$12 million, we will fall well short of our revenue projections for the second half and for the year. During the fourth quarter, which has historically generated 40% of the company's revenues, marketing spending in our sectors almost ground to a halt. Accordingly, expectations of a positive second-half run rate turned into a significant loss; the Company will lose approximately \$3 million this year.

Our 2008 performance, combined with our assumption that 2009 will be an awful year for our financial communities, advertising in general and print media in particular, has prompted us to rethink our strategy and our execution.

Below, I've addressed a few 2008 highlights, our short-term outlook and our 2009 game plan (strategic, financial and management). Despite the roiling economic environment we remain determined to achieve the long-term success you all expect from your investments in us.

### **SOME 2008 HIGHLIGHTS**

- **Continued international expansion:** in the second half of 2008, Doubledown expanded its UK operations, launching the Dealmaker magazine and web site brands, and launching both Trader Monthly and Dealmaker in Dubai.
- **Digital success:** Doubledown's password-protected web sites surged in traffic, and are currently averaging over 100,000 unique users a month. Doubledown's digital division will do over \$1 million in revenue this year, and turn a small profit.
- **Profitable events:** Despite the economic downturn, Doubledown's Wall Street Boxing series remained a huge moneymaker, and the title sponsor has indicated that it will greatly increase its participation in 2009.

### **SHORT-TERM BURN: 90-DAY PLAN**

The period between November 15<sup>th</sup> and February 15<sup>th</sup> proves an extremely rough financial period, as our digital revenue slows down seasonally, and we don't have any magazines or events to bring in revenue, due to the fact that marketers don't like the December-January period. To decrease our burn – both during this 90-day period, and then positioning ourselves for 2009 (see below), we've taken the following steps:



- **Headcount:** Over the fall, as it became clear we would not achieve the revenue growth we had constructed the company for, we slowly weaned our headcount from a high of 60 to roughly 50. In November, we took stronger steps: we laid off 12 people, and furloughed another three to the new year.
- **Payroll:** To share in the sacrifice, the top 10 managers agreed to a 90-day, 50% salary reduction. Additionally, middle managers took a 25% salary reduction. Every manager acceded to this, and the company lost none of its top talent.
- **Cash:** Chairman Jim Dunning agreed to provide a \$300,000 short-term loan, which if not repaid will convert into a warrant pool, at a \$30 million valuation, equivalent to seven percent of the outstanding shares, which he had pledged to use to turn over to key employees as extra incentive for the sacrifices incurred above.

## **2009 STRATEGY: ACCELERATE OUR TRANSITION TO DIGITAL**

Boiled down, the company's strategy to date has been: put out world-class magazines, use those to build one-of-a-kind databases and professional communities, then monetize through various media, notably digital, events and the magazines themselves.

The company's core strength – the reason it's received a disproportionate amount of publicity – is its ability to convene its audience. This level of engagement is highly unusual in the media world, and given the desirability of our audiences, it's very valuable.

The current problem with this strategy is that the underlying engine – the print magazines -- are quite expensive to produce on the cost side, and don't scale well enough on the revenue side. It's good strategy in growth cycles – the magazines could/should be profitable database and marketing engines – but dangerous in the current environment. Our long-term strategy has always been to use the magazines to bridge us toward a digital future: a digital and events company that has some showpiece magazines, rather than a magazine company with web sites and events. Circumstances dictate that we greatly accelerate that shift.

Accordingly, we've decided to make immediate changes to our print model. Specifically:

- **Print fewer issues:** Change the frequency of all our magazines to four times a year. Besides the marginal savings achieved producing fewer magazines, we can reduce staffing (see above) and fixed costs, at very little revenue loss – almost no advertisers run in every single issue of a magazine, so the same revenue can be steered into fewer print products.



- **Print fewer copies:** Deliver a portion of our magazines via “digazines” technology – digitally delivered magazines that allow readers to download and scroll page-by-page. Thousands of our readers are now requesting that we delivered this way.
- **Mail more efficiently:** Increased number of digital magazine readers allows us to qualify for a more favorable postal rate for the issues we continue to print and mail.

More important is where we’re redirecting the energy, as print recedes in importance to us.

