

Subject: Fwd: iTunes
Date: Mon, 25 Jan 2010 06:36:49 -0800
From: Eddy Cue <cue@apple.com>
To: David Shanks <david.shanks@us.penguingroup.com>
Message-ID: <658B4D75-430F-4943-BECA-F1E32E24BF65@apple.com>

I just wanted you to be sure that I'm not trying to put one over you at this point. I had the trade/mass limit in my original proposal to you, but we spent all of our discussions around hardback new releases. That was where there was an issue so we came up with the new tiers over what was below. We never thought trade/mass was a problem because we are paying (agency fee) you the same or more than physical retailer does the physical book, so why would you have a problem? I even told you when we talked about signing that we needed to put the paper pricing in the agreement. I wouldn't work any other way than being up front. Clearly there was a confusion and I'm sorry for that. But if you think about this from an economic point of view, this is not a material change and actually will make more money (given your cost go down).

Eddy

Begin forwarded message:

From: Eddy Cue <cue@apple.com>
Date: January 5, 2010 4:48:21 PM EST
To: David Shanks <david.shank@us.penguingroup.com>
Subject: iTunes

Hi David,

I hope you had a great holiday!

After talking to all the other publishers and seeing the overall book environment, here is what I think is the best approach for ebooks.

Just like the App Store, we are proposing a principal-agency model with you, where you would be the principal and iTunes would sell your product as your agent for your account. In exchange for acting as your agent iTunes would get a 30% commission for each transaction.

On pricing, you would be free to determine whether to distribute any particular publication through iTunes (of course if another ebook distributor was able to sell a book then we would as well); and you would be free to establish the price that eBook would be sold. So that we could efficiently manage our agency role, we propose a corresponding range of prices for books at various stages in a book's publication and distribution evolution.

Our goal would be to have any hardback book that retails physically for less than \$30 to sell for in any of the following tiers, determined by you -

\$12.99, \$9.99, \$8.99, \$7.99, \$6.99, \$5.99, \$4.99, \$3.99, \$2.99, \$1.99, \$0.99

Any trade or mass-market book would sell for any of the following tiers, determined by you - \$9.99, \$8.99, \$7.99, \$6.99, \$5.99, \$4.99, \$3.99, \$2.99, \$1.99, \$0.99

Exhibit 42
Cue
03/13/13

K. Schroeder
csr, rpr, ccr

For any book that retails for above \$35, it would sell for any of the following tiers, determined by you -
\$14.99 and increments of \$5 above that (realistic pricing would be less than 50% retail)

There are several things we have to accomplish in order to sell ebooks at realistic prices -

- books need to be cheaper to buy than physical
- you should make less per book since significant costs have been eliminated but still have a healthy, profitable sale
- all resellers of new titles need to be in agency model

We think these agency terms accomplishes all the goals we both have. I will try to schedule a call for us for tomorrow to catch up and determine the next steps.

--- Eddy

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