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**Subject:** Apple

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Eddy Cue reiterated their goals to us again today.

-They want to represent a material part of our ebook business: 10-20% in the first year, or they aren't interested in making the investment to build the store.

-They are not willing to open an ebook store that is not price competitive, or where they'd need to sell at a loss to be competitive.

-They want the ebook price to be competitive with (i.e, less than) the highly discounted physical prices in the market.

-They believe that this is the best chance for publishers to challenge the 9.99 price point: otherwise they will continue to supply to consumer through third parties, in effect cementing consumer expectation of 9.99 as a top price.

-They believe that windowing is not a sustainable model, and poses a very significant piracy threat. Eddy also suggested that the device will attract non-traditional ebook buyers and predicts an increase piracy in general if consumers don't have a legitimate store (Apple run) to purchase frontlist content from.

- The device will start shipping in March and the store would have to be ready by then.

- They need the agreement signed by Thursday to prepare for the Jan. 27th announcement

#### The Good News

-Apple will share daily, zip code specific sales data (on our books) with us.

-Steve Jobs has chosen TRUE COMPASS as the book to demo on stage on the 27th (if we can sign an agreement this week.)

-Eddy and his team are willing to discuss price flexibility, even above the 14.99 ceiling for a variety of exceptions: early release, enhanced or deluxe ebook versions, etc. (He mentioned that deluxe editions are often priced two or three dollars more than ordinary ones.)

- Most Legal issues in the contract seemed like they could be worked out – they are willing to support and commit to an agency model, but they feel that they can still control maximum price (their legal explanation is that we set the price, but they wouldn't undertake services if we charge above the maximums in the tiers they set).

- Eddy was only concerned about having a contract for the first year, after that he didn't see it as necessary, and could do month-to-month.

#### The Bad News

-Apple has advised us that the ceiling for ebook pricing is indeed 14.99, for books sold for up to \$30.00. For NYT bestsellers it is 12.99. Eddy was willing to create an additional tier, in order to move 24.99 to an ebook maximum price of \$11.99, instead of 1

\$0.99 as initially proposed.

-In effect, the majority of our frontlist books would be priced at 11.99, 12.99 or 14.99. This represents a significant loss in profit margin for HBG (25-30%), and [REDACTED], further eroding our profit margin. See Deirdre's P&L analysis (version 5) for details.

#### The Decision

Must be made this week or early next week. Most of the major publishers must agree, or Apple will not move forward with the store. Eddy indicated that he would expect to move forward with a store if 5 of the 6 major's signed the agreement by Thursday. He said that he expected at least 1 publisher not to sign.

One effect of this arrangement would be to swap a significant amount of current margin to change the public perception of price by (between one and three dollars), and add a new powerful player to the ebook ecosystem. We need to understand that this margin would be further eroded by increasing author royalties, or paying authors on the digital list price without deducting Apple's "commission."