

**From:** Crum, Erin  
**Sent:** Wednesday, January 06, 2010 11:13 AM  
**To:** Murray, Brian (HarperCollins US)  
**Subject:** FOR REVIEW: Exec notes  
**Attachments:** 2009.12.21.09.docx

Brian,

Attached are the exec notes for your review. I don't think there's anything here we can't share with Canada/ANZ, but let me know. Let me know if you have any edits. I need to send to finance for inclusion in the packet. Is there an agenda? Are we going to talk about a communications strategy?

Laura and I have some time on your calendar tomorrow morning to discuss the internal communications plan and your internal presentation. We should also discuss your trip to the UK.

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**CONFIDENTIAL**  
**EXECUTIVE COMMITTEE MEETING**  
**Tuesday December 21, 2009**  
**Conference Call/20th Floor Conference Room**

**1. NEW DEVELOPMENTS**

• Apple

- Met with all the publishers confidentially. “Entering eBook business.” Will accommodate enhanced ebooks, \$15.99 price. Providing terms this week.
- Beginning of January will demo enhanced ereader
- Will leverage itunes platform but have separate store/merchandise experience with new software experience for iphone, mac, new device (wouldn’t comment). Doing a \$100M marketing campaign half funded by publishers, to make “reading cool.”
- They have 100M customers (iphone/itouch), it brings scale to ereading. They’re not in this to lose money, their pricing will be better. eBook won’t cannibalize hardcover because pricing is more in line with what we want.
- US and Canada immediately, Europe slightly later. The whole thing is built it’s a matter of turning it on.

• Amazon

- Charlie-Friday Amazon came to meet. Starting to sell enhanced ebooks in mid-January, Children’s, Cookbooks, and Self-help, for iphone App and PC readers. A response to windowing and potentially Apple.
- They assume enhanced ebooks fall under existing terms, we need to be clear they don’t and new terms need to be developed.
- Brian- We have to decide when we see terms from Apple, we need to set terms for new format, ideally around agency model, and retailer takes commission. Part of reason for new format is to fundamentally change trading terms. We can then create broad channel of distribution and everyone can make a small profit. Apple is hedging around this model.
- Example- \$25 hardcover, B&N for \$17, Apple says consumer wants digital product would be \$15. Apple is trying to figure out, what price should be and what should its terms should be. Apple generally keeps 30% in App Store. \$15 for enhanced, \$12 for plain.
- We will get consumer information for each customer with Apple.
- Mike McGuiness’s team is already working on enhanced proposition and is now meeting with Apple.

eBook Delay

- First list mostly February/March titles. We have told agents we don’t have a firm policy. Delay about 6 weeks. S&S, MacMillan and Hachette are doing it.
- Amazon’s response is that they have reduced price to \$7.99 i.e. Going Rouge. They know Apple is coming and they know publishers are delaying bestselling titles.

- Their long-term view is to dominate ebooks. They could ultimately come back to us on trading terms down the road.
  - Charlie-We have to be clear on threat and opportunity that each company provides, Apple is probably our best partner because they don't like deep discounting. Amazon is second, Google is scariest because they want to put up content for free. Having three companies come at us at once is helpful and this is our moment when we're important.
- Google- Charlie
    - Google Editions- They want to combine Google Editions with Google Book search. They would sell via Editions, but we have to put our books into Book Search (means it's indexable) so Google generates ad revenue off that search. We have to de-couple those contracts. We want Google Editions, but not so happy about providing content for free.
    - Rupert/News is also having this discussion. Jon Miller, and the strategist at News International, are meeting to discuss how we should work with these companies going forward.
      - 1) Best house on the close- we use News Corp. scale to get better terms than other companies. Will make us trade more effectively.
      - The noise that Rupert is making publicly is affecting Google and they want him to "go away."
  - Issues with Google Editions contract 1) Reselling content if it was sold through Google 63%, if somewhere else 46%, we are saying we want 60%. 2) They want to make content copy/paste/printable- we need to resist that, at least until security is full understood. 3) We need to understand bundling and have an element of control over it. 4) Issue with DRM. They can change DRM with 30 days notice (and we can get out of contract) but we don't want to be in that position, so we are saying it has to be comparable 5) Payment terms- we want 30 days, they have it longer.
  - Question- Are we willing to sign a contract with our content going to GBS? We should resist based on our business and what's going on at News Corp.
    - Charlie asked Jon Miller if we can be involved in discussion going forward.
  - Discussion of pricing/agency model and how feasible it is for each retailer.
  - Brian-Google differs from Apple/Amazon in that it's not download future it's a cloud future (locker that stores all content). Google thinks you buy access to content. This raises questions:
    - If Google Editions is about consumer buying access then is it a licensing arrangement or are they buying content.
      - Our contract includes "access"
    - Will authors need publishers if Google can handle the process. Author can just upload their content and it's available everywhere.
    - They have expressed interest in Syntio (Libre Digital did six months ago). We haven't heard anything since Friday.

