

1 Jeff D. Friedman (173886)
2 Shana E. Scarlett (217895)
3 HAGENS BERMAN SOBOL SHAPIRO LLP
4 715 Hearst Avenue, Suite 202
5 Berkeley, California 94710
6 Telephone: (510) 725-3000
7 Facsimile: (510) 725-3001
8 jefff@hbsslaw.com
9 shanas@hbsslaw.com

6 Steve W. Berman
7 HAGENS BERMAN SOBOL SHAPIRO LLP
8 1918 Eighth Avenue, Suite 3300
9 Seattle, WA 98101
10 Telephone: (206) 623-7292
11 Facsimile: (206) 623-0594
12 steve@hbsslaw.com

10 Attorneys for Plaintiffs

11 *[Additional counsel listed on signature page]*

12 UNITED STATES DISTRICT COURT
13 NORTHERN DISTRICT OF CALIFORNIA

14 CHRISTIAN GILSTRAP, CYNTHIA J.
15 TYLER, THOMAS FRIEDMAN, JEREMY
16 SHEPPECK, ALOYSIUS J. BROWN, III,
17 ANNE M. RINALDI, LAURA J. WARNER,
18 BARBARA HEATH, KATHLEEN LINDA
19 PITLOCK, KATHLEEN WEISS, MATTHEW
20 A. HOSKING, DIANE URBANEC, ED
21 MACAULEY, RONNA HAMELIN, JAMES L.
22 NESMITH, LAUREN ALBERT, SUE
23 ROBERTS, SHANE S. DAVIS, SUE ELLEN
24 GORDON, CHARLES LEONARD PELTON,
25 SR., KIMBERLY WHITESIDE BROOKS,
26 STEVEN D. CAMPBELL, and JESSICA
27 MOYER Individually and on Behalf of All
28 Others Similarly Situated,

Plaintiffs,

v.

APPLE INC.; HACHETTE BOOK GROUP,
INC.; HARPERCOLLINS PUBLISHERS, INC.;
MACMILLAN PUBLISHERS, INC; PENGUIN
GROUP (USA) INC.; and SIMON &
SCHUSTER, INC.,

Defendants.

FILED
2011 AUG 18 A 10:11
RICHARD W. WIEKING
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
10
ISS
P

EDL

CV No. 11 4035

CLASS ACTION
COMPLAINT

JURY TRIAL DEMANDED

FAXED

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

I. INTRODUCTION..... 1

II. PARTIES 4

III. JURISDICTION AND VENUE..... 8

IV. MARKET POWER OVER EBOOK SALES 8

V. STRUCTURE OF THE INDUSTRY 11

VI. UNLAWFUL AGREEMENT TO RESTRAIN TRADE OR COMMERCE 13

VII. ANTITRUST INJURY 30

VIII. NATIONWIDE FEDERAL DIRECT PURCHASER CLASS 30

IX. NATIONWIDE CALIFORNIA LAW CLASS..... 37

X. INDIRECT PURCHASER CLASS ACTION ALLEGATIONS..... 38

FIRST CAUSE OF ACTION
VIOLATION OF THE SHERMAN ACT (15 U.S.C. § 1) 40

SECOND CAUSE OF ACTION
VIOLATION OF THE CARTWRIGHT ACT
(California Business & Professions Code §§ 16720, *et seq.*)..... 41

THIRD CAUSE OF ACTION
VIOLATIONS OF STATE ANTITRUST AND RESTRAINT OF TRADE
LAWS AND CONSUMER PROTECTION STATUTES 42

FOURTH CAUSE OF ACTION
VIOLATION OF THE UNFAIR COMPETITION ACT
(California Business & Professions Code §§ 17200, *et seq.*)..... 44

FIFTH CAUSE OF ACTION
UNJUST ENRICHMENT 44

JURY TRIAL DEMANDED 45

PRAYER FOR RELIEF 45

1 Plaintiffs, by and through their attorneys, based on their individual experiences, the
2 investigation of counsel, and information and belief allege as follows:

3 I. INTRODUCTION

4 1. In November 2007, Amazon revolutionized the book publishing industry by releasing
5 the Kindle, a handheld digital reader for electronic books or “eBooks.” Using proprietary “electronic
6 ink” technology, the Kindle replicated the appearance of ink on paper and introduced numerous
7 efficiency-enhancing characteristics, including portability and other advantages of a digital format.
8 A major economic advantage to eBook technology is its potential to massively reduce distribution
9 costs historically associated with brick-and-mortar publishing. But publishers quickly realized that if
10 market forces were allowed to prevail too quickly, these efficiency enhancing characteristics would
11 rapidly lead to lower consumer prices, improved consumer welfare, and threaten the current business
12 model and available surplus (profit margins). So, faced with disruptive eBook technology that
13 threatened their inefficient and antiquated business model, several major book publishers, working
14 with Apple Inc. (“Apple”), decided free market competition should not be allowed to work – together
15 they coordinated their activities to fight back in an effort to restrain trade and retard innovation. The
16 largest book publishers and Apple were successful.

17 2. The original Kindle sold out in less than six hours. To gain market share, take
18 advantage of its first-mover advantage, and capitalize on the tremendous efficiencies associated with
19 eBooks, Amazon set eBook pricing levels significantly below prices for physical books (“paper
20 books” or “hardcover books”). Amazon set the prices of many of the popular new released eBook
21 titles at \$9.99. Amazon instituted this pro-consumer, discounted pricing even though on many titles
22 publishers charged Amazon a wholesale price at or above \$9.99.

23 3. Even though publishers were reaping the benefits of Amazon’s successful efforts to
24 vastly expand the consumer base and increase volume of units sold via Amazon’s investment in
25 eBook sales, publishers also feared Amazon’s \$9.99 pricing. Amazon’s discount pricing threatened
26 to disrupt the publishers’ long-established brick-and-mortar model faster than the publishers were
27 willing to accept. Being hidebound and lacking innovation for decades, the publishers were
28 particularly concerned that Amazon’s pro-consumer pricing of eBooks would negatively impact their

1 moribund sales model, and in particular the sale of higher priced physical copies of books. And,
2 longer term, publishers anticipated Amazon would eventually use its market power to reduce the
3 publishers' share of the available surplus (profit margins) from each eBook sale.

4 4. Given Amazon's first-mover advantage and ever growing installed user base,
5 publishers knew that no single publisher could slow down Amazon and unilaterally force an increase
6 in eBook retail prices. If one publisher acted alone to try and raise prices for its titles, that publisher
7 would risk immediately losing a substantial (and growing) volume of sales. Not wanting to risk a
8 significant loss of sales in the fastest growing market (eBook sales), the publishers named as
9 defendants ("Publisher Defendants") solved this problem through coordinating between themselves
10 (and Apple) to force Amazon to abandon its pro-consumer pricing. The Publisher Defendants
11 worked together to force the eBook sales model to be entirely restructured. The purpose and effect
12 of this restructuring was to halt the discounting of eBook prices and uniformly raise prices on all first
13 release fiction and nonfiction published by these Publisher Defendants. Under the Publisher
14 Defendants' new pricing model, known as the "Agency model", the Publisher Defendants have
15 restrained trade by coordinating their pricing to directly set retail prices higher than had existed in the
16 previously competitive market.

17 5. The Publisher Defendants' unlawful combination and pricing agreement would not
18 have succeeded without the active participation of Apple. Apple facilitated changing the eBook
19 pricing model and conspired with the Publisher Defendants to do so.

20 6. Apple had strong incentives to help the Publisher Defendants to restrain trade and
21 increase the price of eBooks. If Amazon continued to solidify its dominant position in the sale of
22 eBooks, strong network effects would make it difficult to dislodge Amazon. Moreover, Amazon's
23 pro-consumer pricing meant that to enter the eBooks market Apple would likely be forced to sell at
24 least some eBooks near or below its wholesale costs for an extended period of time. Apple did not
25 want to enter the eBooks market subject to this margin pressure caused by Amazon's pricing. But at
26 the same time, Apple believed that it had to enter the eBook market because the Kindle was (and is)
27 a competitive threat to Apple's business model. Apple is competing to be – and has become – a
28 dominant manufacturer of mobile devices, such as Apple's iPod, iPhone and iPad devices. These

1 devices are designed to distribute, store, and access digital media through Apple's iOS platform,
2 including Apple's App Store and iTunes Store.

3 7. Apple knew that if Amazon could establish the Kindle as the dominant eBook reader
4 by subsidizing the purchase of eBooks, Amazon could then use the Kindle platform (and its large
5 installed user base) to distribute other digital media. Notably, Apple had successfully used a
6 virtually identical strategy to gain a virtual monopoly on the distribution of digital music files
7 through its iPod device and its associated iTunes store.

8 8. The Publisher Defendants and Apple implemented this unlawful agreement and
9 combination on or before January 2010, when five of the six major book publishers of fiction and
10 nonfiction works almost simultaneously announced that they were switching from a wholesale
11 pricing model to an Agency model for eBook sales. This was an unprecedented industry shift in
12 pricing (and sales model) in the book industry in the United States. The announcements to shift to
13 the Agency model coincided with the release by Apple of the iPad tablet computer. In fact, when
14 Apple announced the launch of the iPad on January 27, 2010, the Publisher Defendants agreed to
15 allow Apple to use their trademarks in connection therewith.

16 9. The same day Apple announced launching the iPad, it was also announced that Apple
17 already struck deals with Hachette, HarperCollins, Macmillian, Penguin, and Simon & Schuster to
18 switch to the Agency model for Apple's iBookstore – the application on Apple's iPad that functions
19 as an eBook reader (thus competing directly with the Amazon Kindle).

20 10. As part of the unlawful agreements, and seeking to leverage its installed user base and
21 dominant position via the Apple iOS platform, Apple and the Publisher Defendants agreed that prices
22 for Publisher Defendants' eBooks that were offered through the iBookstore would be calculated by a
23 formula tied to physical books. This eBook formula would cause current prices for eBooks to
24 increase and, at the same time, would guarantee Apple that the Publisher Defendants would not sell
25 eBooks at lower prices elsewhere, such as through other eBook distributors, including Amazon. The
26 intended effect of this agreement was to force Amazon to abandon its discount pricing of eBooks and
27 allow the Publisher Defendants to establish uniformly higher prices for new release eBooks.

1 6. Plaintiff Anne M. Rinaldi is a resident of Council Bluff, Iowa. Plaintiff Rinaldi
2 purchased eBooks from Publisher Defendants at a price above \$9.99 for use on her Amazon Kindle
3 and was injured as a result of Defendants' conduct.

4 7. Plaintiff Laura J. Warner is a resident of Lawrence, Kansas. Plaintiff Warner
5 purchased eBooks from Publisher Defendants at a price above \$9.99 for use on her Amazon Kindle
6 and was injured as a result of Defendants' conduct.

7 8. Plaintiff Barbara Heath is a resident of Falmouth, Maine. Plaintiff Heath purchased
8 eBooks from Publisher Defendants at a price above \$9.99 for use on her Amazon Kindle and was
9 injured as a result of Defendants' conduct.

10 9. Plaintiff Kathleen Linda Pitlock is a resident of Roseville, Michigan. Plaintiff Pitlock
11 purchased eBooks from Publisher Defendants at a price above \$9.99 for use on her Amazon Kindle
12 and was injured as a result of Defendants' conduct.

13 10. Plaintiff Kathleen Weiss is a resident of Andover, Minnesota. Plaintiff Weiss
14 purchased eBooks from Publisher Defendants at a price above \$9.99 for use on her Amazon Kindle
15 and was injured as a result of Defendants' conduct.

16 11. Plaintiff Matthew A. Hosking is a resident of Helena, Montana. Plaintiff Hosking
17 purchased eBooks from Publisher Defendants at a price above \$9.99 for use on his Amazon Kindle
18 and/or Apple iPad and was injured as a result of Defendants' conduct.

19 12. Plaintiff Diane Urbanec is a resident of Omaha, Nebraska. Plaintiff Urbanec
20 purchased eBooks from Publisher Defendants at a price above \$9.99 for use on her Amazon Kindle
21 and was injured as a result of Defendants' conduct.

22 13. Plaintiff Ed Macauley is a resident of Las Vegas, Nevada. Plaintiff Macauley
23 purchased eBooks from Publisher Defendants at a price above \$9.99 for use on his Amazon Kindle
24 and was injured as a result of Defendants' conduct.

25 14. Plaintiff Ronna Hamelin is a resident of Newmarket, New Hampshire. Plaintiff
26 Hamelin purchased eBooks from Publisher Defendants at a price above \$9.99 for use on her Barnes
27 and Noble Nook and was injured as a result of Defendants' conduct.

