

APPLE

CKP { Eddie Cue - iTunes + app store
Dennis { Kevin Saul - Bue Affairs / iTunes + app store
Michael { Keith Moerer - TV, Audiobooks + podcasting, iTunes

Store + reader (not dedicated device)

Not interested ebk readers

color screens

Web Browser

Net connectivity

not focused on ed, map supms,

just books

50mm devices now

iTunes - 110^{mm} customers w/credit cards

- all digital customers, 1 click

\$3bn digital business

support video + audio w/i book (enhanced ebooks)

⇒ helps w/pricing dilemma

Pricing

flexibility/variable - 3 trav price pts

- more albums,

- " TV seasons

Books + movies (variable, not
infinite price points)

won't sell anything at a loss

→ single digit margin (digital)

25% margins overall

\$12.99? \$14.99? competitive, but

doesn't have to match

✓ need new releases (not windowed)

Fairplay DRM

Movies (xmusic, xbooks) - DRM

EXHIBIT

Hirschhorn/3

1-11-13



12/16/09

APPLE (cont'd)

lending - no, hard to control environment
- can share w/i household

=> buy content
no x-device sharing
can transfer to SAME A/c
Mac - 5 accounts limits
phone

Limits - 5 accts tied to 5 machines.
* 1 credit card on file for A/c
11 monies (constrained to household)

protection & DRM -
closed ecosystem (Apple only)

text-to-speech - no intention to launch
it. Too variable -
some books have,
others don't.

timing 90 days f/today.
US + Canada

stores in 23 countries, so
want to go int'l

70% revs = US / Can / Aus / Jap / Fr / Ger / UK
sequencing: # #1 #3 #2

* epub files
extras, not interactive books (do, in
app store) publishers can interact

Model:

Wholesale model
they set retail prices



12/16/09

APPLE (cont'd)

Bus. Model

other publishers want: \$13-\$15 range, get by including extra material

Sts - 20-30% discount ebk > pbk.

- discount to retailer 30-40%

- retailer still discount 30% more
=> \$30 -> \$17

- all parties whole/same

- min. pricing

- Set a floor, not a MAP (min. adverting price / actually is a minimum selling price.

(*) min
retail
price
setting.

If Apple/retailer sells below
~~amount~~ amount they bought
it at f/publisher, can't
sell

Apple not worried - low cost
provider strategy. ^{not pursuing}

bundling

back of book ads.

link in book (browser / internet connectivity)

free form splash page for

directly related to book

Author App.

not other bks not by author
link to sites

Reporting -

usage: sales; mkt. share data

user: non-ID w/zip data



12/16/09

APPLE (cont'd)

Storefront

- on client side in "iTunes"
- on app/- 3rd destination
 - books
 - music
 - TV

Marketing Opps

all editorially-driven

Keith's group runs:

- marketing campaigns
- promotions-work w/ s+s on them
- charts of what's not free

Co-marketing campaign (Apple matches publisher's contribution - targeting \$100mm campaign.)

- TV ads
- outdoor ads

2 reader groups

- kids
- over 45 crowd
- in between 12-45 lost.

TASKS

Free sample files - Dennis

IT contacts

metadata

investor

- ① they send us DRM spec - tomorrow
- ② template of Term sheet - next week
- sign mid-January

