

From: William J. Lynch
Sent: Saturday, July 31, 2010 1:22 PM
To: Len Riggio; Steve Riggio
Subject: Follow-up - Random House

Madeline McIntosh has asked for a meeting with me 8/11 to follow-up on the meeting Steve and I had with she and Markus on eBook margins. Scheduling that meeting I strongly suspect was a reaction to my instructing Joe Gonella, Jaime Carey and Jamie Iannone to pull back on RH promotions in-store and on BN.com until they solved our digital economics issues. We aren't doing anything to impair the retail business just favoring other houses over RH in our promotional calendar and making that clear to RH.

To quantify the RH impact for you, with our latest price tuning we're running at approximately 23% margins on eBooks -- we brought on a new pricing analyst that has found us another 100 basis pts on margin with a more sophisticated algorithm. Random House books comprise approximately 15% of our ebook volume. We are at -2% margins on their ebook business -- due primarily from their resale model and our strategy to match amazon's predatory pricing. If we could even get their ebook margins to 20%, significantly below the 30% we yield from Penguin, Hachette and the other major houses on agency, it would mean an additional 3 pts to our overall ebook margins (or a 26% GM blended overall). Based on the ramp we're on for eBooks, where we'll likely be slightly above a \$300MM annualized run rate by the end of the calendar year, 3 additional points of margin means \$9-10 million dollars in profit a year. More in the out years.

We've made this clear to RH and have started taking some hard positions on our partnership. Jackie Updike from RH has committed to Joe, Jamie and Jaime to come up with some proposals and I'm almost sure that's what Madeline wants to discuss on August 11th.

I'll continue to keep you updated.

thanks