- Building out a series of **online “private networks”** for each of our communities. As previously communicated, the idea of a “long tail” LinkedIn model – professional social networks for specific fields, which happen to amalgamate a large affluent audience – lies as the heart of the company’s strategy. The Alpha for the trader social network launches in January, with a full-blown Beta launch following approximately eight weeks later.
- Increased attention to make our **daily web sites** must-visit daily destinations
- Continued focus on our **daily e-newsletters** (the “DailyCandy of the affluent”, which now number 100,000 strong)
- Developing **digital applications**, particularly for mobile
- Expanding our **events** division, but focusing only on profit-producing events, rather than those done to merely generate brand awareness or community, both of which have been accomplished

## **2009 FINANCIAL FORECAST: THE WONDERS OF DIGITAL ECONOMICS**

The cost-savings attributable to digital economics, coupled with a serious overhaul of headcount and G&A, allows Doubledown to make a seven-figure profit merely by matching this year’s revenue figure. An overall gain of 17%, which we forecast (achievable while simultaneously forecasting a serious drop in print revenue) would yield an EBITBA of \$3 million. And the company could even make money with a 10% decrease in revenue, since less revenue would come with some cost reductions.

It goes without saying that in this environment, any prediction we make carries a large dose of conjecture. But by developing a plan that make money even with flat or decreased overall sales while still allowing a build and rollout of our social networking initiative, we feel we’ve taken concrete structural and philosophical steps to help survive this period, and thrive going forward.



## **MANAGEMENT/PERSONNEL:**

While the current economic troubles are obviously the largest cause for the shortfall, they've also prompted us to look at our management structure so that we can affirmatively take this company to profitability. While few predicted the current economic conditions, company management – that starts with me – should have done a better job forecasting the cash issues a revenue shortfall would have created in the second half, and also done a better job driving sales in the first half to provide a cushion when the storm came.

Accordingly, we've made three major moves. We were caught too flat-footed going into the second half in part because senior management was not getting transparent financial details on a timely basis. Accordingly, we've brought in John Orr to run that area of the company. John was previous the CFO of Jobson, a \$100 million media company dedicated to the health care space.

Second, we've removed Richard Skeen as the head of sales and marketing. While his background (former chief of luxury sales at the Wall Street Journal) was a perfect fit, he did not manage with the urgency we expect as an entrepreneurial organization. I have moved my office to the sales and marketing floor, to directly oversee this at the strategic level. And on a day-to-day basis, we've split the duties. Senior vice president Wilkie Bushby has overseen the granular sales process since our inception and will continue to do so. And the marketing side of the business is now run by Pat Shannon, who has a long background in marketing and event sponsorship.

Third, in terms of our digital initiatives, we've brought in Matt Melucci as the president of digital strategy, to oversee the social network build-out and revise our digital content execution. He has seven years of social media experience, including running strategy for the wildly successful Beliefnet. He will work with our current head of interactive, Todd Tarpley, whose strengths are in operations and sales.

## **FINANCING:**

Chairman Jim Dunning came through throughout 2008, most notably in the second half, putting \$3.575 million into the company. This was done at a price of 32 cents per share, compared with 58 cents per share for the most recent round. These Series A shares will sit above the rest of the capital in terms of priority of return.

In keeping with the preemptive rights spelled out in the Operating Agreement, **every investor has a right to invest on the same terms**, up to the amount necessary to keep their overall ownership of the company at the same level. In fact, we encourage all our investors to do so. **We need any contributions to be committed to by December 15,**



**2008, and made into the Company by December 31, 2008.** A term sheet is available for anyone interested. Please contact me directly.

Going into 2009, while the Company can possibly continue without any additional investment, it will be painful to do so. An expected positive first-half P&L still carries unfriendly cash flow. Accordingly, the Company remains aggressive in courting institutional or strategic money -- we are talking to several venture capitalists who write smallish checks in the consumer technology space (the most likely raise is \$2.5 million), and also several large strategic firms. This raise would allow for aggressive expansion of the social network/digital push (well in excess of what's been budgeted), more and better salespeople, and a cleaner balance sheet. The Company could make due with far less, and also put to use far more. Suggestions from our shareholders on this front would be greatly appreciated.