1 15. Plaintiff James L. Nesmith is a resident of Los Alamos, New Mexico. Plaintiff
2 Nesmith purchased eBooks from Publisher Defendants at a price above \$9.99 for use on his Amazon
3 Kindle and was injured as a result of Defendants' conduct

4 16. Plaintiff Lauren Albert is a resident of Forest Hills, New York. Plaintiff Albert
5 purchased eBooks from Publisher Defendants at a price above \$9.99 for use on her Amazon Kindle
6 and was injured as a result of Defendants' conduct.

7 17. Plaintiff Sue Roberts is a resident of Julian, North Carolina. Plaintiff Roberts
8 purchased eBooks from Publisher Defendants at a price above \$9.99 for use on her Amazon Kindle
9 and was injured as a result of Defendants' conduct.

10 18. Plaintiff Shane S. Davis is a resident of Beaverton, Oregon. Plaintiff Davis purchased
11 eBooks from Publisher Defendants at a price above \$9.99 for use on his Amazon Kindle, Barnes and
12 Noble Nook, Sony Reader and/or iPad and was injured as a result of Defendants' conduct.

13 19. Plaintiff Sue Ellen Gordon is a resident of Myrtle Beach, South Carolina. Plaintiff
14 Gordon purchased eBooks from Publisher Defendants at a price above \$9.99 for use on her Amazon
15 Kindle and was injured as a result of Defendants' conduct.

16 20. Plaintiff Charles Leonard Pelton, Sr., is a resident of Sioux Falls, South Dakota.
17 Plaintiff Pelton purchased eBooks from Publisher Defendants at a price above \$9.99 for use on his
18 Amazon Kindle and was injured as a result of Defendants' conduct.

19 21. Plaintiff Kimberly Whiteside Brooks is a resident of Chattanooga, Tennessee.
20 Plaintiff Brooks purchased eBooks from Publisher Defendants at a price above \$9.99 for use on her
21 Amazon Kindle and was injured as a result of Defendants' conduct.

22 22. Plaintiff Steven D. Campbell is a resident of Salt Lake City, Utah. Plaintiff Campbell
23 purchased eBooks from Publisher Defendants at a price above \$9.99 for use on his Amazon Kindle
24 and was injured as a result of Defendants' conduct.

25 23. Plaintiff Jessica Moyer is a resident of Menomonie, Wisconsin. Plaintiff Moyer
26 purchased eBooks from Publisher Defendants at a price above \$9.99 for use on her Amazon Kindle
27 and was injured as a result of Defendants' conduct.

1 24. Plaintiffs paid higher prices for their eBooks as a direct and foreseeable result of the
2 unlawful conduct set forth below.

3 25. Defendant Apple is a California corporation having its principal place of business at 1
4 Infinite Loop, Cupertino, CA 95014. Apple is a leading manufacturer of mobile devices designed to
5 distribute, store, and display digital media. Examples of such devices include the Apple iPad device,
6 a tablet computer which supports several eReader applications, including the Kindle App, and
7 Apple's proprietary app, iBookstore.

8 26. Defendant Hachette Book Group, Inc. ("Hachette") is a leading U.S. trade publisher
9 with its principal place of business at 237 Park Ave., New York, NY 10017. Its imprints include
10 Little, Brown & Co. and Grand Central Publishing. On information and belief, Hachette is owned by
11 Hachette Livre, a French company.

12 27. Defendant HarperCollins Publishers, Inc. ("HarperCollins") is a leading U.S. trade
13 publisher with its principal place of business at 10 East 53rd St., New York, NY 10022. Its imprints
14 include Ecco, Harper, Harper Perennial and William Morrow. On information and belief,
15 HarperCollins is a subsidiary of News Corporation.

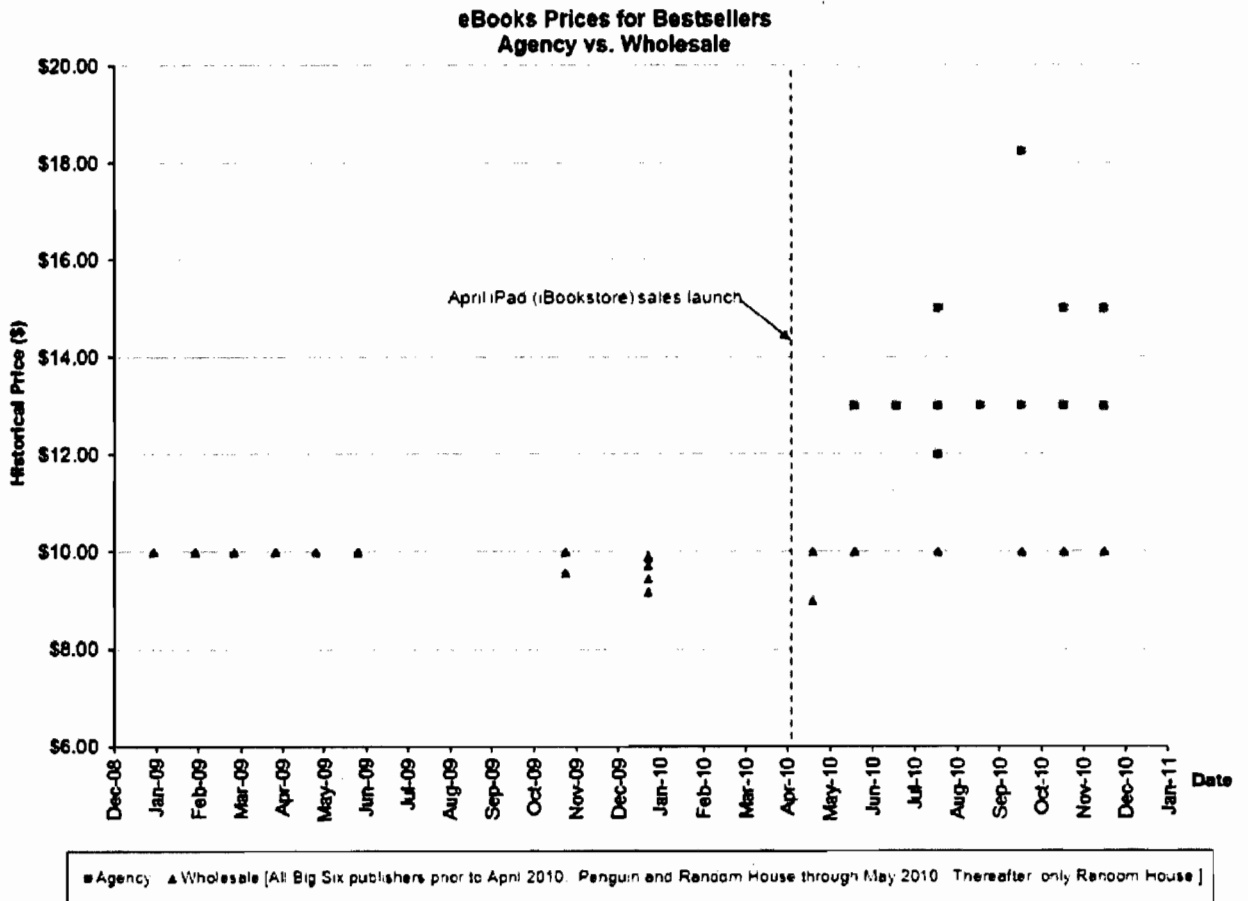
16 28. Defendant Macmillan Publishers, Inc. ("Macmillan") is a group of leading publishing
17 companies with its principal place of business at 175 Fifth Ave., New York, NY 10010. Its U.S.
18 publishers include Farrar Straus and Giroux, Henry Holt & Company, Picador, and St. Martin's
19 Press. On information and belief, Macmillan is held by Verlagsgruppe Georg von Holtzbrinck,
20 which is based in Stuttgart, Germany.

21 29. Defendant Penguin Group (USA) Inc. ("Penguin") is the U.S. affiliate of Penguin
22 Group, one of the largest English-language trade book publishers in the world. Penguin's principal
23 place of business is at 375 Hudson St., New York, NY 10014. Its imprints include Viking,
24 Riverhead Books, Dutton and Penguin Books.

25 30. Defendant Simon & Schuster, Inc. ("Simon & Schuster") is a leading U.S. trade
26 publisher with its principal place of business at 1230 Avenue of the Americas, New York, NY
27 10019. Its imprints include Simon & Schuster, Scribner, Atria and Gallery Books. On information
28 and belief, Simon & Schuster is part of CBS Corporation.

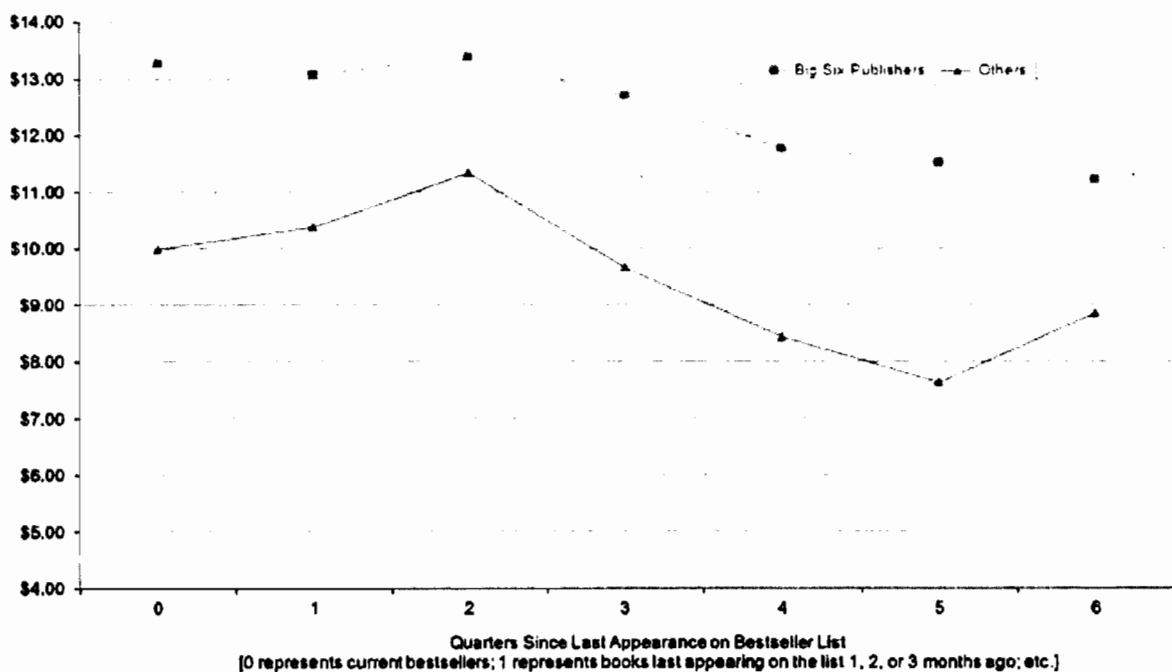
1 36. A hypothetical monopolist that controlled the supply of eBooks would have the ability
 2 to raise the price of eBooks substantially for a significant period of time without consumers
 3 substituting another product.

4 37. In addition, the Publisher Defendants and Apple have exerted market power over
 5 eBook sales, as directly demonstrated by the anticompetitive effects of their conduct. Here,
 6 Defendants exercised market power as evidenced by their ability to raise prices above the
 7 competitive level – by increasing prices by at least *thirty* to *fifty* percent above similar books
 8 published under the wholesale model as demonstrated below:

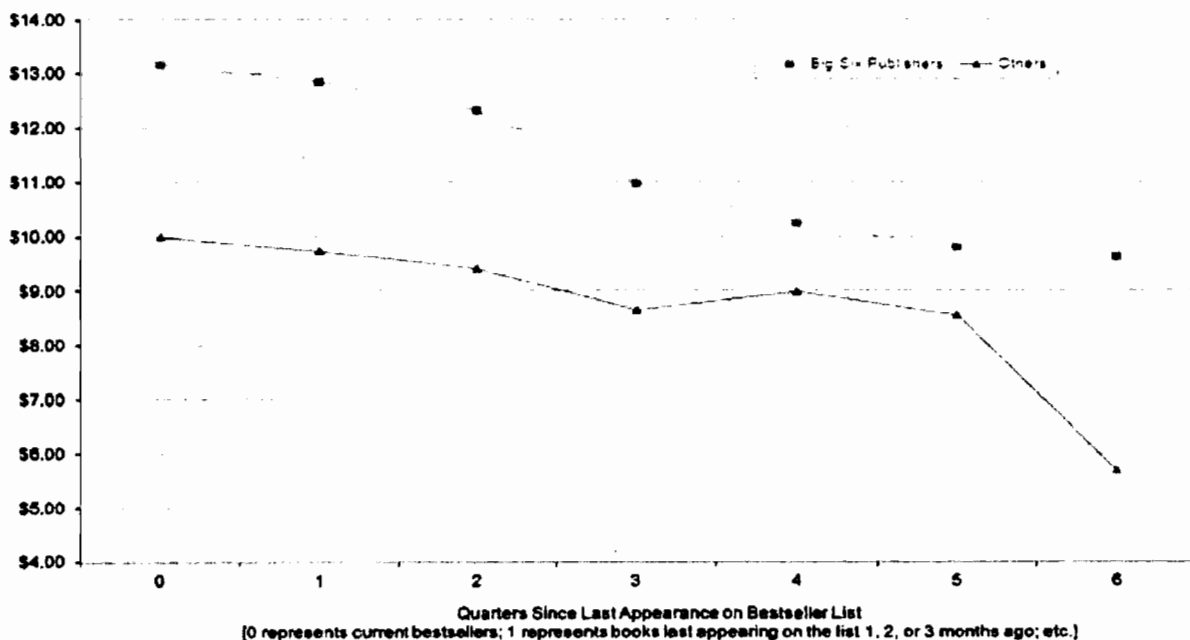


1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

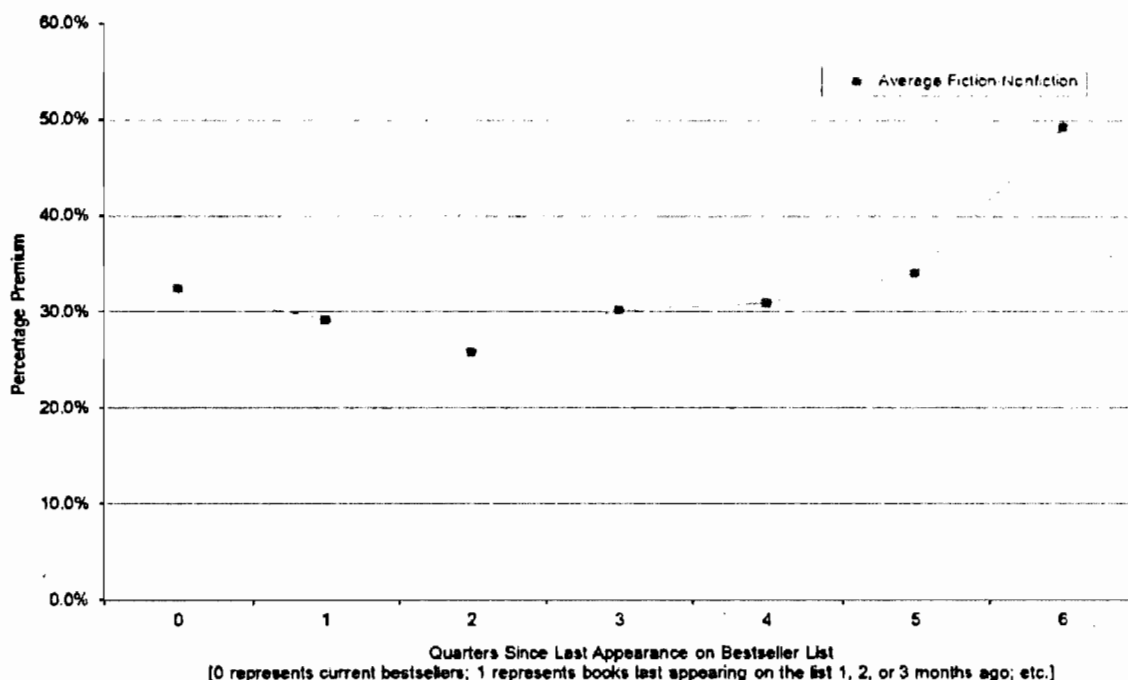
**Current Average eBook Prices
Nonfiction Titles
By Quarters Since Last Appearance on Bestseller List**



**Current Average eBook Prices
Fiction Titles
By Quarters Since Last Appearance on Bestseller List**



**Percentage Price Premium
for Big Six vs. Non-Big Six eBooks
by Quarters Since Last Appearance on Bestseller List**



V. STRUCTURE OF THE INDUSTRY

38. eBooks are usually read on dedicated hardware devices known as eReaders. Personal computers, tablets and some cell phones can also be used to read eBooks. eBooks are sold directly through eReaders, as well as through the web.

39. Sony launched the first commercially successful eReader, the Sony Reader, in 2006. The following year, Amazon released the Kindle. The Kindle utilized “electronic ink” technology to replicate the look of a paper book while providing the portability associated with digital files. Amazon’s Kindle quickly became the market leader by offering a much broader selections of books than Sony and offering them at a standard pro-consumer price of \$9.99.

40. Amazon instituted its discounted pricing model even though in many instances the wholesale price it paid equaled or even exceeded \$9.99. Amazon was willing to establish this price level in part to grow market share. Amazon also knew that with sufficient buying power and efficiencies it could eventually reduce the surplus publishers were paid for eBooks, thereby increasing Amazon’s margins.

1 41. Amazon's disruptive technology forced traditional booksellers to respond by
2 introducing competing technology and pricing. In 2009, Barnes & Noble released its own eReader –
3 the Nook – and tried to match Amazon's pro-consumer pricing. Following Barnes & Noble's
4 announcement, Sony similarly announced that it would adopt the \$9.99 pricing for its Sony Reader.
5 Nevertheless, Amazon's eBook prices were almost always lower than that of its competitors such as
6 Sony and Barnes & Noble. A study by the Inkmesh eBook search engine reported that Amazon had
7 the lowest prices nearly 75 percent of the time.

8 42. Although Amazon's \$9.99 pricing policy was near or even sometimes below the price
9 Amazon paid to book publishers for certain mass market eBook content, its aggressive eBook pricing
10 practices succeeded in fueling Kindle sales and increasing Amazon's share of the eReader market.
11 According to Credit Suisse, as of February 2010 Amazon's Kindle eBooks occupied 90 percent of
12 the market for eBooks.¹

13 43. At least in part as a result of Amazon's pro-consumer practices, consumers rapidly
14 starting adopting new book reading habits, making eBooks hugely popular. The Association of
15 American Publishers reports that eBooks are the fastest-growing segment of the book publishing
16 industry. In July 2010, Amazon reported sales of eBooks for its Kindle in the second quarter of 2010
17 outnumbered sales of hardcover books for the first time. In February 2011, the New York Times
18 added an eBook bestseller list.

19 44. Hardcover books, specifically the sale of front list titles, form the core sales for the
20 Agency Five (who in turn sell about 75 to 85 percent of the fiction market). Publishers have the
21 highest margin per unit of sale from printed hardcovers which are sold to the trade (wholesalers,
22 booksellers, etc.) at discounts of 30 to 60 percent off the list price depending on the account.

23 45. While eBook sales provided additional incremental unit sales over physical books, in
24 an unrestrained market the margin per unit of sale for eBooks is lower than physical books.

25 46. Thus, publishers had the economic incentive to do two things: (a) slow down the rate
26 of eBook adoption, and (b) protect – and even increase – the margins for eBook sales.

27 ¹ *Google Writes New Chapter in E-Book Saga*, The eMarketer Blog, <http://www.emarketer.com/blog/index.php/google-writes-chapter-ebook-saga/> (last visited Aug. 8, 2011).

1 47. By slowing down the rate of adoption and increasing prices, new entrants into the
2 digital market will be less inclined to demand a \$9.99 price point made popular by Amazon. An
3 article in *Psychology Today* that refers to this as anchoring:

4 At issue is the phenomenon of “anchoring,” discovered by Amos
5 Tversky and Daniel Kahneman. When people don’t know what a
6 fundamentally new product should cost, they are strongly influenced
7 by the first price they encounter.

8 48. Further, the Publisher Defendants knew that for the minority of consumers who in
9 response to price increases for eBooks under the new Agency model elected to make a purchase from
10 the print market, it would only benefit the publishers because the print margin is frequently larger
11 than eBook margins under the Agency model.

12 **VI. UNLAWFUL AGREEMENT TO RESTRAIN TRADE OR COMMERCE**

13 49. The \$9.99 standard eBook price Amazon set threatened the economic models of many
14 large publishers. With decreasing retail prices for eBooks, publishers feared the rapidly increasing
15 movement by consumers away from physical book purchases – on which publishers had built their
16 businesses for centuries. They also anticipated that, as the popularity of eBooks grew, Amazon and
17 other retailers would pressure publishers to reduce their wholesale prices for eBooks, thereby
18 reducing their profit-per-unit. Publishers were used to having the ability to help establish predictable
19 retail prices based on longstanding pricing behavior in the paper book industry. Under the decades-
20 old model, the publishers and their supply chain partners would agree on a standard discount schedule in
21 which the retailer would purchase the book for a percentage below the suggested retail price, and the
22 publishers would control the speed of pricing decay by phasing in discounted pricing through later release
23 of paperback books (“windowing”). This phenomenon, known as intertemporal price discrimination,
24 allowed publishers to maximize their profits by charging more to early adopters.

25 50. In response to Amazon’s disruptive business model, the Publisher Defendants took
26 steps to mitigate what they perceived to be the potential future reduced profits associated with eBook
27 sales. For example, several major publishers, including HarperCollins, held back the release (reduced
28 output) of eBook versions of some hardcover bestsellers by windowing the release a month or more
after the hardcover release. For its part, Macmillan lowered its royalty rate for eBooks by 5 percent.

1 51. In addition to windowing techniques, Publisher Defendants also tried to pressure
2 Amazon to raise retail prices on eBooks; but Amazon steadfastly refused. Absent coordination, the
3 Publisher Defendants were unable to force Amazon to raise its eBooks retail prices. Given
4 Amazon's dominant market share for eBook sales, each publisher knew that if it tried to unilaterally
5 insist on raising retail prices it would immediately lose eBook sales and market share to its rivals.

6 52. Amazon's success was also causing concern in other quarters. Specifically, Apple
7 had strong incentives to help the Publisher Defendants force Amazon to abandon its pro-consumer
8 pricing. Apple knew that devices like the Kindle are characterized by strong network effects; that is,
9 the value of a Kindle to an individual purchaser rises as the total number of purchasers increase.
10 This occurs because growth in the installed base attracts additional and superior content and drives
11 down prices. Because of these network effects, Apple knew that if Amazon were allowed to
12 continue to solidify its dominant position in the eBook market, these network effects would make it
13 nearly impossible to dislodge Amazon in the near-term. Apple knew the power of this strategy
14 because it had used a virtually identical strategy to dominate the sale and distribution of digital music
15 files.

16 53. Apple's interest in entering the eBooks market was not simply to profit from the sale
17 of eBooks. Apple believed it was necessary to enter the eBooks market because it viewed Amazon
18 and its Kindle platform as a long-term threat to its dominant position in the sale and marketing of
19 mobile devices designed to distribute, store and access digital media, and Apple's iOS content
20 distribution platform. These devices included the Apple iPhone, iPod, and iPad.

21 54. At the same time, Amazon's pro-consumer pricing meant that in order to enter the
22 eBooks market, Apple would likely be forced to sell at least some eBooks near or below the input
23 cost for an extended period of time. Indeed, to gain market share, Apple might even be forced to
24 offer eBooks at an even lower price than Amazon offered. Apple and the Publisher Defendants thus
25 shared a common anticompetitive interest in forcing Amazon (and the rest of the market) to raise the
26 prices for eBooks.

27 55. Recognizing Apple's interest in protecting and expanding its dominant position in the
28 sale and marketing of mobile devices designed to distribute, store and access digital media, Amazon

1 had already taken steps to compete with Apple. After numerous commentators observed that
2 Apple's popular App Store offered 70 percent of royalties to software application publishers,
3 Amazon began a program that offered 70 percent royalties to Kindle publishers who agreed to certain
4 conditions. In order to be eligible, authors were required to list their books for between \$2.99 and
5 \$9.99 on the Kindle, and the price had to be at least 20 percent below the lowest list price for the
6 print edition.

7 56. In January 2010, Apple and the Publisher Defendants agreed to a plan that would
8 allow Apple to erode Amazon's market position and benefit Apple and the Agency 5 by raising
9 prices on first release eBooks.

10 57. On January 23, 2010, industry newsletter *Publishers Lunch* reported that Apple had
11 negotiated agreements with Hachette, HarperCollins, Macmillan, Penguin and Simon & Schuster to
12 switch from a wholesaler-retailer model to an "Agency model" for eBook sales.

13 58. Four days later, on January 27, 2010, Apple announced a multi-function tablet device
14 called the iPad. One of the functions of the iPad was the ability to read eBooks. This put Apple into
15 direct competition with Amazon, who at the time of the iPad's release, had an overwhelming share of
16 the markets for eBooks and eReaders.

17 59. When Apple announced the iPad's debut in January 2010, its CEO Steve Jobs
18 indicated that Apple had agreements in place with five of the six largest publishing houses –
19 Hachette Book Group, HarperCollins, Macmillan, Penguin, and Simon & Schuster – to provide
20 eBook content for the new device.² Those agreements were based on a so called "Agency model"
21 which gives publishers the ability to set eBook prices and makes Apple a distribution agent for sales
22 to consumers.³ Apple receives a thirty-percent commission from each eBook sale through Apple's
23 online bookstore, with the remaining seventy percent going to publishers (who in turn then
24
25

26 ² Motoko Rich, *Books on iPad Offer Publishers a Pricing Edge*, N.Y. Times, Jan. 28, 2010, at
27 B6.

