



Berrett-Koehler Publishers

Steven Piersanti
President and Publisher
2868 Flannery Road
San Pablo, CA 94806-1550
T: 510.724.1705
F: 510.724.2081
E: spiersanti@bkpub.com

May 18, 2009

Dear Berrett-Koehler Shareholder,

I am writing to update you on how Berrett-Koehler is faring in the midst of the world economic downturn. I also want to remind you about our Annual Shareholders Meeting, which will take place from 8:30 am (beginning with breakfast) to noon on Wednesday, July 8, in the Chamber of Commerce Board Room, 12th Floor, 235 Montgomery Street, San Francisco. If you have not yet RSVP'd to Arielle Kesweder about whether you will or will not be attending this Shareholders Meeting, please do so by responding to this email.

REVENUES

Attached are our internally prepared financial statements for the period ended April 30, 2009. The news is not good. Revenues have fallen from \$2,524,363 during the first four months of 2008 to \$1,772,696 during the first four months of 2009, which is a decline of 29.8 percent. Revenues are down in almost all categories, with international sales suffering an especially big drop. One notable bright spot is digital income (sales of BK e-books, digital selections from BK books, and other BK digital materials), which tripled from \$26,581 in the first four months of 2008 to \$80,545 in the first four months of 2009; this digital income is starting to be significant and is likely to keep on growing very rapidly. Another bright spot is sales of both print publications and digital publications on the Berrett-Koehler website, which increased by 44 percent from the first four months of 2008 to the first four months of 2009.

The principal cause of the sales decline is the global economic slowdown, which is hitting book publishing sales hard. According to the Association of American Publishers, sales of adult hardcover and adult paperback books in the U.S. fell by 24.8 percent in the first two months of 2009 (the latest data available), compared to the first two months of 2008. And from bookseller reports, we know that sales in the business category have been hit much harder than virtually all other categories of book sales. Besides the general hard times that many businesses and other organizations are facing, the reason that business book sales (and in particular the categories in which BK is especially strong, such as management, organization development, and human resource development) have fallen so much is that a large part of the sales of these books happen in conjunction with training programs, development projects, speaking, conferences, seminars, workshops, and the like — many of which have been canceled or experienced huge drops in enrollment.

To put this year's sales in perspective, BK sales started off healthy in 2008, with sales in the first four months at an annualized rate of over \$7.5 million — but then peaked in April 2008. Mirroring what was happening in the U.S. economy last year, BK sales declined in the second four months of 2008 and dropped still further in the last four months of 2008. BK sales bottomed out in November and December 2008. Sales in the first four months of 2009 have averaged a little higher than our November/December 2008 low point — but, as indicated above, far below how we started 2008.

How will sales go the rest of 2009? Sales have been so discouraging for so many months that it is hard to be optimistic, and, even after an economic recovery begins, it usually takes a long time for the training programs, development projects, speaking, conferences, seminars, workshops, and the like that drive business book sales to rebound to their pre-recession levels. On the other hand, in most years Berrett-Koehler has substantially larger sales in the second half of the year than in the first half of the year; we hope that this will be the case in 2009 (even though it was not the case in 2008). And our 2009 list of new books is our largest list ever and we believe that it is also one of our strongest lists (based on the large number of books we are publishing this year by bestselling authors) -- but that may simply be keeping our sales from falling still more. One ray of hope that sales are beginning to turn up is that sales this month (May) are on track to be our highest since September 2008.

PROFITABILITY

The sales shortfall has led to a loss of \$95,750 before taxes in the first four months of 2009 (compared to a profit of \$142,101 before taxes in the first four months of 2008).

This loss would be much higher except for reduction in expenses in many areas of the company. As the economic news darkened last year, we began making cuts in expenses, which are reflected in the lowered expenses on the attached 4/30/09 operating statement. We are currently making further cuts in expenses in all areas of the company, including editorial, production, marketing, and finance and operations. Fortunately, Berrett-Koehler has thus far avoided what many of the large publishing companies have done: layoffs of employees, cancellations of book projects, and shutting down of some publishing programs (HarperCollins, for example, is eliminating its Collins division).

However, we have had to table the hiring plans that we had for 2009 and to forego our annual company salary increases (leaving our salary structure at its April 2008 level).

