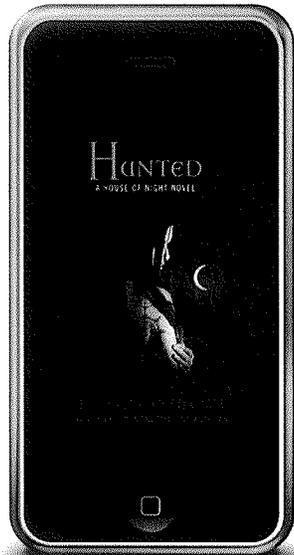


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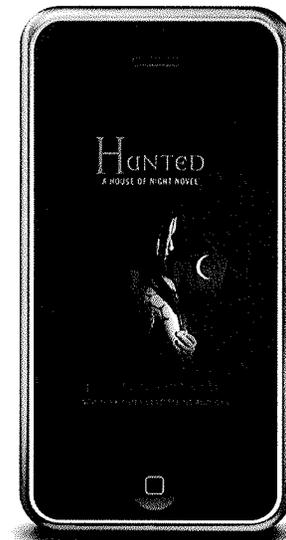


**eBooks
U.S. Update**

May 6, 2009

Agenda

- *Executive Summary*
- *Market Update*
- *Current Actions*
- *Pricing and Economics*
- *Appendix*



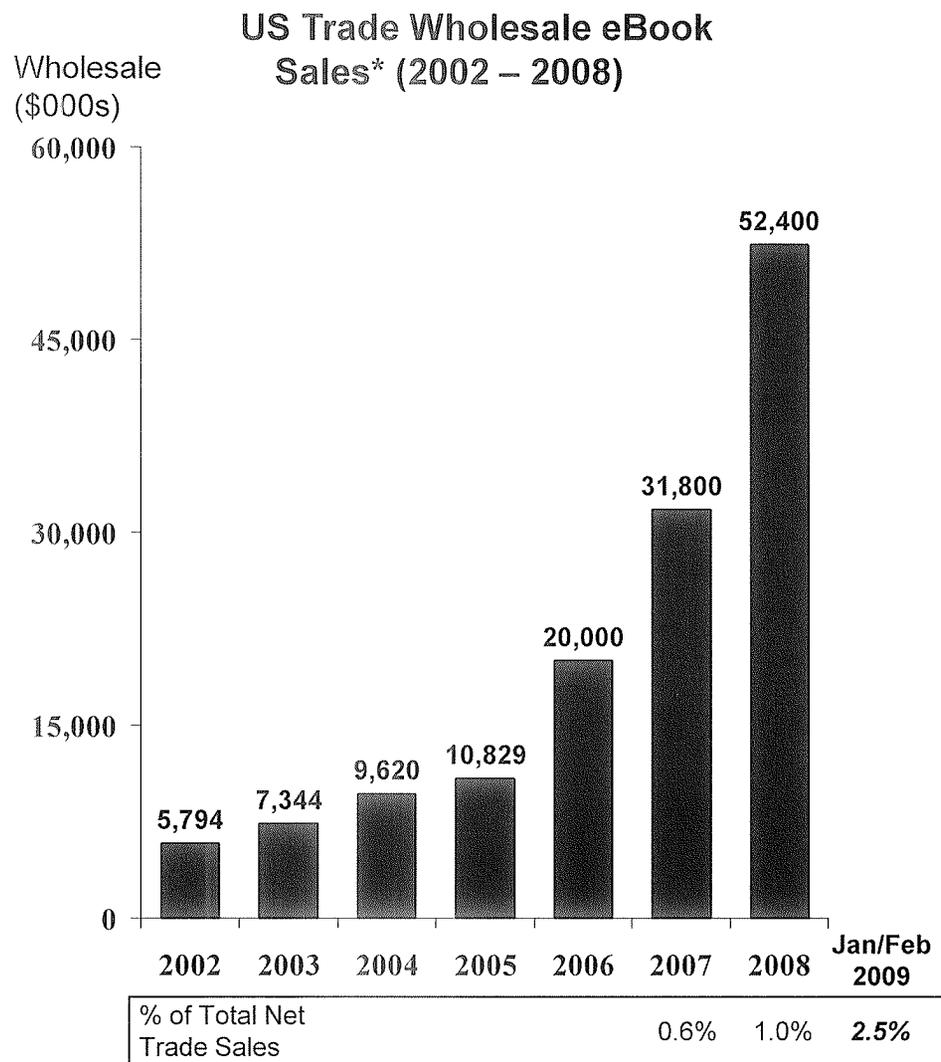
Market Update

The eBook market in the U.S. is moving quickly and appears to be entering a rapid growth phase that presents both risk and opportunities

- eBooks are growing rapidly; 08 U.S. trade eBook sales grew 64.8% to \$52M (1% of sales); 2009 sales jumped 153% in January/February YOY to \$15.5M (2.5% of sales)
- Anecdotal evidence, supported by early Kindle device and book sales, suggests fairly broad consumer acceptance and increasing momentum
- Amazon has early mover advantage through its end-to-end solution and is rapidly working to establish barriers to entry using speed, selection, aggressive pricing, and acquisition
- Major players are moving to join Amazon in the market
 - Sony is a solid second and appears committed to the market (Google public domain deal)
 - B&N will soon launch its eBook store and recently acquired Fictionwise
 - Google and Apple and in varying stages of entering the market for content and devices
 - Many others are making investments in stores and platforms – Costco, Indigo, Fujitsu and others, possibly including Hearst and News Corp.
- Proliferation of devices, common formats, and platform innovation (screens, usability, DRM, batteries, etc.) should drive the installed base, enhanced distribution, and consumer acceptance
- Publishers are focused on eBooks – all majors have low cost digital conversion and delivery platforms and are increasing participation despite concerns regarding pricing, piracy/DRM, and channel health
- Major factors that will define the market (price, selection, channels, platforms, consumer behavior) are taking shape now and will, in part, determine the answer to the two key questions:
 1. Will we sell more books or fewer books?
 2. What will be the resulting economics of book publishing?