28 ³ Motoko Rich, *Apple's Prices for E-Books May Be Lower Than Expected*, N.Y. Times,
Feb. 18, 2010, at B10.

1 compensate the authors pursuant to whatever arrangement exists between the publisher and author).⁴
2 The publishers' authority to price under their agreements with Apple, however, is restrained as the
3 contracts contain a formula that ties eBook prices to the list prices of comparable print editions. This
4 common formula agreed to by the Publisher Defendants and Apple operates to increase, standardize,
5 and stabilize most first-release general fiction and nonfiction titles. The effect of this term will
6 increase and stabilize eBook prices to a range of \$12.99 to \$14.99 for most general fiction and
7 nonfiction titles.⁵ Apple and the Publisher Defendants also agreed that the Publisher Defendants
8 would not set prices of eBooks offered through other distribution channels (e.g., Amazon's Kindle
9 store) below the prices the Publisher Defendants sold through the iBookstore (the "MFN Clause").⁶

10 60. The effect of the MFN Clause, combined with the pricing formula tied to physical
11 book prices, was to increase prices and reduce competition for the eBooks of the Publisher
12 Defendants, specifically for the price of most newly released adult fiction and nonfiction eBooks;
13 this resulted in increasing and stabilizing eBook prices and eliminated competitive pricing. Apple
14 coordinated these agreements with the Agency 5. On information and belief, in the course of
15 entering into agreements with Apple, Apple and the Agency 5 communicated the terms of the
16 agreements and pricing information with each other, including signaling to each other that they
17 would agree to the MFN Clause and price formula that would increase and standardize pricing to a
18 range between \$12.99 to \$14.99.

19 61. It was well understood and intended by the Publishing Defendants and Apple that
20 their agreements would raise prices for consumers of eBooks. For example, on February 2, 2010,
21 Rupert Murdoch, News Corp. CEO, indicated he was unhappy with Amazon's prices and that the
22 agreement with Apple would help to achieve "higher prices."

23
24 ⁴ *Id.*; Motoko Rich & Brad Stone, *Publisher Wins Fight on E-Books*, N.Y. Times, Feb. 1, 2010,
25 at B1.

26 ⁵ Rich, *supra* note 3; see also Jeffrey Trachtenberg & Geoffrey A. Fowler, *E-Books Pricing*
Put Into Turmoil, Wall St. J., Feb. 1, 2010, at A.

27 ⁶ Rich, *supra* note 3. The agreement also reportedly contains language allowing Apple to
28 obligate publishers to discount eBook prices on bestsellers below the \$12.99 to \$14.99 range in order
to compete with brick-and-mortar bookstores and competing online sites. *Id.*

1 62. In contrast to the Agency model, under the wholesale distribution model that
2 traditionally has governed their relationships with brick-and-mortar bookstores and other online
3 sellers like Amazon, publishers essentially “sold” their products to retailers for a fixed (wholesale)
4 price – typically half the list price of the print edition – and surrendered control over the final price
5 ultimately charged to consumers.⁷ In order to spur demand for eBooks (as well as for its own
6 eReader, the Kindle), Amazon set \$9.99 as the standard price for most new releases, even though at
7 times Amazon purchased the content near or above \$9.99.⁸ Notwithstanding Amazon’s pricing has
8 driven rapid adoption of eBook sales, publishers have disapproved of Amazon’s discount model,
9 fearing it would lead to lower sales of hardcover books and, in the long term, it would condition
10 consumers to expect lower price points for all books.⁹

11 63. Once the Publisher Defendants and Apple agreed to the radical switch to the Agency
12 model, the Publisher Defendants approached Amazon to require it to switch to a similar structure.
13 The showdown between Amazon and Macmillan in particular was widely chronicled in the press.

14 64. Macmillan reportedly proposed that Amazon agree to sell Kindle editions of
15 Macmillan’s books as an agent, on the same 70/30 terms contained in the Publisher Defendants’
16 agreement with Apple.¹⁰ Alternatively, Macmillan offered to permit Amazon to keep purchasing
17 eBooks under the existing wholesale model, but warned that it would begin delaying release of those

18 ⁷ Donald Marron, *How Should We Price E-books*, CHRISTIAN SCI. MONITOR, Aug. 23, 2010,
19 <http://www.csmonitor.com/Business/Donald-Marron/2010/0805/How-should-we-price-e-books>; Paul
20 Biba, *Why Smashwords Moved to “Agency Pricing” – Explained by Mark Coker*,
21 <http://teleread.com/paul-biba/why-smashwords-moved-to-agency-pricing-explained-by-markcoker/>,
22 Dec. 2, 2010 (reviewing traditional wholesale model for pricing and distributing books and
23 chronology of shift to agency arrangements).

24 ⁸ Rich & Stone, *supra* note 4; Erica Naone, *iPad Rattles the e-Bookshelves*, Tech. Rev., Feb. 2,
25 2010, <http://www.technologyreview.com/computing/24443/?a=f> (“Under its existing model, Amazon
26 buys books from publishers for a set fee in bulk [and] reportedly often pays publishers more than
27 \$9.99 for some books, selling them at a discount in order to drive adoption of the Kindle”).

28 ⁹ See, e.g., Jack Shafer, *Does the Book Industry Want to Get Napstered?*, Slate, July 15, 2009,
<http://www.slate.com/of/2222941/>; Stone & Rich, *supra* note 1 (explaining that the attraction of the
agency model to publishers is driven by their “fear that Amazon has accustomed buyers to
unreasonably low prices” and their conviction that “if Kindle were to maintain its dominant position
[in eBook sales], it could force publishers to lower their wholesale prices”).

¹⁰ Brad Stone & Motoko Rich, *Amazon Removes Macmillan Books*, N.Y. Times, Jan. 30, 2010,
at B4. See also Letter from John Sargent to All Macmillan authors/illustrators and the literary agent
community (Jan. 30, 2010) (Sargent Letter), available at
http://www.publishersmarketplace.com/lunch/macmillan_30jan10.html.

1 eBook editions (reducing output) until seven months after publication of the hardcover edition.¹¹

2 The latter offer would have crippled Amazon's competitive position against Apple.

3 65. MacMillan was able to threaten Amazon with this ultimatum even though Amazon at
4 the time possessed ninety-percent of the market share for eBook sales, because, on information and
5 belief, Macmillan knew each of the other Publishing Defendants had reached similar agreements
6 with Apple. Like Macmillan, the other Publisher Defendants and Apple had agreed to a pricing
7 formulae and MFN clauses, assuring themselves that Amazon would be closed out of the market for
8 the Publisher Defendants' eBook titles unless Amazon agreed to allow the Publisher Defendants to
9 raise prices.

10 66. Amazon made an initial effort to fight by pulling all Macmillan titles off both the
11 Kindle site and Amazon.com.¹²

12 67. Amazon briefly ceased sales of Macmillan titles; however, by the end of the weekend,
13 the books were back for sale and Amazon had bowed to Macmillan's demands.¹³ In a strongly
14 worded message on its website, Amazon stated, "We have expressed our strong disagreement and the
15 seriousness of our disagreement by temporarily ceasing the sale of all Macmillan titles. We want
16 you to know that ultimately, however, we will have to capitulate and accept Macmillan's terms
17 because Macmillan has a monopoly over their own titles, and we will want to offer them to you even

18
19 ¹¹ See Stone & Rich, *supra* note 10 (quoting Sargent as saying "I told [Amazon] that they could
20 stay with their old terms of sale, but that this would involve extensive and deep windowing of
21 titles"); Sargent Letter, *supra* note 10.

22 ¹² Stone & Rich, *supra* note 10. Amazon did, however, permit the continued sale of Macmillan
23 books by third parties on Amazon.com. See Sargent Letter, *supra* note 10.

24 ¹³ See *Whose Move? Amazon and Macmillan Vie for Position*, L.A. Times,
25 <http://latimesblogs.latimes.com/jacketcopy/2010/oz/amazon-macmillanconflict.html> (quoting
26 Amazon letter to Kindle customers indicating that "despite its strong disagreement" Amazon was
27 giving in to Macmillan's terms because "Macmillan has a monopoly over their own titles, and we
28 will want to offer them to you even at prices we believe are needlessly high for e-books");
Trachtenberg & Fowler, *supra* note 5. Shortly thereafter, Sony reportedly also switched over to the
agency model. John Timmer, *E-book Prices to Rise as Amazon, Sony Adopt Agency Model*,
Apr. 2010, [http://www.arstechnica.com/gadgets/news/2010/04/e-book-prices-to-rise-asamazon-sony-
adopt-agency-model.ars](http://www.arstechnica.com/gadgets/news/2010/04/e-book-prices-to-rise-asamazon-sony-adopt-agency-model.ars). Google has apparently also given in to publishers' demands and is offering
them agency agreements to participate in its recently launched Google e-books store. Murad Ahmed,
E-books: Publishers Poised for Victory in Latest Battle, The Times (London), Feb. 15, 2010; Samo
& Kellogg, *Google to Take on Amazon, Apple, Barnes & Noble with New e-book Store*, L.A. Times,
Dec. 6, 2010, [http://latimesblogs.latimes.com/technology/2010/12/google-amazon-apple-barnes-
noble-with-new-e-book-store-kindle.html](http://latimesblogs.latimes.com/technology/2010/12/google-amazon-apple-barnes-noble-with-new-e-book-store-kindle.html).

1 at prices we believe are needlessly high for e-books.” Very soon after, Amazon entered into agency
2 agreements with each of the four other major publishers that had signed on with Apple.¹⁴

3 68. Hachette also forced Amazon to switch to the Agency model. On April 1, 2010,
4 Amazon posted the following message on its website: “[Hachette] has disallowed the sale of ebooks
5 except on agency terms effective as of 12:01 am this morning. We came to terms late last night but
6 we cannot be operationally ready to sell their ebooks on agency terms until two days from now –
7 April 3 – when we will also cut over for the other publishers that are switching to agency. If we can
8 get a two day extension from Hachette to continue selling their ebooks under the prior terms, we can
9 have the Hachette ebooks promptly back for sale today. If not, then they will be back on April 3.”

10 69. Penguin also forced Amazon to adopt the Agency model. On April 1, 2010, Penguin
11 sent a letter to its agents and authors that read, in part: “In recent weeks we have been in discussion
12 with our retail partners who sell eBooks, including Amazon, to discuss our new terms of sale for
13 eBooks in the U.S. At the moment, we have reached an agreement with many of them, but
14 unfortunately not Amazon – of course, we hope to in the future. Your newly released eBook is
15 currently not available on Amazon, but all of your eBooks released prior to April 1st are still for sale
16 on their site. . . . Our conversations with Amazon are ongoing and we do hope to continue our long-
17 term relationship with them.”

18 70. On information and belief, HarperCollins and Simon & Schuster similarly pressured
19 Amazon to adopt the Agency model in the same time period.

20 71. As a result of the coordinated and unlawful conduct of the Defendants, Sony and
21 Barnes & Noble have also been forced to adopt the Agency model for eBook pricing.

22 72. Consumers were clearly angered by the switch to the Agency model and the
23 anticipated rise in eBook prices that it would engender. In March 2010, after the switch was
24 announced but before it was effectuated, eBook sales increased 184 percent. Some Kindle users
25 posting in various online communities attributed the sudden spike in eBook sales to a last ditch effort
26

27 ¹⁴ At that point Random House was the only one of the six major U.S. publishers to stick with
28 the wholesale distribution model. See Jeffrey A. Trachtenberg, *Random House Balks at Apple’s
Book Pricing*, Wall St. J., Apr. 5, 2010, at B4; Marron, *supra* note 7.

1 by readers to stock up on eBooks before the switch to the Agency model. One such user stated:
2 “Myself and another kindle owner definitely bought more books before Agency model, perhaps 8
3 each.”

4 73. On information and belief, the Publisher Defendants’ increase in prices resulted in a
5 short-term reduction in eBook sales revenues under the Agency model. The Publisher Defendants
6 accepted this short-term reduction in sales and profits in exchange for the ability to raise retail prices
7 and extra supra-competitive profits in the long term.

8 74. Collusion was a necessary ingredient of the Publisher Defendants’ anticompetitive
9 plan to gain direct control over eBook pricing. If they had not all conspired to force retailers like
10 Amazon to adopt the Agency model under the same terms and at the same time, consumers would
11 have simply reacted to rising eBook prices by choosing to purchase their eBooks from publishers or
12 retailers who did not participate in the Agency model.

