

# SOOD EXHIBIT E

**The New York Times**  
Reprints

This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your colleagues, clients or customers [here](#) or use the "Reprints" tool that appears next to any article. Visit [www.nytreprints.com](http://www.nytreprints.com) for samples and additional information. [Order a reprint of this article now.](#)



September 25, 2011

# Amazon Has High Hopes for Its iPad Competitor

By **DAVID STREITFELD**

SAN FRANCISCO — One after another, like moths to a flame, technology companies have been seduced into entering the market for tablets. [Apple](#) made it look so irresistible, with 29 million eager and sometimes fanatical consumers snapping up an [iPad](#) in the device's first 15 months.

But neither Samsung nor Motorola nor Acer could beg or borrow any of Apple's magic. Research in Motion, the maker of the BlackBerry, said it shipped only 200,000 of its PlayBooks in three months — about what Apple sells in three days. Hewlett-Packard, which flopped this summer with the TouchPad, was the latest to get burned.

Now comes a final competitor, the best-placed challenger of all: [Amazon.com](#). The retailer is on the verge of introducing its own tablet, analysts predict, a souped-up color version of its [Kindle](#) e-reader that will undercut the iPad in price and aim to steal away a couple of million in unit sales by Christmas.

A competition between [Amazon](#) and Apple tablets will be a battle that pits the company that created the first popular e-reader (and set off a still-unfolding revolution in how books are consumed) against the company that created the first popular tablet (and set off a revolution in progress about how entertainment and other media are consumed).

Both companies are riding high, racking up record revenues and seeing their stock market valuations cruise to new peaks. Each has ample resources to enjoy a pitched struggle for people's attention and their wallets.

Whichever company triumphs, said the Barclays analyst Anthony DiClemente, "the consumer is going to be the winner."

"The fact that Amazon is making such a huge investment might make Apple come back into the market at a lower price point," he suggested. "What's to prevent them from slimming down the iPad?"

Most tech companies like to keep their cards close to their vests, but Amazon, like Apple, strives to render the whole deck invisible. It has, though, scheduled a news conference in Manhattan on Wednesday, and the speculation on technology blogs and among analysts is that the tablet will be unveiled.

The original Kindle was not introduced until Nov. 19, 2007, which was rather late in the holiday season. It immediately went out of stock for five months. Amazon perhaps is learning from its mistakes.

The Amazon tablet, analysts believe, will most likely sell for about \$250, half the price of the basic iPad. Its screen will be seven inches as opposed to the iPad's 10 inches. Unlike the current Kindle but like the iPad and iPhone, it will operate by touch. A second tablet, with a bigger screen, is expected next year.

The competition will be asymmetrical. Apple sells movies, music and books in order to sell devices. Amazon sells devices in order to sell books, movies and music. Apple has never faced an opponent with such a vastly different strategy. Apple declined to comment on its strategy against Amazon.

Few if any analysts expect Apple to seriously stumble, but that is not to say it will emerge unscathed. The Amazon tablet might be underpowered when set against the iPad, a Corolla to Apple's Lexus, but that might not matter.

"The No. 1 thing consumers do on tablets is e-mail," said Sarah Rotman Epps, a Forrester analyst. "The No. 2 thing is look up stuff on the Web. Then playing games and watching video. Amazon will offer all the tablet that many consumers need." She estimated initial sales of as many as five million devices.

Amazon's willingness to sell the Kindle e-reader at a loss — it dropped to \$114 from \$399 in less than four years — will doubtless be duplicated with its tablets. By concentrating on direct sales from its own Web site, Amazon does not have to share margins with another store.

All that makes Amazon "a nasty competitor," Ms. Epps wrote in a recent report, and leaves Apple vulnerable among those who want a tablet solely for entertainment and not for professional uses. Since that is about two-thirds of tablet users, Apple's product strategists will finally have to take a competitor seriously, she concluded.

Apple is not the only vulnerable one. The Amazon tablet will sell for the same price and offer many of the same things as Barnes & Noble's successful color Nook e-reader. The once-

mighty book retailer is staking its future on making the transformation to digital; otherwise it will end up like its one-time competitor Borders, now vanquished.

Amazon has 52 percent of the e-reader market against 21 percent for Barnes & Noble, according to the data firm IDC. A small harbinger of the cutthroat struggle between the two booksellers came this summer in the unlikely form of a best-selling German historical novel, "The Hangman's Daughter" by Oliver Potzsch.

Amazon bought the rights to the book and had it translated. Aggressive marketing on Amazon's site and a low price resulted in sales of over 200,000 electronic copies. That was enough to entice Houghton Mifflin Harcourt to pick up the rights to republish it in paperback. But since the electronic version was available only from Amazon, Barnes & Noble declined to promote the physical book in its stores.

Barnes and Noble's chief executive, William Lynch, warned publishers and agents that any deals they struck with Amazon that excluded Barnes & Noble from offering a book in all formats would incur the chain's disapproval. Such disputes, which spur market fragmentation and consumer confusion, are likely to become more common as the tablet wars intensify and Amazon tries to achieve what analysts call lock-in, where all transactions flow back to the company.

The classic lock-in company was AOL in the early years of the Web: Subscribers dialed in to its site and then never left. It made AOL rich and powerful until the rest of the Internet became more enticing and subscribers left. AOL never recovered.

In Amazon's case, it has spent the last few years developing a vast buffet of electronic books, music and video capable of being delivered in an instant. The tablet is meant to hasten their consumption.

"Lock-in is the holy grail of a tech company, but it's difficult to keep up," said Bill Rosenblatt of Giant Steps Media Technology Strategies. "Amazon has already achieved dominance with e-books, but finding a niche with its tablet to boost all of its content services is going to be a challenge."

Mr. Rosenblatt's prediction: "I don't think it's going to be a stiff," like the H.P. TouchPad, "but its success will be moderate."

The stereotypical image of the Amazon user involves someone sitting in an office, stealing a few moments from his employer to order a new best seller. It is a desk-bound activity. But that is changing.

Sam Hall, Amazon's director of wireless products and services, talks about the company's move into mobile devices as liberating the consumer from the constraints of the personal computer. The limits on shopping will fall away.

"We're trying to remove the barrier between 'I want that' and 'I have it,' " Mr. Hall said in a recent interview.

One thing that may hold back the first version of the tablet is the smaller screen. Steven P. Jobs, then chief executive of Apple, said last year that it would never make a device that size "because we think the screen is too small to express the software."

Apple also has a lead in design that will be tough to surmount. People want to own its products because they are so good-looking. On the basis of the first Kindle, which critics often compare to an oversize calculator, Amazon has some catching up to do.

Mr. DiClemente, the Barclays analyst, is another Amazon skeptic. He thinks it will sell two million units this year. "The great thing about the Kindle is that it was really the first e-reader," he said. "With the tablet, Amazon is a follower. That's never as good."