Market Size and Growth

The eBook market has been growing rapidly and has experienced further acceleration in early 2009 signaling a potential inflection point in consumer adoption



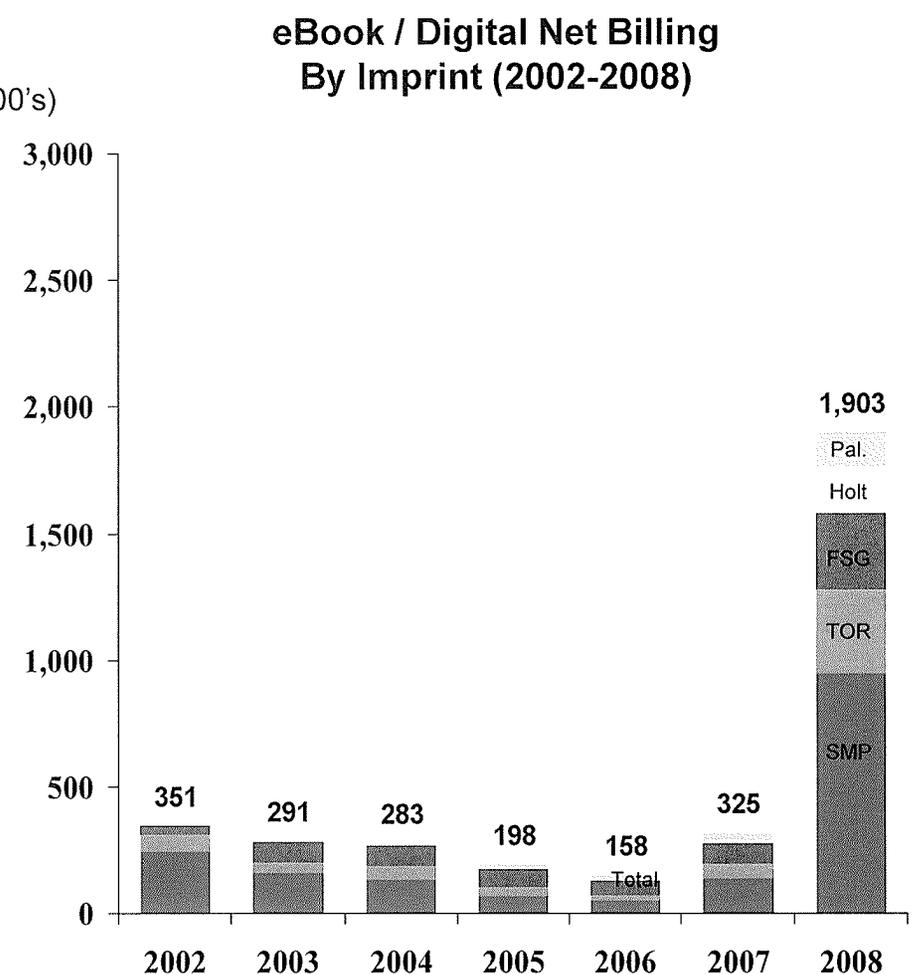
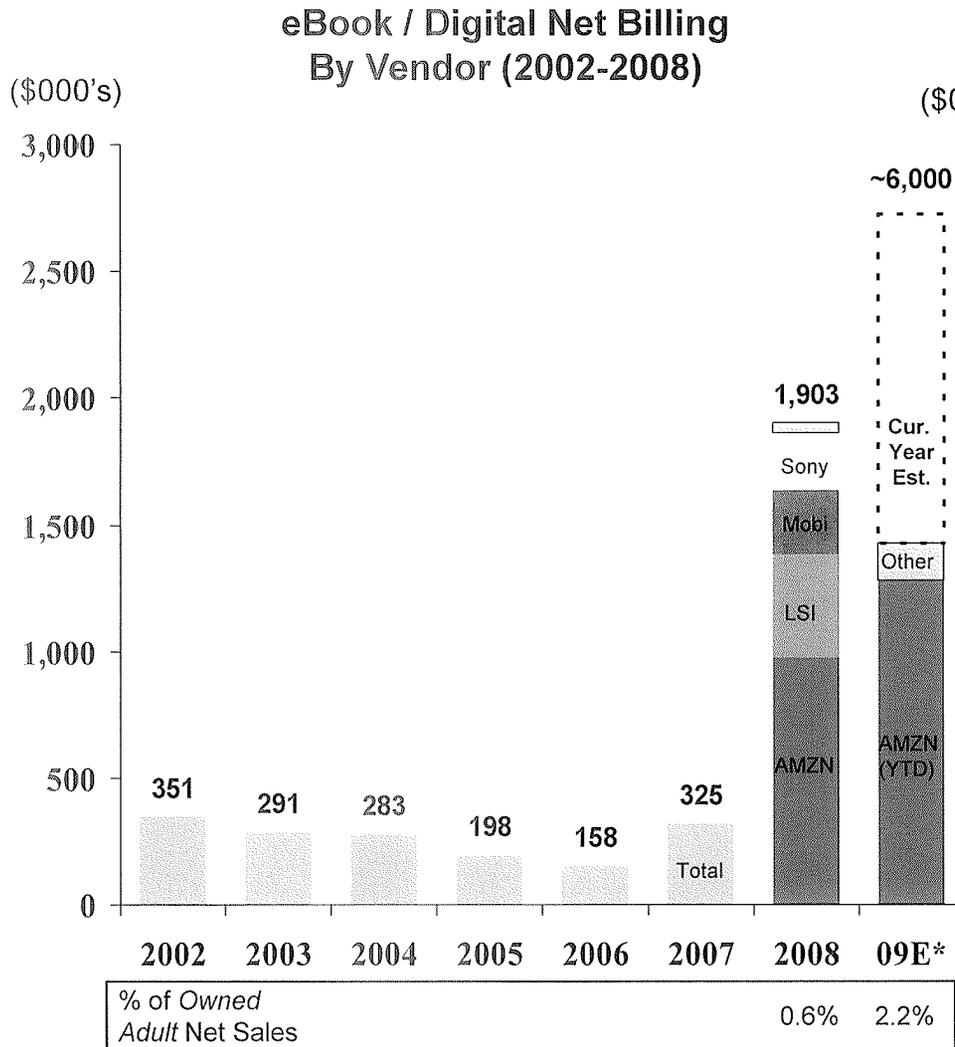
Early eBook Observations

- Wholesale sales have grown to \$15.5M through the first two months of 2009, accounting for 2.5% of Adult Trade Sales – up from 1% during 2008
 - Macmillan Q109 eBook sales grew to 2.2% of wholly owned adult trade up from 0.6% in 2008
- Amazon statements and our data point to substantial consumer interest and sales
 - Year 1 Kindle sales are estimated at 250k–500k
 - *“Kindle users buy 2.6x as many total books including the same number of physical books”*
 - *“In 2008, Kindle editions account for 12% of total sales by volume for titles available in both formats”*
 - *“In the last 3 months, Kindle sales have jumped to 35% where both editions are available”*
- The platform adoption curve compares favorably to those of other successful consumer platforms
 - Beginning in 2002 Apple sold 376k, 934k, and 4,416k iPods

Note: * Per IDPF, Trade ebook sales via wholesale channels as reported by publishers; Trade Net Sales Per AAP

Macmillan U.S. Sales

Macmillan U.S. eBook sales have mirrored the growth of the industry as a whole



Note: * 09 Estimate based on Jan. – Mar. actual sales of \$1.4M grossed up to full year; May be conservative due to quickly escalating growth rate

