



John Sargent
CEO

February 8, 2013

Dear Authors, Illustrators and Agents,

Today we agreed to settle our case with the DOJ. We settled because the potential penalties became too high to risk even the possibility of an unfavorable outcome.

There are two reasons we did not settle earlier. First, the settlement called for a level of e-book discounting we believed would be harmful to the industry. We felt that if only three of the big six publishers were required to discount and we stood firm, those problems might be avoided. But when Random House agreed to be bound by the Penguin settlement, it became clear that all five of the other big six publishers would be allowing the whole agent's commission to be used as discount, and Macmillan's stand-alone selling at full agency price would have no impact on the overall marketplace. And in addition, your books and our business would have a pricing disadvantage for two years.

The second reason was simpler. I had an old fashioned belief that you should not settle if you have done no wrong. As it turns out, that is indeed old fashioned.

Our company is not large enough to risk a worst case judgment. In this action the government accused five publishers and Apple of conspiring to raise prices. As each publisher settled, the remaining defendants became responsible not only for their own treble damages, but also possibly for the treble damages of the settling publishers (minus what they settled for). A few weeks ago I got an estimate of the maximum possible damage figure. I cannot share the breathtaking amount with you, but it was much more than the entire equity of our company.

I like to believe that we would win at trial. But outcomes are hard to predict with certainty, particularly in a civil case with a low burden of proof. And so we agreed to settle with no admission of guilt. As with the other settling publishers, retailers will now be able to discount Macmillan e-books for a limited time. This change will take effect quickly.

Thank you for all the support you have shown for Macmillan, and me, over this last year. And also thanks to the many booksellers and others who voiced their opinions. I'm disappointed it ended this way. But this round will shortly be over, and it is time for us to move on to the next.

All best,

John