From: Napack, Brian
To: Sargent, John; Foy, Fritz; Cohen, Steve
Sent: 2/2/2011 12:48:56 PM
Subject: RE: Wow John!

Well, that's nice. Let's call game over and declare victory.

From: Sargent, John
Sent: Wednesday, February 02, 2011 7:07 AM
To: Foy, Fritz; Cohen, Steve; Napack, Brian
Subject: FW: Wow John!

First agent reaction to letter in the royalty statements. Well, at least one agent read it this time!

From: d4eo [mailto:d4eo@optonline.net]
Sent: Tuesday, February 01, 2011 11:21 PM
To: Sargent, John
Subject: Wow John!

This is truly impressive. Good for you.

And getting Amazon to share half the cost is a milestone breakthrough in my opinion.

You da man.

:)

All the best,

Bob

TUESDAY, FEBRUARY 1
MACMILLAN LETTER ACCOMPANYING ROYALTY STATEMENTS

Dear Authors, Illustrators and Agents,

As you all know, there has been tremendous growth and change in the digital book market over the last year, The purpose of this note is to explain two favorable adjustments we have made to your earnings on e-book sales during the past royalty period in light of the events of last year.

On April 1st 2010, Macmillan adopted the agency model for selling our e-books and, in doing so, we accomplished two extremely important goals to help ensure that the publishing business remains healthy for both you and us. The first, and most important one, was to create a level playing field for electronic book distribution. Amazon had been providing the e-book versions of new release hardcovers at $9.99, considerably under Amazon's cost, making it very difficult for anyone else to prosper or even enter the market. Since we moved to the agency model, Apple has entered the market, Barnes and Noble has increased its investment in the business, and independent booksellers, working with Google, are now selling your books competitively in the electronic book market. Second, by successfully setting the price on the e-book versions of first release hardcovers above $9.99. We have been able to prove that the consumer does in fact place a value higher than $9.99 on first release electronic books.

The long term ramifications of both these changes are enormous. What was previously a digital business with only one real player (who was getting dangerously close to a monopolistic position, fueled by aggressive pricing) is now a much healthier marketplace where many can compete and distribute your books at prices determined by the market.

All of this is the context for answering the question I'm sure is on your mind: What about my royalties?

Your enclosed statement includes e-book royalties if we sold an e-book of your work during the May 1 through October 31 royalty period. Almost every contract we had in effect during this royalty period sets an escalating royalty (10%/12.5%/15%) based on the list price of the book. Under the agency model, the list price is the end price to the consumer, so your contractual earned royalties would therefore be the number of e-books sold multiplied by the list price of the e-book and then multiplied by the royalty rate.

Meanwhile, the publishing industry standard for electronic book royalty rates has clearly settled 25% of net receipts, which is the rate that we now offer in our publishing contracts for new books. This rate produces higher royalty earnings than the list price based rate.

We have therefore made the decision for this royalty period to increase your royalty to 25% of net receipts. We are presenting this adjustment in your attached royalty statement by first backing out your contractual electronic book royalty earnings (so you can see what they were) and then adding in the new higher royalty earnings according to new agency model calculation. We have only made this adjustment if it works in your favor (which is almost universally the case).

If you have not previously signed an amendment adjusting your contractual royalty on e-books to 25% of net receipts and you would like us to continue making this adjustment in future royalty periods, we need you to amend your contracts with us... [Contact information deleted here]

In addition to the favorable royalty recalculation mentioned above, you may also see an item toward the bottom of your statement called Amazon Kindle Outage Adjustment. Most of these adjustments were processed last royalty period but some are being finalized now. We believe it was not fair that authors should suffer from the Amazon buy button takedown imposed on us for a week last year when we switched over to the agency model. So we estimated as best we could what Kindle sales would have been for that week and processed the royalties on those sales as if they had happened. Amazon felt the same way and graciously split the cost with us. Interestingly, from what we could discover, almost all non-Kindle Amazon sales migrated to other outlets.

It is hard to see into next month never mind next year. Our business is in the midst of an enormous transformation. But do know that we are in this together and that our interests are aligned. We at Macmillan will keep working for a piracy-free, competition-friendly digital marketplace for your works, while supporting the bricks and mortar retailers for the ink-and-paper books that we all cherish. It is, as always, a great delight to be your publisher.

I hope this letter has been helpful. If you have questions about your statements please contact our Royalty Accounting Department.

All best,

John Sargent

Bob Diforio
D4EO Literary Agency
7 Indian Valley Road
Weston, CT 06883
bob@d4eo.com
www.d4eo.com
203-544-7180
203-544-7160 fax
203-545-7180