Competitive Arena

The dynamics of the eBook market are in flux as major retailers, content aggregators, and devices players begin to enter the market in earnest

Retailers & Distributors
<ul style="list-style-type: none"> eBook wholesalers Device stores Resellers Direct sales
Major Players



- Market leader
- Proprietary DRM
- Purchased Stanza, largest iPhone app



Lightning Source

- Compatible with ePub format
- Wholesaler to many eBook retailers



- B&N purchased Fictionwise, one of the largest eBook retailers. ~10M in sales
- Store scheduled for launch in Q309

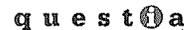
Other & Potential New Entrants



Content Aggregators
<ul style="list-style-type: none"> Library eBook programs Google books Digital textbook aggregators Online document sharing sites
Major Players

OverDrive

- #1 digital library program
- 8,500 library partners
- 10M digital checkouts in 2008



- Aggregator of textbooks, journals, newspapers, and ebooks



- Full text search of 7 million books
- Settlement would pave the way for a new business model

Other



Readers/Devices
<ul style="list-style-type: none"> Dedicated eReader Devices Mobile Phone applications Netbooks / Laptops Other Devices
Major Players



Kindle

- Up to 500k estimated in year 1
- Early adoption rate similar to ipod
- Kindle DX (9.7 inch screen Announced 5/5/09)**



Sony

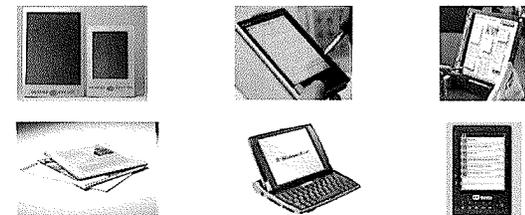
- PRS-700 recently released
- Sony Connect Store
- Book Sell-through not as good as Kindle



Mobile Devices

- Stanza has over 1.5M downloads
- Amazon introduced the Kindle iPhone App
- Growing market for standalone eBook apps

Other & Potential New Entrants



eBook Consumer Behavior

To date, the audience for eBooks has largely mirrored that of physical books

Amazon Print Sales Top 10

1. <i>Hunted</i> , P.C. Cast	1,783
2. <i>Dead Aid</i> , Dambisa Moyo	1,049
3. <i>One Second After</i> , William R. Forstchen	890
4. <i>Artisan Bread</i> , Jeff Hertzberg	788
5. <i>Our Iceberg Is Melting</i> , John Kotter	682
6. <i>Imager</i> , L.E. Modesitt, JR.	672
7. <i>Marked</i> , P.C. Cast	537
8. <i>The Tourist</i> , Olen Steinhauer	533
9. <i>In a Gilded Cage</i> , Rhys Bowen	511
10. <i>Expediter</i> , David Hagberg	444

Kindle Sales Top 10

1. <i>The Tourist</i> , Olen Steinhauer	1,321
2. <i>True Colors</i> , Kristin Hannah	722
3. <i>Hunted</i> , P.C. Cast	555
4. <i>Plum Spooky</i> , Janet Evanovich	442
5. <i>Maverick</i> , Lora Leigh	407
6. <i>My Horizontal Life</i> , Chelsea Handler	347
7. <i>The Second Opinion</i> , Michael Palmer	340
8. <i>Marked</i> , P.C. Cast	270
9. <i>Hot, Flat, and Crowded</i> , Tom Friedman	230
10. <i>Paths of Glory</i> , Jeffrey Archer	225

What is the eBook Audience Reading?

- The same books, with some exceptions
- Books that are available and findable
- Brand name, top-of-mind authors and titles
- Books on bestseller lists
- Books that Amazon promotes
- Books for technology early adopters (Sci Fi)
- Genre books
- Non-illustrated books
- Tor backlist appears to be benefiting from early adopter audience

Piracy and File Sharing

Though piracy's current financial impact seems small, unauthorized copies of virtually all new books are readily available and is a fast growing problem

Examples of Available Pirated Material (5/09)

Author	# Found and Dwnld.	# of Pirated Versions	# from Scanned Books	# from Scanned ARCs	# from Word Files	Notes
Evanovich	14	37	18	0	19	Bundles available - Often with other Publisher's editions
Bolaño	2	5	3	2	0	In total, parts / sections and bundled with New Directions Titles
Collins	3	3	0	0	3	
Kenyon	7	26	7	0	19	
Cast	6	6	0	0	6	Entire Series available as a bundle

The Free eBook Network	
scribd	wattpad
torrentz.com	esnips
fastdownloadarchive	4shared.com
mininova	mediafire
vertor	rapidshare
thepiratebay	filetube.com
h33t	onlytorrents.com
torrenthub	sumotorrent
fenopy	demonoid
monova	rapidlibrary
torrentportal	ebookee
torrentreactor	Payloadz

Examples of Pirated Versions of P.C. Cast available online on Wattpad (71k reads)

Hunted - P.C. Cast & Kristin Cast (house of night 5)

17
VOTE

Language: English
Length: 131 pages
Reads: 40,682
Wattcode: [120567](#)

House Of Night-Hunted-05

15
VOTE

Language: English
Length: 131 pages
Reads: 30,277
Wattcode: [120615](#)

Comments & Reviews [^top](#)

is this the complete first book? i loved it! if its not gonna have to go buy it.



[tiffanyj](#) on 2/09/09 04:21:09:43:25

[Login](#) to add your comment.

Current Macmillan U.S. Activities

We are ramping up our eBook capabilities and have significantly increased eBook availability and support

	1/1/2009	5/5/2009
Content	<ul style="list-style-type: none"> Converted bestsellers only – most titles made available on Kindle by free conversion Limited availability of titles 	<ul style="list-style-type: none"> Converting all frontlist and major author backlist to epub and distributing across the network ~3,300 titles currently available on Kindle
Conversion	<ul style="list-style-type: none"> eBook conversion via paid third parties 	<ul style="list-style-type: none"> Digital workflow transformation, third party conversion and warehousing through Westchester and Ingram leading to more content at lower costs
Distribution	<ul style="list-style-type: none"> Deals with Sony, Kindle and Lightning Source only 	<ul style="list-style-type: none"> Actively pursuing agreements with a variety of online retailers, distributors, content aggregators, and mobile app developers
Discovery	<ul style="list-style-type: none"> Google & Amazon SITB for Adult narrative fiction and non-fiction only 	<ul style="list-style-type: none"> Expanding Google & Amazon SITB to include Children's, 4-color adult and other non-traditional formats (for example, crosswords); Negotiations with Ingram ongoing
Direct-to-Consumer Sales	<ul style="list-style-type: none"> D2C sales for Macmillan U.S. physical trade books only 	<ul style="list-style-type: none"> D2C books, textbooks, audio and eBooks. Retailing other publisher's books on Tor.com. Planning white label and affiliate programs
Pricing	<ul style="list-style-type: none"> Highest pricing possible for digital editions 	<ul style="list-style-type: none"> Working toward a new proposed pricing structure to foster a healthy retail environment while maintaining profitability

Critical Issues for Macmillan U.S.