- RH Letter to Agents
  - Forced to send letter to agents staking ground of publishers owning rights to ebooks in old contracts. A number of authors/estates that have come out in the last 6 months have been RH authors.
  - Chris has reviewed HC US contacts so we know what we believe our position is as we go back in time.
  - Chris- We did this in when we launched 2001 ebook operation. Harper and Row had a new contract in 1982 and we had erights. William Morrow was acquired in '89 and we moved authors to HC contracts. For Morrow prior to '89 it was case by case. Before '82 we had “visual and mechanical reproduction rights” we asserted that with agents. So it becomes a matter of negotiating royalty.
    - In 60% clear electronic rights
    - 15% visual/mechanical kept in.
  - RH has volume and book form in contracts.
  - Zondervan contracts are really good.
  - We have to figure out which authors we really want to go after and then look at individual contracts. Hopefully author/agent would come to us first.
  - UK- Simon is looking at this.
  
- White House
  - Joe Biden/Administration are taking Internet piracy seriously. Looking at Graduated Response- policy against illegal downloading (in place in France/Sweden). It's basically 3 strikes, first time ISP suspended, third time cut off for good.
  - ISP's in U.S. and content companies are looking at less strict penalty, more chances. It's an issue here and overseas people can point to us and what is US government doing.
  - It's a News Corp/AAP issue.

## 2. STATUS OF MAJOR PROJECTS (Overall Market Environment – not our business)

- US General Books - Michael
  - Core backlist is down significantly in industry and for us. I don't know how we'll reverse that trend. We've seen a huge erosion and don't know how to reverse.
  - Down 20-30% across the board, it's all profit. If that trend continues for the next few years it puts more and more pressure on cost structure. Any conversion to ebooks won't come close to helping the erosion of backlist.
  - Worrying trend as we look forward because it means we need more profit on front list which is difficult.
  - Puts more pressure on Borders. We are weighing options for how to continue with them. Janet is modeling out options.
  
- Canada
  - Economy holding up. Sales up 1%. Indigo is expanding
  - HC Canada doing well

- Children's
  - January- June- We have four major things:
    - Next Lauren Conrad February (1<sup>st</sup> was 325K). Paperback will be ok. B&N buying 50,000.
    - March- *Big Nate*- Our *Wimpy Kid*.
    - April- *Carrie Diaries*- B&N taking 30,000.
    - June- *Romana and Bezos*- Take off on Beverly Cleary series.
  - Acquisitions- Bought *Sleep Walking*. Competitive, 3 books \$575K, next fiscal.
  - Backlist- Children's holding up, but books that are really old aren't. i.e.-*Little House*- it's so out of today's world. 2-5 year old books are selling well, old books don't resonate.
  
- Zondervan
  - STL-transferred it's assets to other companies. Sold publishing, distribution and good part of stores.
  