13 75. Indeed, this is exactly what happened in the case of Random House, the only big six
14 publisher who did not conspire with Apple to adopt the Agency model in early 2010. Random
15 House continued to use the wholesale model, allowing Amazon and other eBook distributors to price
16 eBooks below the Agency 5. In 2010, Random House saw a 250 percent increase in eBook sales in
17 the United States in 2010 and an 800 percent increase in the United Kingdom.

18 76. As a result of Random House being willing to allow price competition, Apple – per its
19 agreements with the Agency 5 – refused to allow Random House to sell its books through Apple’s
20 iBookstore. Absent the anticompetitive restraints agreed to by Apple and the Publisher Defendants,
21 Apple would not have an economic incentive to force Random House to utilize the Agency model.
22 Instead, Apple would seek the widest possible selection of eBooks whether or not sold directly or
23 through the Agency model. In banning Random House books from its iBook store, Apple acted
24 pursuant to the conspiracy outlined above and with the purpose and intent of forcing Random House
25 to join the cartel it had helped to create and raise prices. Random House switched to the Agency
26 model effective March 1, 2011.

27 77. The fact that Apple brokered the simultaneous switch to the Agency model, and the
28 Publisher Defendants agreed to standardize higher eBook prices, is amply demonstrated by a January

1 2010 interview in which Apple CEO Steve Jobs told Walt Mossberg of the Wall Street Journal that
2 Amazon's \$9.99 pricing for eBooks was about to end:

3 Mossberg: Why should [a consumer] buy a book for \$14.99 on
4 your device when she can buy one for \$9.99 from
Amazon or Barnes & Noble?

5 Jobs: That won't be the case.

6 Mossberg: You won't be \$14.99 or they won't be \$9.99?

7 Jobs: *The prices will be the same . . . Publishers are actually*
8 *withholding their books from Amazon because they're*
not happy. (Emphasis added.)

9 78. Absent Apple's knowledge of and participation in the unlawful conspiracy, Steve Jobs
10 would not have been able to predict future eBook pricing with such startling accuracy.

11 79. The Publisher Defendants and Apple could not have switched to the Agency model
12 without a coordinated effort because eBooks are substitutes for each other. For example, if a
13 consumer saw that a title listed through Apple's iBookstore was \$14.99, and was also available at
14 \$9.99 if purchased through Amazon's Kindle App, the consumer could simply just load the least
15 expensive version of the eBook title onto his eReader device. Moreover, if one publisher's eBook
16 title was priced at \$14.99, versus a comparative title available through Amazon at \$9.99, there is a
17 risk that the consumer would forego the more expensive title and choose to purchase the less
18 expensive, differently titled eBook. Thus, no single major publisher would risk such loss of sales
19 and insist on the Agency model by itself. Thus, as a matter of economics, the Agency model works
20 only if there is an agreement by a significant number of publishers to the new pricing model.
21 Moreover, the shift to the Agency model occurred simultaneously and almost overnight – under any
22 definition this shift constitutes a radical, structural change to a business model that has been in
23 existence for decades.

24 80. The anticompetitive nature of this conspiracy, and the Publisher Defendants'
25 motivation to control eBook pricing, is also revealed by the fact that certain eBooks are now priced
26 the same as – or even higher than – the price for the same titled physical book. Yet, the printing and
27 distribution costs of hardcover books are greater. Thus, absent anticompetitive motivation and
28 conduct, the difference in prices between hardcover books and eBooks would be greater. However,

1 this is often not the case as publishers are motivated to raise eBook prices to levels close to
2 hardcover books. The Amazon model was a direct threat to accelerating the decay of hardcover book
3 sales (and margins).

4 81. Jobs and Apple would not have agreed to go to the Agency model unless they knew
5 the Publisher Defendants would not sell their eBooks through other distribution channels at lower
6 prices. Absent such an agreement, Apple could not have competed at the higher prices for eBooks if
7 it did not coordinate with the Publisher Defendants to ensure Apple was not the only eReader
8 platform agreeing to the Agency model and higher, standardized prices.

9 82. Apple conspired with the Publisher Defendants to switch to the Agency model and
10 artificially inflate the price range of eBooks in order to cut into Amazon's substantial share of the
11 markets for eBooks and to prevent Amazon from emerging as a serious competitor to its mobile
12 platforms for the distribution, storage and access of digital media.

13 83. Apple's strategy for gaining market share at the expense of Amazon was successful.
14 According to a 2010 survey conducted by ChangeWave, between August and December 2010, the
15 iPad's share of the U.S. eReader market rose 16 percentage points and the Kindle's fell 15
16 percentage points.

17 84. The trend of Apple's increasing market share and Amazon's declining share is
18 predicted to continue. Of the respondents in the ChangeWave survey planning on buying an eReader
19 in the next 90 days, 42 percent said they'd like an iPad, while only 33 percent said they'd opt for a
20 Kindle.

21 85. In addition, a Credit Suisse analyst announced in February 2010 that, as a result of the
22 switch to the agency pricing model, he expected Amazon's share of the eBooks market to fall from
23 90 percent to 35 percent over the next five years.

24 86. The Publisher Defendants have used the pricing formula contained in the agency
25 agreements to coordinate pricing for eBooks across retailers and to restrain competition in the
26 market. For example, the prices of the following current or former bestselling eBooks are identical
27 at Amazon, Sony, Apple and Barnes & Noble: *Don't Blink* (Hachette, \$14.99); *The Kite Runner*
28

1 (Penguin, \$12.99); *Heart of the Matter* (St. Martin's Press/Macmillan, \$9.99); and *Best Friends*
2 *Forever* (Simon & Schuster, \$11.99).

3 87. As a result of the unlawful anticompetitive actions alleged above, the price of eBooks
4 has soared. eBooks now often cost more than their print counterparts. For example, at Amazon.com
5 the price of *The Kite Runner* (Penguin) costs \$12.99 in Kindle version and \$8.82 as a paperback.
6 Other examples of this price discrepancy among current and former bestselling titles on
7 Amazon.com include: *Don't Blink* (Hachette, \$14.99 digital and \$14.74 hardcover); *Best Friends*
8 *Forever* (Simon & Schuster, \$11.99 digital and \$10.79 paperback); *Heart of the Matter* (St. Martin's
9 Press/Macmillan, \$9.99 digital and \$8.03 paperback); and *The Art of Racing in the Rain*
10 (HarperCollins, \$9.99 digital and \$7.99 paperback).

11 88. In addition, because the price of eBooks is no longer set by the retailer, promotional
12 discounts and customer reward programs have effectively ended as to eBook sales.

13 89. By coordinating and entering into the above agreements, Apple and the Publisher
14 Defendants have raised, stabilized, and standardized eBook prices. Absent this anticompetitive
15 conduct, eBook prices would be lower and there would be price competition.

16 90. The Publisher Defendants have not required an Agency model for internet sales of
17 physical books. One can see the effect of the conspiracy was to increase and standardize pricing for
18 eBooks, compared to the diverse competitive pricing for internet sales of the physical book for the
19 same title under the wholesale model.

20 (a) The following is a screen capture from Amazon.com displaying standardized higher
21 prices for eBooks sold by the Publisher Defendants:
22
23
24
25
26
27
28

1 **New York Times® Bestsellers**

2 Fiction Nonfiction Advice & How-To

3 **New York Times® Bestsellers: Fiction**



5 **Smokin' Seventeen: A Stephanie Plum...**
- Janet Evanovich
List Price: \$22.99
Kindle Price: **\$12.99**



7 **Against All Enemies: Tom Clancy, Peter Telep**
Kindle Price: **\$12.99**



9 **Maine**
- J.J. Courtney Sullivan
List Price: \$25.95
Kindle Price: **\$12.99**



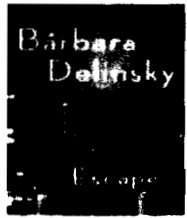
11 **The Girl Who Kicked the Hornet's Nest**
- Stieg Larsson, Reg Keeland
List Price: \$22.95
Kindle Price: **\$12.99**



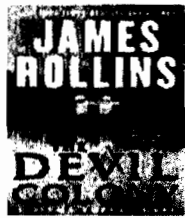
13 **Betrayal of Trust: A J. P. Beaumont...**
- J. A. Jance
List Price: \$22.95
Kindle Price: **\$12.99**



15 **Silver Girl: A Novel**
- Elin Hilderbrand
List Price: \$24.99
Kindle Price: **\$12.99**



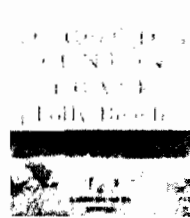
17 **Escape**
- Barbara Delinsky
List Price: \$25.95
Kindle Price: **\$12.99**



19 **The Devil Colony: A Sigma Force Novel**
- James Rollins
List Price: \$24.95
Kindle Price: **\$12.99**



21 **The Paris Wife: A Novel**
- Paula McLain
List Price: \$24.99
Kindle Price: **\$12.99**



23 **Folly Beach: A Lowcountry Tale**
- Dorothea Benton Frank
List Price: \$24.95
Kindle Price: **\$12.99**

24 [See all New York Times® fiction bestsellers](#)

25 **New York Times® Bestsellers: Nonfiction**



27 **The Greater Journey**
- David G. McCullough
List Price: \$24.99
Kindle Price: **\$19.99**



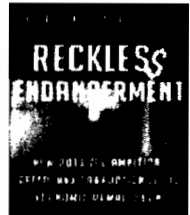
29 **Bossypants**
- Tina Fey
List Price: \$25.99
Kindle Price: **\$12.99**



31 **SEAL Team Six: Memoirs of an Elite...**
- Howard E. Wasdin, Stephen A. Templin, Stephen Templin
List Price: \$26.99
Kindle Price: **\$12.99**



33 **The Miracle of Freedom: 7 Tipping...**
- Chris Stewart, Ted Stewart
List Price: \$26.95
Kindle Price: **\$9.99**



35 **Reckless Endangerment: How Outsized...**
- Gretchen Morgenson, Joshua Rosner
List Price: \$24.95
Kindle Price: **\$12.99**

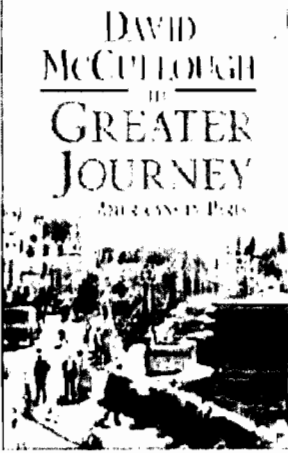
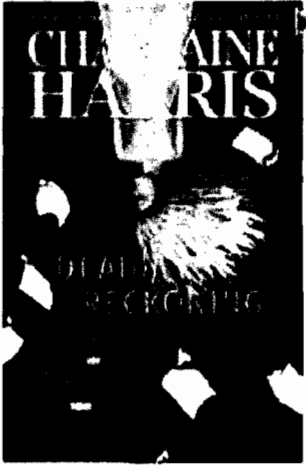
36 (b) The following chart further details the standardization of supra-competitive pricing effectuated by the conspiracy:

**Current Amazon Prices for New York Times Bestsellers (Hardcovers, Fiction and Nonfiction)
Bestseller List Week of August 7, 2011**