Macmillan's eBook approach must address key questions about the availability and pricing of our products

- **Pricing/Availability** - What is an appropriate pricing structure and product availability plan that will both help the market develop and provide an attractive, sustainable return?
- **Retail Channels** – How can we best promote a healthy retail environment?
- **DRM** – What available DRM schemes offer the best protection with a minimum of consumer pain?
- **Piracy** - What are most effective methods of preventing piracy and what are the costs associated with them? What can we learn from other media sectors?
- **Content Conversion** – What should we convert and when? How can we best move toward making the conversion of physical books to ebooks comprehensive and seamless?
- **Product Evolution** – Are there opportunities to increase the value proposition of eBooks by including enhanced content, chunking, bundling, or exclusive eBook titles?
- **Direct-to-Consumer sales** – Should we be aggressively pursuing direct consumer sales, and if so, how can we create a consumer friendly product and value chain?

Proposed Pricing Strategy

A tiered pricing structure with windowed product availability based on maximum discounting would promote competition and support rational consumer pricing

Current Price Structure
<ul style="list-style-type: none">• Digital List Price (DLP)<ul style="list-style-type: none">- Hardcover: Same as physical- Trade Paper: Same as physical- Mass Market: \$14• 50% discount to list

Proposed Price Structure
<ul style="list-style-type: none">• Digital List Price (DLP)• Bestseller HC: \$24 (\$22 after 90 days)• Other Hardcover: \$22• All other titles: Same as physical• MAP (minimum advertised price)<ul style="list-style-type: none">• For the first 90 days, we would not sell to retailers that discount greater than 30% of DLP (16.80 for Bestsellers, \$15.40 for other Hardcover)• Other terms remain the same

Rationale

- Enforces a high-end consumer price point above \$9.99
- Enhances publisher profitability
- Promotes entry and competition among retailers
- Requires a minimum amount of manual adjustment of our digital list price
- Allows consumer prices for eBooks to remain below the physical book for its entire life
- Gives Amazon a financial incentive by decreasing the list price of mass market titles

Economic Model – at Proposed Pricing

Initial analysis suggests that this pricing would increase overall sales by \$8.8M and contribution by \$6.4M, assuming a 10% eBook share, and 70% cannibalization

eBook Profitability – Proposed Pricing: Conservative Scenario (10% Market Share, 70% Cannibalization)

eBook Model	eBook Direct Contribution					- Cannibalization			+ Cost Savings from Reduced Physical Sales						Net eBook Impact
	eBook List Price	eBook Share of Total Sales	Net eBook Revenue	Earned eBook Royalty Cost	eBook Contribution	Phys. Avg. List	% of Phys. Book Sales Lost	Lost Physical Book Revenue	PPB	Royalties From Lost Physical Sales	Author Advance Prov. Adjust.	Dist. & Fulfill.	Freight	Total Savings	
Bestseller Hardcover	24.00	10.0%	6,677,195	(2,604,106)	4,073,089	26.46	70.0%	(5,237,607)	693,579	1,021,333	158,067	65,470	141,415	2,079,864	915,346
New Hardcover	22.00	10.0%	4,834,132	(1,885,311)	2,948,820	25.09	70.0%	(3,879,722)	643,525	756,546	104,794	48,497	104,753	1,658,114	727,212
New Trade Paperback	13.90	10.0%	5,372,960	(2,095,454)	3,277,505	13.90	70.0%	(3,693,300)	652,256	720,194	184,427	46,166	99,719	1,702,761	1,286,966
New Mass Market	7.85	10.0%	6,921,431	(2,699,358)	4,222,073	7.85	70.0%	(4,911,410)	624,141	957,725	220,700	61,393	132,608	1,996,567	1,307,229
Backlist Hardcover	22.00	10.0%	940,148	(366,658)	573,490	23.63	70.0%	(650,940)	150,984	126,933	31,755	8,137	17,575	335,384	257,934
Backlist Trade Paperback	13.95	10.0%	5,243,315	(2,044,893)	3,198,422	13.95	70.0%	(3,547,115)	707,048	691,687	186,243	44,339	95,772	1,725,089	1,376,397
Backlist Mass Market	7.71	10.0%	2,348,637	(915,968)	1,432,668	7.71	70.0%	(1,597,625)	255,432	311,537	82,461	19,970	43,136	712,536	547,579
Long Tail	18.14	10.0%	62,639	(24,429)	38,210	18.14	70.0%	(42,171)	8,147	8,223	2,247	527	1,139	20,284	16,322
Total Wholly Owned Adult Trade Sales			32,400,456	(12,636,178)	19,764,278			(23,559,892)	3,735,111	4,594,179	970,694	294,499	636,117	10,230,600	6,434,986
					Change in Sales			8,840,564							
					% of Lost Revenue			15.9%	19.5%	4.1%	1.3%	2.7%	43.4%		

Net eBook Impact 6,434,986
 % of eBook Sales 19.9%

Economic Model – Low Case

eBook Profitability – Low Case: Conservative Scenario (10% Market Share, 70% Cannibalization)

eBook Model	eBook Direct Contribution					Cannibalization			Cost Savings from Reduced Physical Sales						Net eBook Impact					
	eBook List Price	eBook Share of Total Sales	Net eBook Revenue	Earned eBook Royalty Cost	eBook Contribution	Phys. Avg. List	% of Phys. Book Sales Lost	Lost Physical Book Revenue	PPB	Royalties From Lost Physical Sales	Author Advance Prov. Adjust.	Dist. & Fulfill.	Freight	Total Savings						
Bestseller Hardcover	18.00	10.0%	5,007,896	(1,953,079)	3,054,817	26.46	70.0%	(5,237,607)	693,579	1,021,333	(25,222)	65,470	141,415	1,896,575	(286,215)					
New Hardcover	17.00	10.0%	3,735,465	(1,456,831)	2,278,634	25.09	70.0%	(3,879,722)	643,525	756,546	(15,839)	48,497	104,753	1,537,481	(63,608)					
New Trade Paperback	10.00	10.0%	3,865,011	(1,507,354)	2,357,657	13.90	70.0%	(3,693,300)	652,256	720,194	18,854	46,166	99,719	1,537,189	201,545					
New Mass Market	6.00	10.0%	5,290,928	(2,063,462)	3,227,466	7.85	70.0%	(4,911,410)	624,141	957,725	41,671	61,393	132,608	1,817,537	133,593					
Backlist Hardcover	17.00	10.0%	726,478	(283,326)	443,152	23.63	70.0%	(650,940)	150,984	126,933	8,294	8,137	17,575	311,923	104,134					
Backlist Trade Paperback	10.00	10.0%	3,757,785	(1,465,536)	2,292,249	13.95	70.0%	(3,547,115)	707,048	691,687	23,132	44,339	95,772	1,561,978	307,112					
Backlist Mass Market	6.00	10.0%	1,826,926	(712,501)	1,114,425	7.71	70.0%	(1,597,625)	255,432	311,537	25,177	19,970	43,136	655,252	172,052					
Long Tail	10.00	10.0%	34,527	(13,466)	21,061	18.14	70.0%	(42,171)	8,147	8,223	(839)	527	1,139	17,197	(3,913)					
Total Wholly Owned Adult Trade Sales			24,245,016	(9,455,556)	14,789,460			(23,559,892)	3,735,111	4,594,179	75,227	294,499	636,117	9,335,132	564,700					
								Change in Sales	685,124											
								% of Lost Revenue	15.9%							19.5%	0.3%	1.3%	2.7%	39.6%
Net eBook Impact	564,700																			
% of eBook Sales	2.3%																			

