

**From:** Eulau, Dennis <Dennis.Eulau@Simonandschuster.com>  
**Sent:** Tuesday, December 22, 2009 8:44 AM  
**To:** Reidy, Carolyn <Carolyn.Reidy@Simonandschuster.com>  
**Subject:** Re: Apple -- CONFIDENTIAL

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I will play with this today...30% margin will be steep...30% to them - [REDACTED] to the author and then [REDACTED] to us - based on a \$12.99 price...much less then we get now. I realize we can't keep what we have but this will be a real big change...more to come.

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**From:** Reidy, Carolyn  
**To:** Eulau, Dennis; Selleck, Michael; Rivlin, Elisa; Hirschhorn, Elinor H.  
**Sent:** Mon Dec 21 12:03:33 2009  
**Subject:** Apple -- CONFIDENTIAL

Eddy Cue phoned me this morning (rather than come in for a visit). He wanted to relay his conclusions, having met with all the major publishers and looked at the online retailing market once he got home. He had four points:

1. It is important that Apple make "at least some money" on the endeavor of selling eBooks, so a **30% margin**, like they have in the APP Store, is essential to them; they "need that".
2. It is important to Apple that there be "some level of reasonable pricing." They feel the only way to get this is for the industry to go to the **agency model**, like with the APP store – so the publisher sets the prices to the consumer; they feel it's a "better way to do it", unlike our usual terms of sale.
3. When he looked at sales in the "physical world", he noticed new releases were being sold for \$8-15 (I don't know if he means physical books being sold online or physical books being sold in physical outlets, but a quick check of three of our titles on Amazon agrees with this conclusion for their current book pricing of bestsellers.) Therefore they feel that **new release eBooks should be priced at \$12.99** – this is for "normal books" that have a SRP of \$25-30 in the physical form. Thus they'd be sold for "a little less than the real world".

Obviously publishers would make less than in the physical world, but we'd also remove costs and perhaps sell more. Would we make the same, he asked? I told him our models, worked on this summer, implied that pricing to the consumer would be around that price.

I asked if that meant Apple thought all eBooks should be priced the same. He said no, he thought pricing could vary from 99 cents to \$12.99 but he thought only "specialized" books, including books with color in them, which they hoped to sell, could/should be higher. I explained our thinking on Stephen King (not wanting to penalize the paper book reader), but didn't get a specific reaction.

When I asked, "so you see no retail discounting," he said: "You are doing the discounting, you are directly offering the consumer a bargain."

When they thought it through, they didn't think anything else would keep the market from its current pricing "craziness."

4. We would have to "get everyone else to go to the agency model." When I said, "but of course we can't talk to our competitors," he said he didn't mean other publishers, but our **accounts** – to which I replied, if we make these our terms, then they are our terms.

In conclusion he asked that after we've had time to digest and discuss this, we/I write him an email with our reactions and thoughts.

So, my questions are:

1. If we do an agency plan, does that mean that the retailer cannot discount/change the price from what we tell them it is? Does that remove the idea that they are a reseller entirely and thus we don't have to say that we have a "minimum resale price"? In other words, does it accomplish what we were planning to do with our Minimum Price model without our having to do that?

Redacted

3. What do we think of changing our terms to this and thus making all other digital sellers adhere to them?

4. What do we think of the pricing model they propose? Can we run it through our equation?

And, Dennis, can we run it through our p&l and see what effect it would have had on our eBook profits for this year (this is in preparation for our Moonves meeting)?

Any other questions welcome.

Can we try and discuss by phone this week so I can write him back?

I leave here in about an hour; will be available tomorrow or Wednesday (when Lisa is back) from Paris.

Carolyn