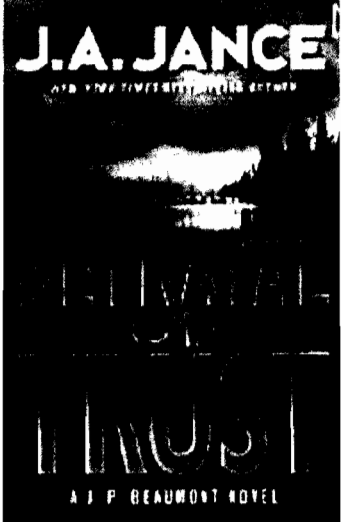
Genre	Title	Author	Publisher	NYT Rank	Current Amazon Price
Nonfiction	BOSSYPANTS	Tina Fey	Hachette	4	\$12.99
Fiction	NOW YOU SEE HER	James Patterson and Michael Ledwidge	Hachette	5	\$12.99
Nonfiction	LIES THAT CHELSEA HANDLER TOLD ME	Chelsea Handler	Hachette	8	\$11.99
Fiction	THE BOURNE DOMINION	Eric Van Lustbader	Hachette	9	\$12.99
Fiction	ONE SUMMER	David Baldacci	Hachette	11	\$12.99
Fiction	BURNT MOUNTAIN	Anne Rivers Siddons	Hachette	12	\$12.99
Nonfiction	THOSE GUYS HAVE ALL THE FUN	James Andrew Miller and Tom Shales	Hachette	15	\$12.99
Nonfiction	AREA 51	Annie Jacobsen	Hachette	18	\$14.99
Fiction	SILVER GIRL	Elin Hilderbrand	Hachette	22	\$12.99
Fiction	10TH ANNIVERSARY	James Patterson and Maxine Paetro	Hachette	31	\$14.99
Nonfiction	CHELSEA CHELSEA BANG BANG	Chelsea Handler	Hachette	34	\$12.99
Average Hachette Price					\$13.28
Fiction	PORTRAIT OF A SPY	Daniel Silva	HarperCollins	2	\$12.99
Fiction	STATE OF WONDER	Ann Patchett	HarperCollins	8	\$12.99
Nonfiction	THROUGH MY EYES	Tim Tebow	HarperCollins	10	\$12.99
Nonfiction	LOST IN SHANGRI-LA	Mitchell Zuckoff	HarperCollins	11	\$12.99
Nonfiction	DOES THE NOISE IN MY HEAD BOTHER YOU?	Steven Tyler	HarperCollins	13	\$12.99
Fiction	BEFORE I GO TO SLEEP	S. J. Watson	HarperCollins	16	\$12.99
Fiction	THE DEVIL COLONY	James Rollins	HarperCollins	23	\$12.99
Nonfiction	___ MY DAD SAYS*	Justin Halpern	HarperCollins	24	\$9.99
Fiction	FOLLY BEACH	Dorothea Benton Frank	HarperCollins	32	\$12.99
Average HarperCollins Price					\$12.68
Nonfiction	SEAL TEAM SIX	Howard E Wasdin and Stephen Templin	Macmillan	7	\$12.99
Nonfiction	RECKLESS ENDANGERMENT	Gretchen Morgenson and Joshua Rosner	Macmillan	9	\$12.99
Nonfiction	STORIES I ONLY TELL MY FRIENDS	Rob Lowe	Macmillan	16	\$12.99
Fiction	QUINN	Iris Johansen	Macmillan	18	\$12.99
Fiction	IRON HOUSE	John Hart	Macmillan	19	\$12.99
Fiction	SUMMER RENTAL	Mary Kay Andrews	Macmillan	28	\$12.99
Nonfiction	THE BELIEVING BRAIN	Michael Shermer	Macmillan	33	\$14.99
Average Macmillan Price					\$13.28
Fiction	SPLIT SECOND	Catherine Coulter	Penguin	4	\$12.99
Fiction	AGAINST ALL ENEMIES	Tom Clancy	Penguin	10	\$12.99
Fiction	DEAD RECKONING	Charlaine Harris	Penguin	21	\$14.99
Nonfiction	CAR GUYS VS. BEAN COUNTERS	Bob Lutz	Penguin	25	\$12.99
Nonfiction	THE PSYCHOPATH TEST	Jon Ronson	Penguin	26	\$12.99
Nonfiction	ON CHINA	Henry Kissinger	Penguin	27	\$19.99
Nonfiction	THE SECRET KNOWLEDGE	David Mamet	Penguin	29	\$14.99
Fiction	THE HELP*	Kathryn Stockett	Penguin	29	\$9.99
Nonfiction	MOONWALKING WITH EINSTEIN	Joshua Foer	Penguin	31	\$12.99
Nonfiction	IF YOU ASK ME	Betty White	Penguin	32	\$12.99
Fiction	CALEB'S CROSSING	Geraldine Brooks	Penguin	34	\$12.99
Average Penguin Price					\$13.72
Fiction	A DANCE WITH DRAGONS	George R. R. Martin	Random House	1	\$14.99
Nonfiction	UNBROKEN	Laura Hillenbrand	Random House	2	\$12.99
Nonfiction	IN THE GARDEN OF BEASTS	Erik Larson	Random House	3	\$12.99
Fiction	HAPPY BIRTHDAY	Danielle Steel	Random House	3	\$12.99
Fiction	SMOKIN' SEVENTEEN	Janet Evanovich	Random House	6	\$12.99
Nonfiction	INCOGNITO	David Eagleman	Random House	12	\$12.99
Fiction	THE GIRL WHO KICKED THE HORNET'S NEST	Stieg Larsson	Random House	13	\$12.99
Nonfiction	DEMONIC	Ann Coulter	Random House	14	\$12.99
Fiction	MAINE	J. Courtney Sullivan	Random House	14	\$12.99
Fiction	THE PARIS WIFE	Paula McLain	Random House	15	\$12.99
Fiction	STAR WARS-CHOICES OF ONE	Timothy Zahn	Random House	17	\$13.99
Nonfiction	THE SOCIAL ANIMAL	David Brooks	Random House	17	\$12.99
Nonfiction	THE TRIPLE AGENT	Joby Warrick	Random House	19	\$13.99
Fiction	THE SILENT GIRL	Tess Gerritsen	Random House	20	\$12.99
Nonfiction	ABSOLUTE MONARCHS	John Julius Norwich	Random House	20	\$12.99
Nonfiction	SUPERGODS	Grant Morrison	Random House	22	\$13.99
Nonfiction	SEX ON THE MOON	Ben Mezrich	Random House	23	\$12.99
Fiction	SISTERHOOD EVERLASTING	Ann Brashers	Random House	24	\$12.99
Fiction	THE LAST WEREWOLF	Glen Duncan	Random House	25	\$12.99
Fiction	CONQUISTADORA	Esmeralda Santiago	Random House	27	\$12.99
Fiction	DREAMS OF JOY	Lisa See	Random House	30	\$12.99
Fiction	THE LAND OF PAINTED CAVES	Jean M. Auel	Random House	33	\$14.99
Average Random House Price					\$13.31
Nonfiction	A STOLEN LIFE	Jaycee Dugard	Simon & Schuster	1	\$11.99
Nonfiction	THE GREATER JOURNEY	David McCullough	Simon & Schuster	5	\$19.99
Nonfiction	OF THEE I ZING	Laura Ingraham	Simon & Schuster	6	\$11.99
Fiction	THEN CAME YOU	Jennifer Weiner	Simon & Schuster	7	\$12.99
Fiction	WORLD OF WARCRAFT: THRALL	Christie Golden	Simon & Schuster	26	\$12.99
Nonfiction	A LOVE THAT MULTIPLIES	Michelle and Jim Bob Dugger	Simon & Schuster	28	\$9.99
Nonfiction	NOTHING DAUNTED	Dorothy Wickenden	Simon & Schuster	35	\$12.99
Average Simon & Schuster Price					\$13.28
Nonfiction	THE SEVEN DEADLY SINS	Corey Taylor	Non-Big Six	21	\$9.99
Nonfiction	THE MIRACLE OF FREEDOM	Chris Stewart and Ted Stewart	Non-Big Six	30	\$9.99
Fiction	TURN OF MIND	Alice LaPlante	Non-Big Six	35	\$9.99
Average Non-Big Six Price					\$9.99

*The titles *The Help* and *___ My Dad Says* are long-term bestsellers. *The Help* first made the list in March 2009, *___ My Dad Says* in May 2010.


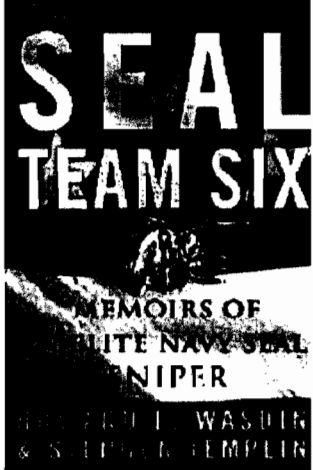
(c) The following are screen captures from the internet displaying examples of various price levels for the same titled physical books contained in ¶ 80(a):

BOOK	PRICE RANGES
	<p>67 total offers. Range: \$172.70. New hardcover edition.</p> <p>Low: \$14.95 New Seller: janet wolfe + \$3.00 shipping Seller Rating: 100% 94% positive over the past 12 months. (174 total ratings) In Stock. Ships from PA, United States. <u>Domestic shipping rates and return policy.</u></p> <p>Median: \$99.99 New Seller: Dexter's Book Cellar + \$3.50 shipping Seller Rating: 100% 33% positive over the past 12 months. (3 total ratings) In Stock. Ships from CT, United States. Expedited shipping available. <u>International & domestic shipping rates</u> and <u>return policy.</u></p> <p> First Printing. Signed boldly by the author directly to the title page. The book is fine in a fine dust jacket, which is no... » Read more</p> <p>High: \$187.65 New Seller: Origin + \$3.99 shipping Seller Rating: 100% 99% positive over the past 12 months. (250 total ratings) In Stock. Ships from NH, United States. <u>International & domestic shipping rates</u> and <u>return policy.</u></p> <p> NEW! The Greater Journey: Americans in Paris. Pages: 558. Good service!</p>
	<p>Total offers: 97. Range: \$26.94. New hardcover edition.</p> <p>Low: \$12.95 New Seller: THE BOOK SHACK + \$3.99 shipping Seller Rating: 100% 98% positive over the past 12 months. (7,262 total ratings) In Stock. Ships from PA, United States. <u>Domestic shipping rates and return policy.</u></p> <p> ITEM IS BRAND NEW. SHIPPING TIME CAN RANGE FROM 5 TO 14 DAYS. I STRIVE FOR 100% CUSTOMER SATISFACTION. IF YOU HAVE A PROBLEM ... » Read more</p>

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

BOOK	PRICE RANGES	
	<p>Median: \$26.31 + \$4.99 shipping</p> <p>High: \$39.89 + \$3.99 shipping</p>	<p>New Seller: squirreledawaybooks</p> <p>Seller Rating: 907745 98% positive over the past 12 months. (2,121 total ratings)</p> <p>In Stock. Ships from MI, United States. Expedited shipping available. International & domestic shipping rates and return policy.</p> <p>Email us for a photo! -- Binding: Hard Cover -- Book Condition: NEW -- Dust Jacket: NOT ISSUED -- Series: Southern Vampire My... » Read more</p> <p>New Seller: most_lovely_books</p> <p>Seller Rating: 907745 91% positive over the past 12 months. (43 total ratings)</p> <p>In Stock. Ships from WA, United States. Expedited shipping available. Domestic shipping rates and return policy.</p> <p>Brand New! In stock!</p>
	<p>Total Offers: 44. Range: \$18.04. New hardcover edition.</p> <p>Low: \$7.95 + \$1.99 shipping</p> <p>New Seller: cseereader</p> <p>Seller Rating: 907745 97% positive over the past 12 months. (53,971 total ratings)</p> <p>In Stock. Ships from GA, United States. Expedited shipping available. Domestic shipping rates and return policy.</p> <p>BRAND NEW FULL SIZE RETAIL EDITION - NOT A BOOK CLUB EDITION - BOOKSTORE QUALITY - EXCELLENT BUY!!!</p> <p>Median: \$16.58 + \$3.99 shipping</p> <p>New Seller: indoobestsellers</p> <p>Seller Rating: 907745 87% positive over the past 12 months. (118,999 total ratings)</p> <p>In Stock. Ships from NJ, United States. Domestic shipping rates and return policy.</p> <p>BRAND NEW!</p> <p>High: \$25.99 + \$3.99 shipping</p> <p>New Seller: powells_books</p> <p>Seller Rating: 907745 97% positive over the past 12 months. (341,466 total ratings)</p> <p>In Stock. Ships from OR, United States. Expedited shipping available. International & domestic shipping rates and return policy.</p> <p>Legendary independent book store online since 1994. Reliable customer service and no-hassle return policy.</p>	

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

BOOK	PRICE RANGES
	<p>Total offers: 58. Range: \$39.74. New hardcover edition.</p> <p>Low: \$10.25 New <small>+ \$3.99 shipping</small></p> <p>Seller: Anne Tracey Seller Rating: 98% positive over the past 12 months. (61 total ratings) In Stock. <u>Domestic shipping rates and return policy.</u> BRAND NEW AND IN PERFECT CONDITION</p> <p>Median: \$27.99 New <small>+ \$3.99 shipping</small></p> <p>Seller: powells_books Seller Rating: 97% positive over the past 12 months. (341,464 total ratings) In Stock. Ships from OR, United States. Expedited shipping available. <u>International & domestic shipping rates and return policy.</u> Legendary independent bookstore online since 1994. Reliable customer service and no-hassle return policy.</p> <p>High: \$49.99 New <small>+ \$3.99 shipping</small></p> <p>Seller: Kwik Ship Seller Rating: 99% positive over the past 12 months. (473 total ratings) In Stock. Ships from CA, United States. <u>Domestic shipping rates and return policy.</u> Amazon Inventory in that this item ships direct from Amazon Warehouse with a 100% money back guarantee from Kwik Ship for any... » Read more</p>
	<p>71 total offers. Range: \$19.97. New hardcover edition.</p> <p>Low: \$12.35 New <small>+ \$3.99 shipping</small></p> <p>Seller: cseereader Seller Rating: 97% positive over the past 12 months. (53,969 total ratings)</p> <p>In Stock. Ships from GA, United States. Expedited shipping available. <u>Domestic shipping rates and return policy.</u> BRAND NEW FULL SIZE RETAIL EDITION - NOT A BOOK CLUB EDITION - BOOKSTORE QUALITY - EXCELLENT BUY!!!</p> <p>Median:</p>

BOOK	PRICE RANGES	
	\$22.04 <small>+ \$3.99 shipping</small>	New Seller: AbeBooks Marketplace 2 Seller Rating: 94% positive over the past 12 months. (1,055 total ratings) In Stock. Expedited shipping available. <u>Domestic shipping rates and return policy.</u> This book is sold by Book Lovers USA, shipping from Woodstock, GA - Seller on AbeBooks Marketplace. Binding: HARDCOVER // The... Read more
	High: \$32.22 <small>+ \$3.99 shipping</small>	New Seller: charlestonsoon Seller Rating: 94% positive over the past 12 months. (9,005 total ratings) In Stock. Ships from SC, United States. <u>Domestic shipping rates and return policy.</u>

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

91. The simultaneous switch by the “Agency Five” publishers to the Agency model, timed with the release of the Apple iPad, has prompted antitrust scrutiny by several sovereigns.