Economic Model Scenarios

Net eBook Profitability Impact Scenarios					
Pricing Model = HC = \$17-\$18, TP= \$10 & MM = \$6					
Cannibalization Rate	eBook Market Share				
	5.0%	7.5%	10.0%	20.0%	30.0%
100.0%	(3,336,263)	(5,004,395)	(6,672,526)	(13,345,052)	(20,017,579)
95.0%	(2,733,161)	(4,099,741)	(5,466,322)	(10,932,643)	(16,398,965)
90.0%	(2,130,059)	(3,195,088)	(4,260,117)	(8,520,235)	(12,780,352)
85.0%	(1,526,956)	(2,290,435)	(3,053,913)	(6,107,826)	(9,161,739)
80.0%	(923,854)	(1,385,781)	(1,847,708)	(3,695,417)	(5,543,125)
70.0%	282,350	423,525	564,700	1,129,401	1,694,101
60.0%	1,488,555	2,232,832	2,977,109	5,954,219	8,931,328
50.0%	2,694,759	4,042,139	5,389,518	10,779,036	16,168,554
33.0%	4,745,307	7,117,960	9,490,613	18,981,226	28,471,840
25.0%	5,710,270	8,565,405	11,420,540	22,841,081	34,261,621
-	8,725,781	13,088,672	17,451,562	34,903,125	52,354,687

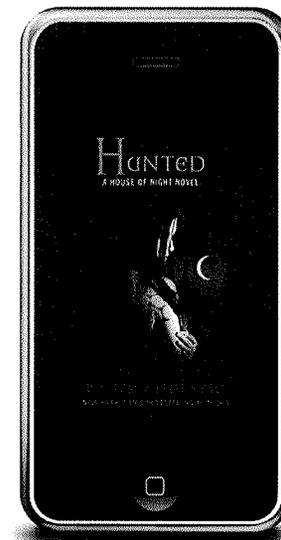
Net eBook Profitability Impact Scenarios					
Pricing Model = HC = \$22-\$24, TP & MM = List Price					
Cannibalization Rate	eBook Market Share				
	5.0%	7.5%	10.0%	20.0%	30.0%
100.0%	(401,120)	(601,681)	(802,241)	(1,604,481)	(2,406,722)
95.0%	201,982	302,973	403,964	807,927	1,211,891
90.0%	805,084	1,207,626	1,610,168	3,220,336	4,830,505
85.0%	1,408,186	2,112,279	2,816,373	5,632,745	8,449,118
80.0%	2,011,289	3,016,933	4,022,577	8,045,154	12,067,731
70.0%	3,217,493	4,826,239	6,434,986	12,869,972	19,304,958
60.0%	4,423,697	6,635,546	8,847,395	17,694,790	26,542,184
50.0%	5,629,902	8,444,853	11,259,804	22,519,607	33,779,411
33.0%	7,680,449	11,520,674	15,360,899	30,721,797	46,082,696
25.0%	8,645,413	12,968,119	17,290,826	34,581,652	51,872,477
-	11,660,924	17,491,386	23,321,848	46,643,696	69,965,544

Net eBook Profitability Impact Scenarios					
Pricing Model = \$11.95 Fixed Price					
Cannibalization Rate	eBook Market Share				
	5.0%	7.5%	10.0%	20.0%	30.0%
100.0%	(1,341,320)	(2,011,981)	(2,682,641)	(5,365,281)	(8,047,922)
95.0%	(738,218)	(1,107,327)	(1,476,436)	(2,952,873)	(4,429,309)
90.0%	(135,116)	(202,674)	(270,232)	(540,464)	(810,696)
85.0%	467,986	701,979	935,973	1,871,945	2,807,918
80.0%	1,071,088	1,606,633	2,142,177	4,284,354	6,426,531
70.0%	2,277,293	3,415,939	4,554,586	9,109,172	13,663,758
60.0%	3,483,497	5,225,246	6,966,995	13,933,989	20,900,984
50.0%	4,689,702	7,034,553	9,379,404	18,758,807	28,138,211
33.0%	6,740,249	10,110,374	13,480,499	26,960,997	40,441,496
25.0%	7,705,213	11,557,819	15,410,426	30,820,851	46,231,277
-	10,720,724	16,081,086	21,441,448	42,882,896	64,324,344

Net eBook Profitability Impact Scenarios					
Pricing Model = \$15.95 Fixed Price					
Cannibalization Rate	eBook Market Share				
	5.0%	7.5%	10.0%	20.0%	30.0%
100.0%	2,247,206	3,370,810	4,494,413	8,988,826	13,483,239
95.0%	2,850,309	4,275,463	5,700,617	11,401,235	17,101,852
90.0%	3,453,411	5,180,116	6,906,822	13,813,644	20,720,465
85.0%	4,056,513	6,084,770	8,113,026	16,226,052	24,339,079
80.0%	4,659,615	6,989,423	9,319,231	18,638,461	27,957,692
70.0%	5,865,820	8,798,730	11,731,640	23,463,279	35,194,919
60.0%	7,072,024	10,608,036	14,144,048	28,288,097	42,432,145
50.0%	8,278,229	12,417,343	16,556,457	33,112,914	49,669,372
33.0%	10,328,776	15,493,164	20,657,552	41,315,105	61,972,657
25.0%	11,293,740	16,940,610	22,587,479	45,174,959	67,762,438
-	14,309,251	21,463,876	28,618,502	57,237,003	85,855,505

Agenda

- *Executive Summary*
- *Market Update*
- *Current Actions*
- *Pricing and Economics*
- *Appendix*



