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Subject: priveledged & confidential: call with Keith from Apple

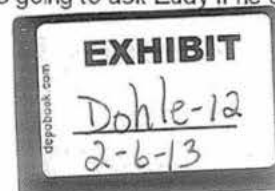
Keith and I spoke earlier this evening. I would say it was a good call, in that I did learn a bit more and, if nothing else, I was able to give him insight into why we're feeling stuck in evaluating our next move. I'm still feeling unclear on what our best next move is, but I can at least report on the content of the conversation.

What I learned (some of this is clarification, not completely new):

- How they got to their proposal:
 - Eddy felt it was the only way to get all publishers committed to simultaneous digital-print release. They think ebook delay is a disastrously bad move and so they think a key role they need to play is to bring those publishers back to simul release, and the only way to do that is through price protection.
 - Eddy has been particularly focused on the NYT bestseller prices (Keith suggested Eddy may be overestimating the impact of the NYT titles on the sales mix), both for digital and print. They decided they had to come up with a way that would move the whole market off 9.99 and they think an agency model is the only way to do it.
 - They don't want to get into the business if it means either losing money or being uncompetitive. Because they may be overestimating the impact of new hardcover releases on the mix, they are concluding they'll lose money in a wholesale model.
 - If not for the above dynamics, they would be comfortable with a wholesale terms model, since that's what they have in their other content stores. They would take our wholesale price and add 30% on top. But given the ebook market conditions, they would be uncompetitive if they did that, so they ruled it out.
- Where there is room to move:
 - Keith explicitly stated there was room to introduce more price tiers and higher price tiers.
 - While ideally they think that all content should be moved to this model for all retailers, they could live with having only the 9.99-type titles (new hardcovers likely to hit the NYT list) under agency with other retailers. This could be what the "window" publishers are planning to do: if Amazon wants Stephen King then they have to move to this model for Stephen King, but other titles can be bought under traditional terms. Hard to manage a hybrid like that, but I guess less aggressive toward Amazon.
- Where there is not room to move:
 - I floated the idea of us developing an exclusive list of ebooks for them, ones that would only work on their platform and would allow them to showcase their great customer experience. He said that while they would love to have that be a part of an offering that also included new releases, and that he agrees that this kind of richly formatted content is something they can use to differentiate themselves, he doesn't think Eddy would go for just having the exclusive content on its own.
- Where our competitors are:
 - We are the least receptive to their proposal. They understand why and seem to respect our point of view. Since we haven't taken the "drastic" windowing path, their proposal isn't as attractive a solution to us as to others.
 - Others have advocated for higher price tiers.
 - Expectation is that no one will try to manage their business with Apple on agency and other retailers on terms. As we concluded by the end of our meeting yesterday, doing that would get us all of the disadvantages without any of the benefits.

Next steps:

- He asked if we would share what portion of our sales (units and revenue) come from the following slices: 1) NYT hardcovers, 2) other hardcovers in their first year, 3) trade paper in first year, 4) trade paper afterwards, 5) mass market in first year, 6) mass market afterwards. **Dave: doable?**
- He and Eddy have been studying the Jan 1 NYT list and comparing prices in print and digital across Amazon, BN, Walmart, and what those prices would be under their model. He's going to ask Eddy if he can send that to us. But we can do this exercise ourselves, too. I'll get a grid started.



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I said that either Markus or I would send a response to them one way or another Monday night or Tuesday and we can go from there.

Thoughts?