92. In March 2011, European Union antitrust regulators, working closely with Britain’s Office of Fair Trading, made unannounced raids on several eBook publishers in several countries. According to the Associated Press, the European Commission had “reason to believe that the companies concerned may have violated EU antitrust rules that prohibit cartels and other restrictive business practices.”

93. According to industry newsletter *Publishers Lunch*, the Texas Attorney General has launched an inquiry that “appears to focus on pricing practices for eBooks and Apple’s entrance into the [e-book] market in particular.”

94. The Wall Street Journal reported that at least two major publishers, Hachette and HarperCollins, were under scrutiny by the Texas Attorney General.

95. Connecticut’s Attorney General has also launched an inquiry. After a preliminary review, Attorney General Richard Blumenthal commented, “These agreements among publishers, Amazon and Apple appear to have already resulted in uniform prices for many of the most popular eBooks – potentially depriving consumers of competitive prices.”

1 103. Under the Agency model, consumers purchase directly from the Publisher Defendants
2 a license for limited use (i.e., reading) of the eBook content. The Publisher Defendants do not sell
3 the “eBook” to Amazon or Apple, and these platforms (Apple and Amazon) do not hold title to
4 eBook content. Moreover, a physical product is not transferred from publisher to retailer or from
5 retailer to consumer. Rather, in the context of eBook “sales” under the Agency model, the Publisher
6 Defendants are selling access to the publishers’ copyrighted works directly to consumers.

7 104. Apple’s user agreement for its iBookstore expressly acknowledges that consumers
8 directly purchased from publishers under the “Agency model,” which it has forced on all other
9 distributors of eBooks. Specifically, Apple’s user agreement states as follows:

10 Apple is acting as agent for the Publisher in providing each such
11 iBookstore Product to you; Apple is not a party to the transaction
12 between you and the Publisher with respect to that iBookstore Product;
13 and the Publisher of each iBookstore Product reserves the right to
14 enforce the terms of use relating to that iBookstore Product. The
15 Publisher of each iBookstore Product is solely responsible for that
16 iBookstore Product, the content therein, any warranties to the extent
17 that such warranties have not been disclaimed, and any claims that you
18 or any other party may have relating to that iBookstore Product or your
19 use of that iBookstore Product.¹⁵

20 105. Amazon likewise makes clear in its terms and conditions that the publishers are the
21 entities who are selling use of the content to consumers:

22 For the purposes of this Agreement:

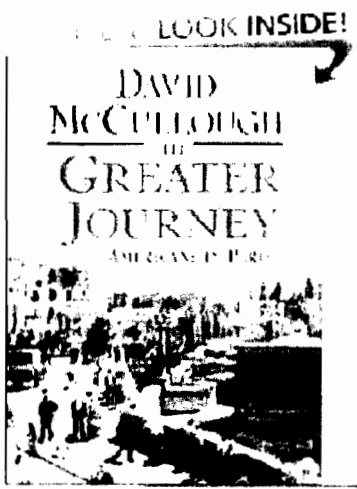
23 “Content Provider” means the party offering Digital Content in the
24 Kindle Store, which may be us or a third party; however, for Digital
25 Content designated as active content in the Kindle Store, “Content
26 Provider” means the publisher of the Digital Content.

27 **Use of Digital Content.** Upon your download of Digital Content and
28 payment of any applicable fees (including applicable taxes), the
Content Provider grants you a non-exclusive right to view, use, and
display such Digital Content an unlimited number of times, solely on
the Kindle or a Reading Application or as otherwise permitted as part
of the Service, solely on the number of Kindles or Other Devices
specified in the Kindle Store, and solely for your personal, non-
commercial use. Unless otherwise specified, Digital Content is
licensed, not sold, to you by the Content Provider. The Content
Provider may include additional terms for use within its Digital
Content. Those terms will also apply, but this Agreement will govern

¹⁵ Additional iBookstore Terms and Conditions; Purchase of iBookstore Products, <http://www.apple.com/legal/itunes/us/terms.html#APPS> (last visited Aug. 8, 2011).

1 in the event of a conflict. Some Digital Content, such as Periodicals,
2 may not be available to you through Reading Applications.¹⁶

3 106. When a consumer purchases an eBook for use on his or her Kindle or Kindle App,
4 Amazon displays that the price is set by the publisher if an agency agreement is in place. The
5 following screen captures demonstrate this and compares pricing between eBooks and physical
6 books:



11 kindle e33724

12 [Share your own customer images](#)

The Greater Journey [Kindle Edition]

David McCullough (Author)

5 star ratings (97 customer reviews) | Like (86)

Print List Price: **\$37.50**

Kindle Price: **\$19.99** includes free wireless delivery via
Amazon Whispernet

Our Price: **\$17.51 (47%)**

Sold by: Simon and Schuster Digital Sales Inc
This price was set by the publisher

- Text-to-Speech: Not enabled
- Don't have a Kindle? [Get your Kindle here.](#)

Format	Amazon Price	New from	Used from
Kindle Edition	--	\$19.99	--
+ Hardcover, Deckle Edge	\$20.85	\$14.95	\$19.84
+ Audio, CD, Audiobook, Unabridged	\$31.49	\$28.89	\$27.00
+ Audible Audio Edition, Unabridged	\$29.95	or Free (with eligible 30-day free trial)	
Show 3 more formats			

16 Kindle License Agreement and Terms of Use, http://www.amazon.com/gp/help/customer/display.html/ref=hp_rel_topic?ie=UTF8&nodeId=200506200 (last visited Aug. 8, 2011).

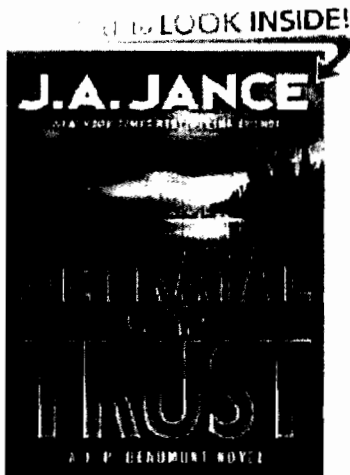


9 kindle edition



12 [See 1 customer image](#)

13 [Share your own customer images](#)



23 kindle edition

24 [Share your own customer images](#)

25

26

27

28

Dead Reckoning: A Sookie Stackhouse Novel [Kindle Edition]

Charlaine Harris (Author)

(687 customer reviews) | Like (486)

Kindle Price: **\$14.99** includes free wireless delivery via **Amazon Whispernet**

Sold by: Penguin Publishing

This price was set by the publisher

- Text-to-Speech: Enabled
- Don't have a Kindle? [Get your Kindle here.](#)

Format	Amazon Price	New from	Used from
Kindle Edition	--	\$14.99	--
Hardcover	\$16.65	\$12.95	\$12.94
Paperback	\$7.99	\$7.99	--
Audio, CD, Audiobook, Unabridged	\$23.09	\$16.35	\$19.75
Audible Audio Edition, Unabridged	\$23.95	or Free with Audible 30-day free trial	

[Show 3 more formats](#)

Betrayal of Trust: A J. P. Beaumont Novel [Kindle Edition]

J. A. Jance (Author)

(15 customer reviews) | Like (39)

Print List Price: ~~\$26.99~~

Kindle Price: **\$12.99** includes free wireless delivery via **Amazon Whispernet**

You Save: **\$13.00 (50%)**

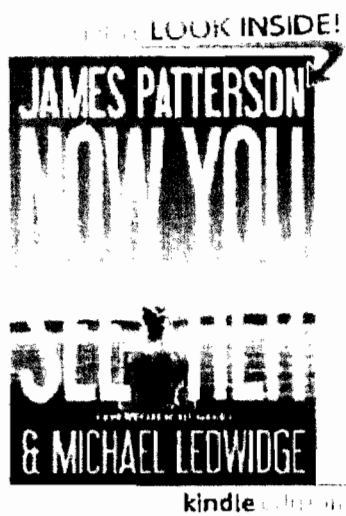
Sold by: HarperCollins Publishers

This price was set by the publisher

- Text-to-Speech: Enabled
- Don't have a Kindle? [Get your Kindle here.](#)

Format	Amazon Price	New from	Used from
Kindle Edition	--	\$12.99	--
Hardcover	\$16.92	\$7.95	\$7.50
Paperback, Large Print	\$16.37	\$15.20	\$15.43
Audio, CD, Audiobook, Unabridged	\$26.39	\$24.00	\$17.55
Audible Audio Edition, Unabridged	\$23.95	or Free with Audible 30-day free trial	

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28



[See all 2 customer images](#)
[Share your own customer images](#)

Now You See Her [Kindle Edition]

James Patterson (Author), Michael Ledwidge (Author)

12345678910111213141516171819202122232425262728
 (120 customer reviews) | Like (406)

Kindle List Price: ~~\$27.99~~

Kindle Price: **\$12.99** includes free wireless delivery via **Amazon Whispernet**

You Save: **\$15.00 (54%)**

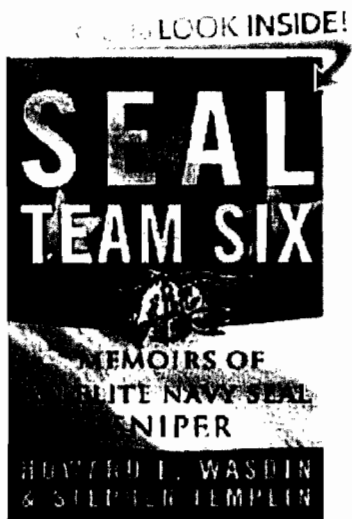
Sold by: Hachette Book Group

This price was set by the publisher

- Text-to-Speech: Not enabled
- Don't have a Kindle? [Get your Kindle here.](#)

Format	Amazon Price	New from	Used from
Kindle Edition	--	\$12.99	--
Hardcover	\$15.30	\$9.00	\$7.99
Paperback	\$10.19	\$10.19	--
Audio, CD, Audiobook	\$13.59	\$13.59	--
Audible Audio Edition, Unabridged	\$21.95	or Free with available 30-day free trial	

[Show 4 more formats](#)



kindle edition

SEAL Team Six: Memoirs of an Elite Navy SEAL Sniper [Kindle Edition]

Stephen Templin (Author), Howard E. Wasdin (Author)

View all reviews (142 customer reviews) | Like (100)

Print List Price: ~~\$26.99~~

Kindle Price: **\$12.99** includes free wireless delivery via **Amazon Whispernet**

You Save: **\$14.00 (52%)**

Sold by: Macmillan

This price was set by the publisher

- Text-to-Speech: Enabled
- Don't have a Kindle? [Get your Kindle here.](#)

Format	Amazon Price	New from	Used from
Kindle Edition	--	\$12.99	--
+ Hardcover	\$15.19	\$12.35	\$13.45
+ MP3 CD, Audiobook, Unabridged	\$19.77	\$16.57	\$18.00
Audible Audio Edition, Unabridged	\$16.95	or Free with Audible Sunday Free Trial	

[Show 5 more formats](#)

[Share your own customer images](#)

107. In addition, after purchasing an eBook from a publisher selling an eBook pursuant to the Agency model, the confirmation of sale shows that the publisher is the entity selling the eBook to the purchaser:

Order Summary:

Details:

Order #: D01-2220747-7578556
 Subtotal of items: \$11.99

 Total before tax: \$11.99
 Tax Collected: \$0.00

Total for this Order: \$11.99

The following item is auto-delivered to your Kindle or other device. You can view more information about this order by clicking on the title on the Manage Your Kindle page at Amazon.com.

The Next 100 Years: A Forecast for the 21st Century [Kindle Edition] \$11.99
 Sold By: Random House Digital, Inc.

1 108. Because “the price” that Plaintiffs and consumers “have paid directly is the one that
2 was unlawfully fixed,” *In re ATM Fee Antitrust Litig.*, No. C 04-02676, 2010 U.S. Dist. LEXIS
3 97009, at *24 (N.D. Cal. Sept. 16, 2010), Plaintiffs and eBook consumers are direct purchasers of
4 eBooks.