Appendix: eBook Economic Modeling Approach

Approach

eBook Contribution

$$\begin{aligned}
 & \text{eBook Price} \\
 & \quad \times \\
 & \text{eBook Market Share} \\
 & \quad = \\
 & \text{eBook Revenue} \\
 & \quad - \\
 & \text{eBook Costs} \\
 & \quad = \\
 & \text{eBook Contribution}
 \end{aligned}$$

Less: Cannibalization

$$\begin{aligned}
 & \% \text{ of sales resulting in a} \\
 & \quad \text{lost physical sale} \\
 & \quad \times \\
 & \text{Average Net Rev.} \\
 & \quad = \\
 & \text{Cannibalization}
 \end{aligned}$$

Plus: Cost Savings

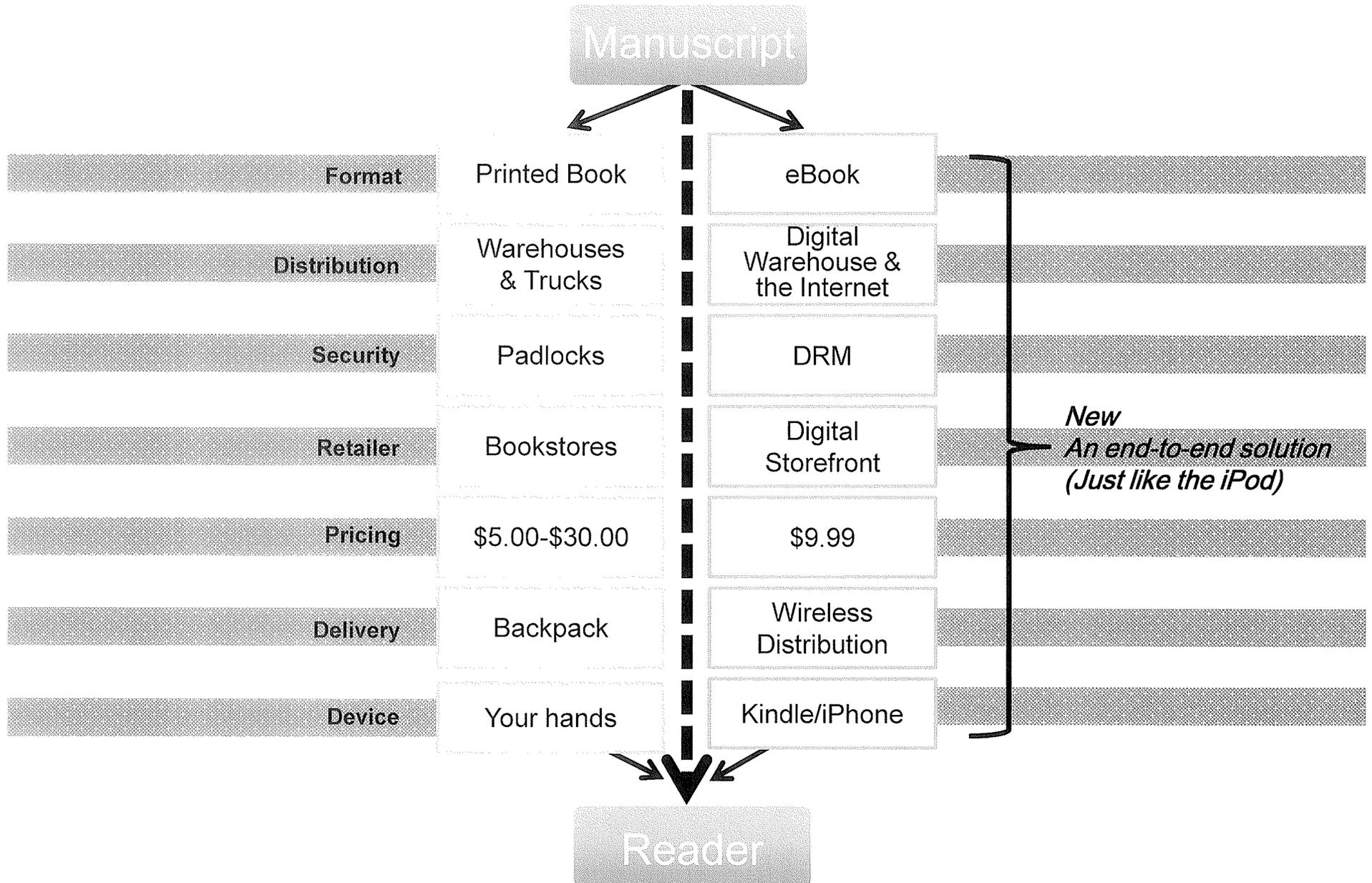
$$\begin{aligned}
 & \text{PPB} \\
 & \quad + \\
 & \text{Royalty \& advance} \\
 & \quad \text{adjustments} \\
 & \quad + \\
 & \text{Dist, Fulfill, \& Freight} \\
 & \quad = \\
 & \text{Total Savings}
 \end{aligned}$$

