

Subject: iTunes update
Date: Sat, 16 Jan 2010 18:45:37 -0800
From: Eddy Cue <cue@apple.com>
To: David Young <david.young@hbgusa.com>
Bcc: Keith Moerer <kmoerer@apple.com>
Message-ID: <B864A8A7-A2E3-4165-9DDC-FE75942A08C7@apple.com>

Hi David,

I appreciate you taking time during the weekend to take a look at our proposal. We will make a decision by Thu, at the latest, to determine whether we will launch a book store/reader. The most important goal for us is to build a book store that will be the biggest in the world (sales) as quickly as possible. Our time and resources are precious and we don't want to spend them unless we can build a real business (big revenues) for us as well as you. Our alternative is to let others build book store apps (like we already have from Amazon, Barnes & Noble, etc) which gives our devices many book solutions. But we can do way better!

There are 3 driving forces (selection, price and profitability) for us to succeed. From a customer point of view, they expect us to offer all books available at a price that is less than physical. For both of us, we can only do this over the long term if there is healthy (profitable) business. We have listened to your feedback and concerns over our proposal and have made some adjustments. We have considered many different options and think this is the best one. In addition, one question that has been asked is whether we would take less than a 30% commission. As I mentioned, at 30% this gives us a low single digit positive margin business. Secondly, it is the margin we use with all music labels, tv studios, Hollywood studios and app developers. We can not compromise this without damaging those multi-billion dollar businesses.

Here are the maximum prices for new release hardback books -

List Price	Wholesale	iTunes	70%	Diff
\$20.01-22.50	\$10.00-11.25	\$9.99	\$7.00	\$3.00-4.25
\$22.51-25.00	\$11.25-12.50	\$10.99	\$7.70	\$3.56-4.80
\$25.01-27.50	\$12.50-13.75	\$12.99	\$9.10	\$3.40-4.65
\$27.51-30.00	\$13.76-15.00	\$14.99	\$10.50	\$3.25-4.50
\$30.01-35.00	\$15.01-17.50	\$16.99	\$11.90	\$3.10-5.60
\$35.01-40.00	\$17.51-20.00	\$19.99	\$14.00	\$3.51-6.00

In addition, it is critical that we appear at least reasonable (we won't be less) to the heavy discounting that is happening for NYT best sellers. When a book that list for \$30 or less is in the NYT Bestseller List than the iTunes price will be no greater than \$12.99. Between \$30.01-35 in the NYT Bestseller List, the price will be no greater than \$14.99.

This gives you significantly more tiers and higher prices. Though I think this is higher than we need to be, the elegance and ease with which we will offer should make this work.

If you agree to proceed, it is critical that you have the team ready for us on Tue so we can complete an agreement. I can have Kevin Saul and Keith Moerer available in person in NY to address any issues. If not, then we will move on. Don't hesitate to call me if you have any questions.

Eddy

Exhibit 31
Cue
03/12/13

K. Schroeder
csr, rpr, ccr

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APPLEBOOK-00012487



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