From:	Reidy, Carolyn <Carolyn.Reidy@Simonandschuster.com>
Sent:	Thursday, February 11, 2010 10:47 AM
To:	Eulau, Dennis <Dennis.Eulau@Simonandschuster.com>; Rivlin, Elisa <Elisa.Rivlin@Simonandschuster.com>
Subject:	FW: PRIVILEGED AND CONFIDENTIAL: APPLE

From: Reidy, Carolyn
Sent: Thursday, February 11, 2010 10:46 AM
To: Moonves, Leslie
Cc: Ianniello, Joseph
Subject: PRIVILEGED AND CONFIDENTIAL: APPLE

Dear Leslie:

I wanted to keep you up to date on the status of our EBook negotiations with accounts. I apologize in advance for the length of this email, but I wanted to give you a full picture because I believe that within a few weeks Amazon will try and □punish□ us in some way.

As you know, we signed a one-year contract with Apple designating them as an Agent to sell eBooks for us, at a **30%** fee. This enables us to set the price to the consumer on our eBooks, with certain agreed ceiling prices on some new releases and best sellers. The Apple ITunes eBook store will go live around the end of March (exact date not yet determined). In order to not be in a situation whereby we must price our adult new release eBooks sold through Apple at $9.99, undercutting one of the reasons for making the deal, we need to change our eBook selling terms with our other eRetailers before that date.

While we told Amazon that we were going to change to the Agency model before the iPad was announced, we have not yet sent our new contract over to them. Before we had even drafted it, Macmillan, as you□ve seen in the press, flew out to discuss their new Agency terms with Amazon, and had a very ugly and public fight with them: for a week Amazon removed the □buy□ buttons on all of Macmillan□s physical books from the Amazon bookstore and removed all the eBooks entirely from its site. Amazon did come to terms with Macmillan on an agency approach, it appears, and in fact stated publicly that it would have to give in to Macmillan□s demands for higher prices because of Macmillan□s □monopoly□ on its titles (we of course call it copyright). Their settlement with Macmillan was very quick and we believe it was because the backlash on their actions was so strong and negative. Their own consumers were incredibly vocal in their displeasure with Amazon, both for its □Big Brother□ actions (removing sample chapters that customers had downloaded of Macmillan titles□an effect we have to believe they were not aware would happen; making it impossible for a customer to even list a Macmillan book on his/her wish list) and for presuming to decide what customers could or should buy (many customers said they could very well decide for themselves if books were worth more than $9.99). Even though about 1/3 of the comments on the site supported Amazon and its pricing, a full half to two-thirds were extremely critical. Secondly, Wall Street punished Amazon severely, and it lost over 6% of its value in two days after taking down Macmillan□s books.

I give you this background because it appears that Amazon has decided that we are the next □Apple publisher□ they are planning to negotiate with. We have heard that other publishers with whom Apple has announced deals have sent revised terms to Amazon and each has been told that Amazon is □not ready to talk to them.□ We, on the other hand, have just received from Amazon□on Tuesday□a copy of a contract based on the Agency model reflecting the terms they would like to see. We believe that Amazon□s strategy is to take the publishers who have come to terms with Apple on one at a time from small to large□skipping Hachette because their CEO has been so clear in public that he has a □slush fund□ precisely to withstand any shortage in sales caused by an Amazon □war.□

We have prepared a boilerplate for our new terms. We have now reviewed the contract Amazon sent and to no surprise found it full of terms and conditions that are not acceptable to us. They would remove the benefits of the agency model for us, would cost us additional margin and would otherwise control our behavior in unwelcome ways. We are currently seeing if there are any parts of it we *can* combine in our contract before sending ours to them.

We are also trying to delay, making it imperative due to timing that the other publishers with whom Apple has announced deals push for resolution on their term changes (thus not leaving us out there alone) and making it less likely that we will have a lengthy effect on our sales with Amazon. We do think it is unlikely that we will be able to delay more than two more weeks.

We doubt they will take the buy buttons off our titles, given the reaction they had last time. One theory is they will be less draconian and take the buttons off just some titles, but of course now we could be public about their behavior and they couldn□t really get away with that. But we don□t presume to know what their strategies are. We are prepared for the discussions and (at least temporary) results to be unpleasant and potentially ugly.

We□d like, before we send the contract to Amazon, to send a version without the □special Amazon□ clauses (items from their contract we can live with that we□ve added to our contract), to Barnes & Noble and SONY, who are expecting a contract and welcome it, so they are all set up before the Apple store opens. We hope to have those resolved shortly.

Joe Ianniello has some concerns, which he is going over with Dennis. His biggest question is about the 30% fee which we confirmed (after of course trying to change it with Apple, as I discussed with you on the phone) with CBS Television and other media, and has now become very public. We don't believe it can be modified with other large vendors nor that it should be, as the point of this change is to provide a healthy sales environment for our eBooks with a good number of outlets. We believe that our pricing needs to be consistent across accounts.

If you have any questions about any of this, please just let me know. I will keep you informed and also make sure that Gil is also alerted about how things proceed in case we become the next story.

Carolyn