$$\boxed{\boxed{\text{Net Profitability}}}$$

Key Assumptions

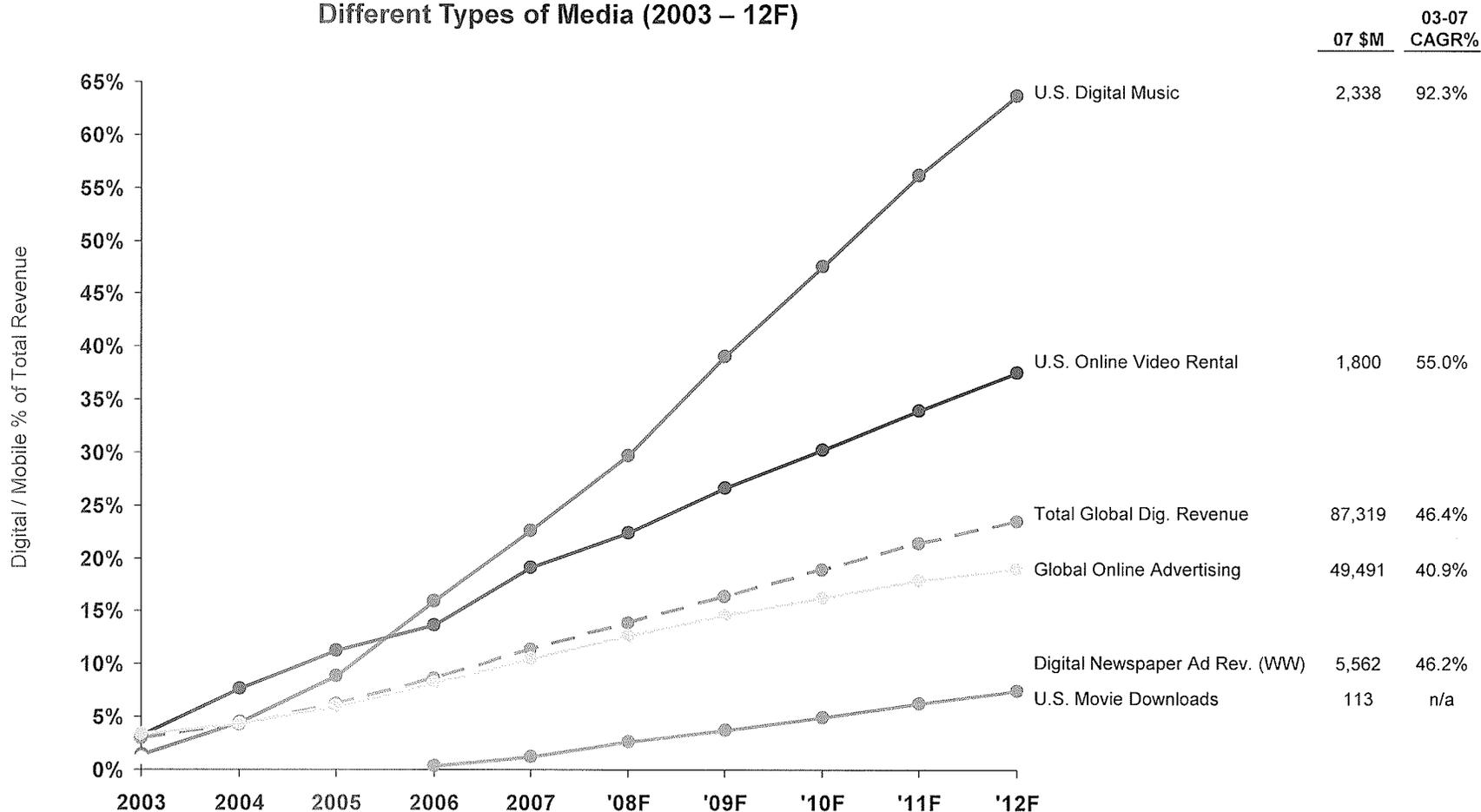
- **Timeframe:** 3-5 years from now after the market is better developed
 - **Sales:** Wholly owned trade sales and price by format as base (\$337M); all titles are converted
 - **Price:** Examines a variety of fixed prices and tiered prices by format with a 50% discount;
 - **Market Share:** Examines a variety of scenarios from 5% - 30%; constant penetration for all formats
 - **Royalties:** Royalties paid held constant at 19.5% of net sales (09 budget)
 - **PPB:** No additional plant is required for the creation of ebooks
-
- **Cannibalization:** Examines a variety of cannibalization rates from 25% - 100%
 - **Physical Books:** Outside of cannibalization, physical sales and prices remain flat
-
- **PPB:** 100% of net PPB saved through more efficient print decisions; implies that the number of returns remains constant
 - **Royalty & Advance Adj.:** The Royalties on all lost physical sales are added back and provision for unpaid advance is adjusted to remain at 11% of old net sales (09 budget)
 - **Dist. & Fulfill.:** 25% of Dist. cost on lost sales is saved through decreased variable labor cost and utilization of saved capacity (5% of net revenue)
 - **Freight:** All freight from lost sales is saved grossed up for returns (2% of net revenue)

Appendix: Consumer Adoption



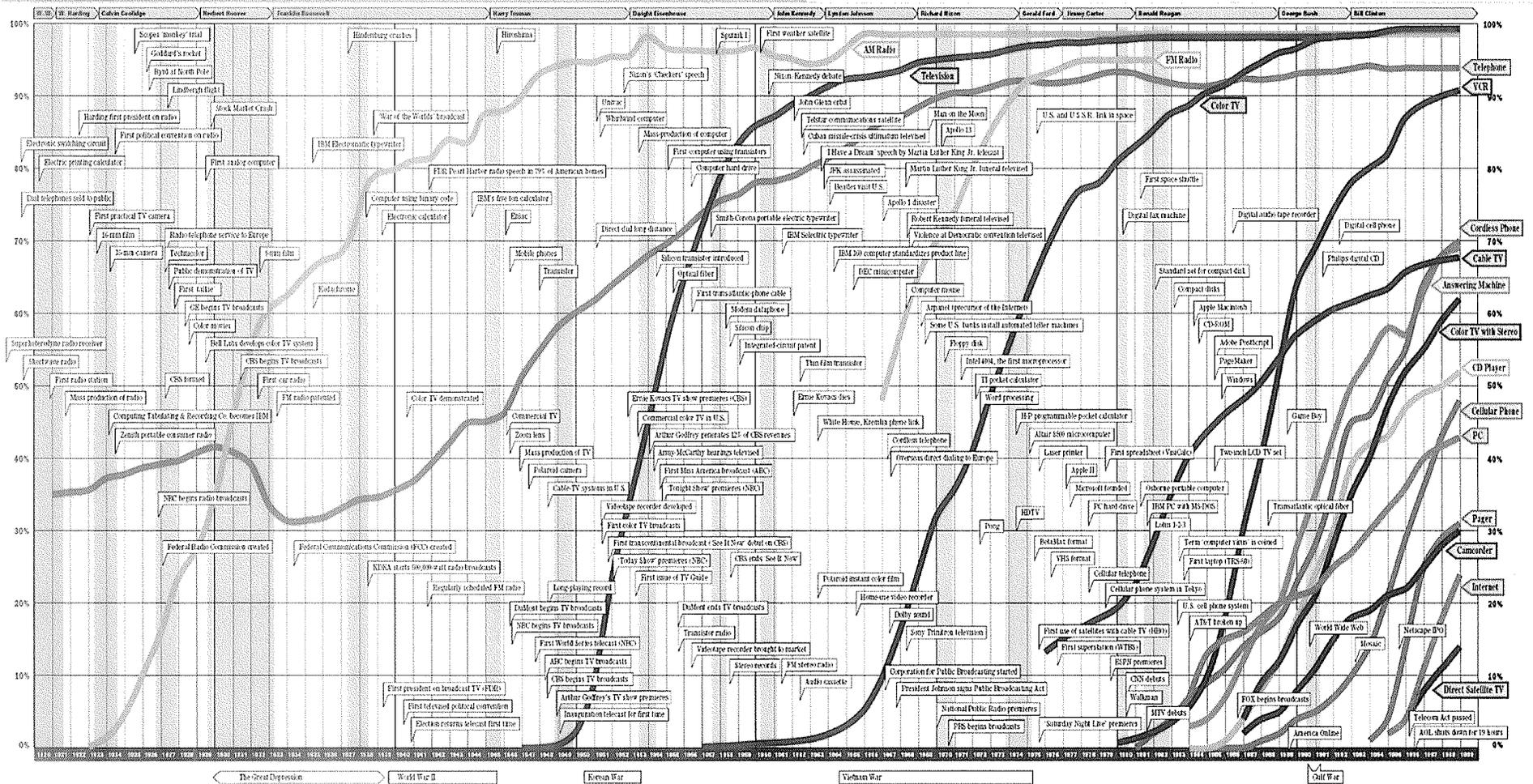
Appendix: Consumer Adoption of other Digital Media