- Contributor- Chris
  - \$100K/year for 500 titles. Carolyn working on signing with them. i.e. *Going Rogue* 37 pirated copies.
  - Scribed has system that can make files with take down notices
  - Author Tour with PAC is difficult. Keep in mind going forward
  - Lead issue CPSC- agreed to extend enforcement for another year. Right now AAP is trying to get books exempt. We meet current testing issues.
  - Google- Settlement amended. DOJ weighing in on Feb.4 AAP cautiously optimistic. Feb. 18 Fairness Hearing.
  
- Operations- Larry
  - Building Technology Support Group for Charlie (and organizing 9<sup>th</sup> floor)
  - Data Center Analysis- can we consolidate into News Corp's existing data hubs. DOJ or others.
  - Warehouse- looking at footprint. Fine tuning. Other option for Donnelly is multi-regional options with POD. More from them in next few weeks
  - Legacy applications analysis
  - Waiting for end of year to see what's going on with paper industry. We're protected through June.
  - Scranton- lots of questions about what the plans are for data center. We don't have an answer yet.
  
- Human Resources- Diane
  - Merit Memo- should have included promotions. Would like feedback.
  - OurNews- regular taking a pulse opportunity (Erin and Diane to discuss).
  - Union- Contract expires 12/31- hope is a 1 year extension of current contract with increases taking place when it takes for everyone else.
  - Benefits/Admin study being evaluated. News Corp. initiative.

- Digital Marketing Training in UK- Kicks off in mid-January. We want to lift digital expertise to all marketing people. Try to expand to editorial teams. Show how digital effects everyone.
- Joe- Working on changes in his contract.
- UK- Keith
  - December has been better month. Key disappointment has been celeb non-fiction market 20% down
  - Borders going into Administration in UK. No buyer, shops closing by 12/24. Five million pound account gone. Waterstones/Amazon will pick up some business but some will be gone. Down \$300K
  - Notice for merits in UK- still in process. Going to do an average 2% and using surplus for top performers. Communicated in early January.
- Digital - Charlie
  - Project Z progressing. Full update in January.
  - Authonomy- Steve Sammons looking at Christian publishing community, it's up. Avon is going to create a branded area within site. Biggest win, *Fairy Tale of NY*, second book published, picked up by editorial assist- Shortlisted for fiction PB book of year. 3 book deal with the author. We've published two books so far and both are huge successes.
  - Joe Park consumer piece- he will bring innovation/drive to what we do. Working on finalizing contract.
  - InkPop- testing period has been great, better than Authonomy on page per user.
  - Zondervan Trip- they have some interesting stuff. The City is exciting proposition. Syntio to Google would be fantastic. Some marketing programs could be lifted and transferred (Neil Martin going to UK for 1 month).

## 5. FINANCIAL UPDATE (Overall Market Environment – not our business)

- November
  - Great month. GB huge sales, profits with Sarah Palin. Children's great month. A good mix. Best ever November.
  - YTD- vs. Q1 we're \$29M over in revenues, \$18M over profit, \$73M over budget in revenues, \$43M over in profit.
  - Zondervan- Struggling. Gateway businesses are challenged and will start effecting numbers going forward. On publishing side it has the biggest downfall YoY.
  - Canada- Doing well
  - UK- Tough November. Coming back in December.
- Cash
  - Doing well, ahead of Q1 by \$5M. More will come through later in year as we collect big November sales
  - Royalty advances are being controlled well. Buying less books and keeping advances down.

• December

- Looking good. Frontlist is making up for backlist. Sales for Q2 are good.
- Best ever Q2 we've ever had for GB/Children's.
- Q2 into News- We gave 10M more in profit. We also increased our reserve for Borders \$5M. Big swings within divisions. GB and Children's going up. Zondervan big disappointment, down \$14M in profit from Q1. \$7M from digital business revenue being pushed out to late Q4. \$7M from publishing business, half is Rick Warren being moved. UK- Downgraded forecast from Q1-if you took out Tolkien down [REDACTED] sales/revenue driven.
- Brian discussed with Rupert Borders going out of business. Between Carey and Nallen they focused on operating issues of businesses.