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DRAFT

To: Macmillan Authors, Macmillan Illustrators, and Agents
From: John Sargent

I am writing to tell you about a change that we will make today in our ebook terms of sale to public libraries. First, some background.

Last year, in response to our growing fears that library lending was cannibalizing sales, we windowed a portion of the Tor ebook frontlist for 16 weeks as a test. Since then we have been reviewing all the available data, from all sources, to determine the effects of library ebook lending on digital and physical book sales. We have also been talking to library systems large and small and to the ALA to understand their needs.

One thing is abundantly clear. The growth in ebook lends through libraries has been remarkable. For Macmillan, 45% of the ebook reads in the US are now being borrowed for free from libraries. And that number is still growing rapidly. The average revenue we get from those library reads (after the wholesaler share) is well under two dollars and dropping, a small fraction of the revenue we share with you on a retail read.

The increase in library ebook reading is driven by a number of factors: a seamless delivery of ebooks to reading devices and apps (there is no friction in e-lending, particularly compared to physical book lending), the active marketing by various parties to turn purchasers into borrowers, and apps that support lending across libraries regardless of residence (including borrowing from libraries in different states and countries), to name a few.

It seems that given a choice between a purchase of an ebook for \$12.99 or a frictionless lend for free, the American ebook reader is starting to lean heavily toward free.

After our conversations with many libraries across the country and with many of you, we decided to change our library terms of sale. Our new terms are designed to protect the value of your books during their first format publication. But they also ensure that the mission of libraries is supported. They honor the libraries' archival mandate and they reduce the cost and administrative burden associated with ebook lending. We are trying to address the concerns of all parties.

The terms: We will make one copy of your ebook available to each library system in perpetuity upon publication. On that single copy we will cut the price in half to \$30 (currently first copies are \$60 and need renewal after two years or 52 lends). This change reflects the library request for lower prices and perpetual access. Additional copies of that title will not be available for

library purchase until 8 weeks after publication. All other terms remain in place. It is important to note that the 8-week window only applies to ebooks; the library can order as many physical books as they like on publication. It is a window for only a single format.

Historically we have been able to balance the great importance of libraries with the value of your work. The current e-lending system does not do that. We believe our new terms are a step toward reestablishing that balance.

I hope that you agree.

Please let us know if you have questions or concerns. Thanks, as always, for entrusting us with your work.

All best, John