Digital / Mobile Share of Total Revenue for Different Types of Media (2003 – 12F)



Source: PWC Global Entertainment and Media Outlook 2008 – 2012; Goldman Sachs; IDPF, AAP

Appendix: Consumer Adoption Trends Over Time



Appendix: eBook Economic Model at \$9.95

Initial analysis suggests even with conservative assumptions for future pricing and cannibalization eBooks will have a neutral to positive effect on profitability

eBook Profitability (10% Market Share, \$9.95 Fixed Price, 70% Cannibalization)

eBook Model	eBook Direct Contribution					Cannibalization			Cost Savings from Reduced Physical Sales						Net eBook Impact
	eBook List Price	eBook Share of Total Sales	Net eBook Revenue	Earned eBook Royalty Cost	eBook Contribution	Phys. Avg. List	% of Phys. Book Sales Lost	Lost Physical Book Revenue	PPB	Royalties From Lost Physical Sales	Author Advance Prov. Adjust.	Dist. & Fulfill.	Freight	Total Savings	
Bestseller Hardcover	9.95	10.0%	2,768,254	(1,079,619)	1,688,635	26.46	70.0%	(5,237,607)	693,579	1,021,333	(271,135)	65,470	141,415	1,650,662	(1,898,309)
New Hardcover	9.95	10.0%	2,186,346	(852,675)	1,333,671	25.09	70.0%	(3,879,722)	643,525	756,546	(185,933)	48,497	104,753	1,367,388	(1,178,664)
New Trade Paperback	9.95	10.0%	3,845,686	(1,499,818)	2,345,868	13.90	70.0%	(3,693,300)	652,256	720,194	16,732	46,166	99,719	1,535,067	187,635
New Mass Market	9.95	10.0%	8,774,122	(3,421,908)	5,352,214	7.85	70.0%	(4,911,410)	624,141	957,725	424,126	61,393	132,608	2,199,992	2,640,796
Backlist Hardcover	9.95	10.0%	425,203	(165,829)	259,374	23.63	70.0%	(650,940)	150,984	126,933	(24,786)	8,137	17,575	278,843	(112,723)
Backlist Trade Paperback	9.95	10.0%	3,738,996	(1,458,208)	2,280,787	13.95	70.0%	(3,547,115)	707,048	691,687	21,069	44,339	95,772	1,559,915	293,587
Backlist Mass Market	9.95	10.0%	3,029,653	(1,181,565)	1,848,088	7.71	70.0%	(1,597,625)	255,432	311,537	157,237	19,970	43,136	787,311	1,037,774
Long Tail	9.95	10.0%	34,354	(13,398)	20,956	18.14	70.0%	(42,171)	8,147	8,223	(858)	527	1,139	17,178	(4,037)
Total Wholly Owned Adult Trade Sales			24,802,613	(9,673,019)	15,129,594			(23,559,892)	3,735,111	4,594,179	136,451	294,499	636,117	9,396,357	966,059
						Change in Sales		1,242,722							
Net eBook Impact		966,059													
% of eBook Sales		3.9%						% of Lost Revenue		15.9%		19.5%		0.6% 1.3% 2.7% 39.9%	

Net eBook Profitability Impact Scenarios					
Pricing Model = \$9.95 Fixed Price					
eBook Market Share					
	5.0%	7.5%	10.0%	20.0%	30.0%
100.0%	(3,135,584)	(4,703,376)	(6,271,168)	(12,542,335)	(18,813,503)
95.0%	(2,532,482)	(3,798,722)	(5,064,963)	(10,129,926)	(15,194,889)
90.0%	(1,929,379)	(2,894,069)	(3,858,759)	(7,717,517)	(11,576,276)
85.0%	(1,326,277)	(1,989,416)	(2,652,554)	(5,305,109)	(7,957,663)
80.0%	(723,175)	(1,084,762)	(1,446,350)	(2,892,700)	(4,339,050)
70.0%	483,030	724,544	966,059	1,932,118	2,898,177
60.0%	1,689,234	2,533,851	3,378,468	6,756,936	10,135,404
50.0%	2,895,438	4,343,158	5,790,877	11,581,753	17,372,630
33.0%	4,945,986	7,418,979	9,891,972	19,783,944	29,675,915
25.0%	5,910,949	8,866,424	11,821,899	23,643,798	35,465,697
-	8,926,461	13,389,691	17,852,921	35,705,842	53,558,763

Appendix: Key Issues Continued

1. **Pricing** - What is an appropriate pricing structure and product windowing strategy that will both help the market develop and provide an attractive, sustainable return from the transition to ebooks? Will lower eBook prices threaten physical book prices?
2. **DRM** – Should DRM be a requirement for all ebooks? What type of restrictions should we place on the number of devices and users who can access an ebook? What currently available DRM schemes offer the best protection with the minimum of consumer pain?
3. **Piracy** - What are most effective forms of preventing piracy and what are the costs associated with them? Will an aggressive pricing and DRM strategy drive consumers to pirated content or other publisher content rather than physical content?
4. **Channels of distribution** – What threats and opportunities exist in the evolution of ebook distribution channels? How can we best promote the healthy development of these channels? How will the google settlement impact ebook sales? How do we modify our terms and pricing for the library market?
5. **Direct-to-Consumer sales** – Should we be aggressively pursuing direct consumer sales, and if so, how can we create a consumer friendly product that is transportable amongst devices? Is there a “Book Hulu” strategy that could succeed?
6. **Legal** – What is the best strategy to modify ebook royalty rates and secure ebook rights for current and future authors? How aggressively if at all should we oppose text-to-speech technology?
7. **Content Availability** – Should we invest more in converting our backlist to ebooks? How can we make the conversion of books to ebooks and iPhone apps seamless?
8. **Marketing and Promotion** – How can we improve in the way we use ebooks to promote physical books and vice versa? What is the most effective way of using ebook excerpts to drive sales? Should we set up a separate marketing program for ebooks? Can we use eGalleys to reduce promotional copy costs?
9. **New Content** – Are there opportunities to increase the attractiveness and profitability of ebooks by including enhanced content, chunking, advertising, or bundling different titles together? Should ebook-only editions be used as way to minimize the risks associated with smaller run, more speculative titles?
10. **International** – Should we expand ebook sales internationally? What effect would it have on the purchase and sale of books to UK publishers and Open Market publishers?