5 109. Because the simultaneous adoption of the Agency model represents a “conspiracy
6 among horizontal competitors at the retail level to fix retail prices,” the Supreme Court’s decision in
7 *Illinois Brick Co. v. Illinois*, 431 U.S. 720 (1977) “does not prevent this garden variety price-fixing
8 claim.” *State of Ariz. v. Shamrock Foods Co.*, 729 F.2d 1208, 1211 (9th Cir. 1984).

9 110. Plaintiffs sue on behalf of a class of persons pursuant to Federal Rule of Civil
10 Procedure 23 under federal law. The Federal Class consists of all persons in the United States who
11 purchased eBooks published by one of the Agency 5 directly from a Publisher Defendant after the
12 adoption of the Agency model by that publisher. Excluded from the Federal Class are Defendants,
13 their employees, co-conspirators, officers, directors, legal representatives, heirs, successors and
14 wholly or partly owned subsidiaries of affiliated companies.

15 111. The persons in the Class are so numerous that individual joinder of all members is
16 impracticable under the circumstances of this case. Although the precise number of such persons is
17 unknown, the exact size of the Class is easily ascertainable, as each Class member can be identified
18 by using Defendants’ records and/or the records of its distributors or retailers. Plaintiffs are
19 informed and believe that there are many thousands of Class members.

20 112. There are common questions of law and fact specific to the Class that predominate
21 over any questions affecting individual members, including:

22 (a) Whether Defendants unlawfully contracted, combined and conspired to
23 unreasonably restrain trade in violation of section 1 of the Sherman Act by agreeing to switch to the
24 Agency model of eBook pricing and by agreeing to restrict the price range of eBooks;

25 (b) Whether Defendants’ actions in entering the agency agreements alleged above
26 violated California law;

27 (c) Whether consumers and Class members have been damaged by Defendants’
28 conduct;

- 1 (d) Whether punitive damages are appropriate;
2 (e) Whether Defendants should disgorge unlawful profits;
3 (f) The amount of any damages; and
4 (g) The nature and scope of injunctive relief necessary to restore a competitive
5 market.

6 113. Plaintiffs' claims are typical of the Class' claims, as they arise out of the same course
7 of conduct and the same legal theories as the rest of the Class, and Plaintiffs challenge the practices
8 and course of conduct engaged in by Defendants with respect to the Class as a whole.

9 114. Plaintiffs will fairly and adequately protect the interests of the Class. Plaintiffs have
10 retained Class Counsel who are able and experienced class action litigators.

11 115. Resolution of this action on a class-wide basis is superior to other available methods
12 and is a fair and efficient adjudication of the controversy because in the context of this litigation, no
13 individual class member can justify the commitment of the large financial resources to vigorously
14 prosecute a lawsuit against Defendants. Separate actions by individual class members would also
15 create a risk of inconsistent or varying judgments, which could establish incompatible standards of
16 conduct for Defendants and substantially impede or impair the ability of Class Members to pursue
17 their claims. A class action also makes sense because Defendants have acted and refused to take
18 steps that are, upon information and belief, generally applicable to thousands of individuals, thereby
19 making injunctive relief appropriate with respect to the Class as a whole.

20 IX. NATIONWIDE CALIFORNIA LAW CLASS

21 116. Upon information and belief, the unlawful course of conduct alleged above was
22 created, adopted, ratified and/or implemented at the corporate headquarters of Apple located in
23 Cupertino, California and a substantial part of the anticompetitive conduct took place in California.

24 117. Communications between publishers were conducted utilizing Apple, a California
25 corporation, as an intermediary.

26 118. One of the chief architects of the unlawful conspiracy, Steve Jobs, is a resident of
27 California and the CEO of Apple computers.

1 119. Apple has acknowledged that California law applies to it nationwide with respect to
2 the sale and purchase of eBooks. Specifically, Apple’s iBookstore terms and condition provide that
3 “[a]ll transactions on the App and Book Services are governed by California law, without giving
4 effect to its conflict of law provisions.” Apple’s iBookstore terms and conditions also provide that
5 “any claim or dispute with Apple or relating in any way to your use of the App and Book Services
6 resides in the courts in the State of California.”

7 120. Plaintiffs sue on behalf of a nationwide California law class of persons pursuant to
8 Federal Rule of Civil Procedure 23. The California Law Class consists of all persons in the United
9 States who purchased eBooks published by one of the “Agency Five” publishers after the adoption of
10 the Agency Model by that publisher. Excluded from the California Law Class are Defendants, their
11 employees, co-conspirators, officers, directors, legal representatives, heirs, successors and wholly or
12 partly owned subsidiaries of affiliated companies.

13 **X. INDIRECT PURCHASER CLASS ACTION ALLEGATIONS**

14 121. In the event Plaintiffs are not a direct purchaser and the Court determines that
15 California law does not apply nationwide, Plaintiffs bring the following class allegations.

16 122. Plaintiffs also brings this action on their own behalf and as a class action pursuant to
17 Rule 23 of the Federal Rules of Civil Procedure and/or respective state statute(s), on behalf of all
18 members of the following classes (collectively, the “State Classes”) with respect to claims under the
19 antitrust statutes of each of the following jurisdictions:

- 20 (a) **Arizona**: All persons who purchased an eBook published by a Publisher
21 Defendant after the Agency model pricing was adopted.
- 22 (b) **California**: All persons who purchased an eBook published by a Publisher
23 Defendant after the Agency model pricing was adopted.
- 24 (c) **District of Columbia**: All persons who purchased an eBook published by a
25 Publisher Defendant after the Agency model pricing was adopted.
- 26 (d) **Florida**: All persons who purchase an eBook published by a Publisher
27 Defendant after the Agency model pricing was adopted.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

- (e) **Hawaii**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (f) **Illinois**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (g) **Iowa**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (h) **Kansas**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (i) **Maine**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (j) **Michigan**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (k) **Minnesota**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (l) **Mississippi**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (m) **Montana**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (n) **Nebraska**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (o) **Nevada**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (p) **New Hampshire**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (q) **New Mexico**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.
- (r) **New York**: All persons who purchased an eBook published by a Publisher Defendant after the Agency model pricing was adopted.

- 1 (s) **North Carolina**: All persons who purchased an eBook published by a
2 Publisher Defendant after the Agency model pricing was adopted.
- 3 (t) **North Dakota**: All persons who purchased an eBook published by a
4 Publisher Defendant after the Agency model pricing was adopted.
- 5 (u) **Oregon**: All persons who purchased an eBook published by a Publisher
6 Defendant after the Agency model pricing was adopted.
- 7 (v) **South Carolina**: All persons who purchased an eBook published by a
8 Publisher Defendant after the Agency model pricing was adopted.
- 9 (w) **South Dakota**: All persons who purchased an eBook published by a
10 Publisher Defendant after the Agency model pricing was adopted.
- 11 (x) **Tennessee**: All persons who purchased an eBook published by a Publisher
12 Defendant after the Agency model pricing was adopted.
- 13 (y) **Utah**: All persons who purchased an eBook published by a Publisher
14 Defendant after the Agency model pricing was adopted.
- 15 (z) **Vermont**: All persons who purchased an eBook published by a Publisher
16 Defendant after the Agency model pricing was adopted.
- 17 (aa) **West Virginia**: All persons who purchased an eBook published by a
18 Publisher Defendant after the Agency model pricing was adopted.
- 19 (bb) **Wisconsin**: All persons who purchased an eBook published by a Publisher
20 Defendant after the Agency model pricing was adopted.

21 **FIRST CAUSE OF ACTION**

22 **VIOLATION OF THE SHERMAN ACT**
23 **(15 U.S.C. § 1)**

24 123. Each of the foregoing allegations is incorporated in this claim for relief.

25 124. Plaintiffs do not believe it is necessary to prove a relevant market. To the extent one
26 is required, the relevant product market is eBooks.

27 125. To the extent required the relevant geographic market is the entire United States.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

THIRD CAUSE OF ACTION

**VIOLATIONS OF STATE ANTITRUST AND RESTRAINT OF TRADE LAWS AND
CONSUMER PROTECTION STATUTES**

133. Plaintiffs incorporate by reference the allegations in the above paragraphs as if fully set forth herein.

134. For each of the states set forth below, a significant volume of intrastate commerce was impacted by Defendants' illegal conduct as alleged above. That is, purchases of eBooks occurred in each of the states at supra-competitive prices due to Defendants' illegal conduct.

135. By reason of the foregoing, Defendants have violated Arizona Revised Statutes, §§ 44-1401, *et seq.*

136. By reason of the foregoing, Defendants have violated California Business and Professions Code, §§ 16700, *et seq.*

137. By reason of the foregoing, Defendants have violated District of Columbia Code Annotated §§ 28-4501, *et seq.*

138. By reason of the foregoing, Defendants have violated the Florida Deceptive and Unfair Trade Practices Act, Fla. Stat. §§ 501.201, *et seq.*

139. By reason of the foregoing, Defendants have violated Hawaii Revised Statutes Annotated §§ 480-1, *et seq.*

140. By reason of the foregoing, Defendants have violated the Illinois Antitrust Act, Illinois Compiled Statutes, §§ 740 Ill. Comp. Stat. 10/1, *et seq.*

141. By reason of the foregoing, Defendants have violated Iowa Code §§ 553.1, *et seq.*

142. By reason of the foregoing, Defendants have violated Kansas Statutes Annotated, §§ 50-101, *et seq.*

143. By reason of the foregoing, Defendants have violated the Maine Revised Statutes, 10 M.R.S. §§ 1101, *et seq.*

144. By reason of the foregoing, Defendants have violated Michigan Compiled Laws Annotated §§ 445.773, *et seq.*

1 145. By reason of the foregoing, Defendants have violated Minnesota Annotated Statutes
2 §§ 325D.49, *et seq.*

3 146. By reason of the foregoing, Defendants have violated Mississippi Code Annotated
4 §§ 75-21-1, *et seq.*

5 147. By reason of the foregoing, Defendants have violated Montana's Unfair Trade
6 Practices and Consumer Protection Act of 1970, Mont. Code, §§ 30-14-103, *et seq.*

7 148. By reason of the foregoing, Defendants have violated Nebraska Revised Statutes
8 §§ 59-801, *et seq.*

9 149. By reason of the foregoing, Defendants have violated Nevada Revised Statutes
10 Annotated §§ 598A.010, *et seq.*

11 150. By reason of the foregoing, Defendants have violated New Mexico Statutes
12 Annotated §§ 57-1-1, *et seq.*

13 151. By reason of the foregoing, Defendants have violated New Hampshire Revised
14 Statutes §§ 356:1, *et seq.*

15 152. By reason of the foregoing, Defendants have violated New York General Business
16 Laws §§ 340, *et seq.*

17 153. By reason of the foregoing, Defendants have violated North Carolina General Statutes
18 §§ 75-1, *et seq.*

19 154. By reason of the foregoing, Defendants have violated North Dakota Century Code
20 §§ 51-08.1-01, *et seq.*

21 155. By reason of the foregoing, Defendants have violated Oregon Revised Statutes
22 §§ 646.705, *et seq.*

23 156. By reason of the foregoing, Defendants have violated South Carolina's Unfair Trade
24 Practices Act, S.C. Code Ann. §§ 39-5-10, *et seq.*

25 157. By reason of the foregoing, Defendants have violated South Dakota Codified Laws
26 §§ 37-1-3.1, *et seq.*

27 158. By reason of the foregoing, Defendants have violated Tennessee Code Annotated
28 §§ 47-25-101, *et seq.*

1 J. All other relief to which Plaintiffs and members of the Class may be entitled at law or
2 in equity.

3 DATED: August 18, 2011

HAGENS BERMAN SOBOL SHAPIRO LLP

4
5 By  _____
JEFF D. FRIEDMAN

6 Shana E. Scarlett (217895)
7 HAGENS BERMAN SOBOL SHAPIRO LLP
8 715 Hearst Avenue, Suite 202
9 Berkeley, CA 94710
Telephone: (510) 725-3000
Facsimile: (510) 725-3001
jefff@hbsslaw.com
shanas@hbsslaw.com

10
11 Steve W. Berman
12 HAGENS BERMAN SOBOL SHAPIRO LLP
13 1918 Eighth Avenue, Suite 3300
Seattle, WA 98101
Telephone: (206) 623-7292
Facsimile: (206) 623-0594
steve@hbsslaw.com

14
15 Stuart M. Paynter (226147)
16 THE PAYNTER LAW FIRM PLLC
17 1200 G Street N.W., Suite 800
Washington, DC 20005
Telephone: (202) 626-4486
Facsimile: (866) 734-0622
stuart@smplegal.com

18 Attorneys for Plaintiffs
19
20
21
22
23
24
25
26
27
28