Our expense cuts have substantially lowered our cost structure in 2009 compared to 2008. Nevertheless, our sales drop is so steep that, if we stayed for the rest of the year near the sales level of the first four months, we would need to make substantial further cuts in order to avoid a loss in 2009. We view layoffs as a last resort and would prefer to first do company-wide salary reductions, reductions in benefits, and other steps, if necessary. Without such cuts, sales would have to pick up substantially for the balance of the year for BK to earn a profit in 2009 (as BK was profitable in 2008, despite the deteriorating sales after the good first four months).

OTHER NEWS

The paradox is that, even in these difficult economic times, many things are going exceedingly well for Berrett-Koehler:

We are continuing to attract an abundance of high-quality authors and book projects. Our authors, manuscript reviewers, and other BK community members are acting as book scouts and are referring to us an ever-increasing number of promising new book projects each year.

The number of formats in which BK publications are available for sale and use has exploded. Nearly 200 BK books are now available in the Kindle format, nearly 200 are now available in other e-book formats, and all new BK publications are being simultaneously released in both print and digital formats. Over 100 BK books are available through ReadHowYouWant, which makes books available for visually impaired people in Braille, in large-print format, and through DAISY Reader software that reads books aloud. And the “Fast Fundamentals” series of digital “BK Whitepapers” (individual chapters from some of our bestselling books, downloadable on our website) has been launched, with 170 “Whitepapers” already released and more in the works.

Online searches for BK publications and views of pages of BK publications are likewise exploding both in number and in geographical spread around the world. For example, the number of visits to BK books on Google Book Search increased from 12,340 in January 2009 to 50,501 in April 2009. Berrett-Koehler is working closely with Google, Scribd, and various other online media to keep expanding this online visibility of our publications.

We have improved our systems in all areas of the company, including editorial, design and production, sales and marketing, and finance and operations. As an example of these system improvements, Berrett-Koehler has successfully moved to an entirely digital system of disseminating sales information and royalty reports to authors, thus saving a lot of time, paper, and administrative work. (In contrast, a recent article in *Publishers Weekly* detailed all the reasons that large publishing companies would benefit from digital royalty statements but that those companies are still in the exploration stage and will not be ready to make the transition to digital statements any time soon.)

The Berrett-Koehler Authors Cooperative is doing great things for BK authors, with more and more BK authors getting actively involved in it and with its annual Authors Retreat, annual Authors Marketing Workshop, and other programs becoming increasingly well organized and valuable for participants.

We have continued to extend our publishing and marketing partnership with ASTD and to develop areas of collaboration with other organizations. These partnerships are expanding our sales and marketing while reducing our expenses.

The *BK Communiqué* eNewsletter is becoming an ever-bigger hit among BK communities as well as among the media and bookselling worlds in general. Many booksellers, media professionals, publishing professionals, and others not only read it regularly but also actively participate in the interactive features of the newsletter. As one executive at a digital media company wrote to us, “I get a lot of email newsletters, but *BK Communiqué* is one that I always read for information and entertainment — keep up the good work!”

Finally, we continue to get a great deal of positive feedback about the quality of our

publishing program. For example, one long-time book agent wrote to us a few weeks ago that “while I won’t pretend to know just how much went into helping [my author], I do know that all of your efforts were considerably more than any recent publisher has give one of my authors/clients . . . It has been very impressive to observe.” And Bob Johansen wrote in his just-published stellar new book, *Leaders Make the Future*, “Berrett-Koehler is a very unusual publishing house. I have done books for large publishers and I have had several famous editors. Nothing in my experience, however, compares to the quality of the work at BK.”

HOW YOU CAN HELP

The secret of Berrett-Koehler’s success has always been our partnering relationships with our authors, customers, sales agents, service providers, suppliers, shareholders, and other stakeholders. In these difficult economic times, we need your support more than ever. We especially need your help in bringing our publications to the attention of people and organizations who would find these publications valuable. Please forward to your contact lists information about BK publications that they may find of interest and encouragement to sign up for our *BK Communiqué* eNewsletter. A convenient way to do this is to forward to them the following link to our website, *bkconnection.com*, which includes a button (upper right-hand corner) for signing up for *BK Communiqué* and buttons for viewing our latest catalogs online (lower left-hand corner) as well as information on all of our books; here’s our website link:

<http://www.bkconnection.com/>

Thank you for your support of Berrett-Koehler.

Best regards,

A handwritten signature in black ink that reads "Steven Piersanti". The signature is written in a cursive, flowing style.

Steven Piersanti

President

The Berrett-Koehler Group, Inc.