



S I M O N & S C H U S T E R

Carolyn K. Reidy
President &
Chief Executive Officer

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Dear Colleague,

At the end of what has undoubtedly been a tough year in our business, one during which we have felt the direct, ongoing effects of the economic collapse of 2008 while our industry was confronting a multitude of complex long-term issues, I am pleased to pause and reflect on our successes the last twelve months. We are at a defining moment—in our industry and at Simon & Schuster—and I'm proud of the ways in which we have together addressed the challenges we have faced. Those challenges are ongoing, and as recent events and the accompanying news stories have shown, we have every reason to expect that this coming year will bring its own set of difficulties for us to face.

But as consumers are overwhelmed by an onslaught of information and media, and faced with a bewildering array of possibilities for purchasing books, those publishers who provide quality books for readers—and we now have an unprecedented ability to reach millions of readers—will play an even more essential role in our culture. While the road ahead for book publishers (as well as for newspapers, magazines, and every other content medium) will no doubt be difficult, and the rate of change greater than at any time in history, our future is limited only by the resolve we bring to the task, the imagination we apply to the art, and the skill that we bring to the science of publishing.

I am confident that the culture we have created at Simon & Schuster makes us ideally suited to meet the challenges we face. We have always prided ourselves on the expertise with which we acquire and publish the books that readers want; on a flexible approach that allows us to quickly adapt to current conditions; on the speed with which we are able to bring our books to market; on our willingness to do the right thing for our business no matter how difficult; on the relentless drive with which we pursue every possible opportunity for sales, both for individual books and through larger publishing and marketing programs; and on our readiness to focus and get the hard work done.

In 2009 those qualities were as evident as ever.

The U.S. bookselling marketplace has been truly lackluster, and year-on-year sales at most of our major customers have declined significantly. Books from many of our continuing authors, as well as our higher-margin backlist, are selling at levels well below their peak. As in years past, we capitalized on our industry-leading ability to publish quickly, adding titles to our lists and seizing publishing opportunities based on current events and trends. But ultimately, despite great growth in our conservative and teen publishing, and strong performances from our UK and Canadian divisions, the lower sales volume attributable to the soft marketplace was impossible for us to overcome.

But what's been encouraging to me is how you have responded to these circumstances. Anticipating that the bookselling climate might not recover at any point this year, we were

determined to operate and publish with the utmost fiscal discipline from beginning to end, and I have been heartened by the seriousness with which each and every one of you treated our company-wide cost-savings efforts. Time and again, we sought your input, ideas, and cooperation, and time and again, you helped us to find new ways we could tighten our belts.

Against such a background, our accomplishments this year stand taller. Despite the marketplace, in the critical measure of how we fare against the competition we are excelling, as we customarily do, with 164 *New York Times* bestsellers, and 25 #1 bestsellers, maintaining our market share at the top of the lists.

We have had a slew of year-end “best of” citations, awards, and nominations that point to the vitality of our publishing efforts, including:

- Three books—HALF BROKE HORSES by Jeannette Walls, A SHORT HISTORY OF WOMEN by Kate Walbert, and RAYMOND CARVER: A WRITER’S LIFE by Carol Sklenicka, all published by Scribner—were selected for *the New York Times Book Review’s* list of the 10 Best Books of 2009.
- Also at the *Times Book Review*, we had 12 of the “100 Notable Books of 2009” cited by the editors, and the Children’s Division claimed 4 out of 10 of the TBR’s “Best Illustrated Books of 2009.”
- HORSE SOLDIERS by Doug Stanton and ALL THE WORLD by Liz Garton Scanlon were selected by *Publishers Weekly* as among the best books of the year.
- In Audio, we have two 2010 Grammy Award finalists: WE CAN HAVE PEACE IN THE HOLY LAND by Jimmy Carter and WISHFUL DRINKING by Carrie Fisher, and earlier in the year Al Gore’s AN INCONVENIENT TRUTH won the 2009 Grammy.

And we continue to refine our publishing organization in response to marketplace realities, with the creation of the Gallery Books imprint and the changes at Howard Books, including a new publishing and editorial team and Howard’s relocation to Nashville, where they can benefit from proximity to a thriving Christian publishing community.

In January, the launch of www.simonandschuster.com set a new standard for a publisher’s ability to highlight and showcase authors. The opportunities offered to us by digital technologies have enormous appeal, be it prospects for more efficient distribution, the ability to capture a sale on a 24/7/365 basis, new and intriguing ways to find consumers and engage them with our books and authors, and new formats, hybrids, and business models. In 2009 we pursued these possibilities with ever more vigor, determined to take advantage of our ability to reach readers and make our books and authors ever present wherever and however consumers are getting their information. Among our innovations, we:

- Created Apps for the iPhone and iPod touch based on historical publishing strengths, like 365 CROSSWORDS, THE KLINGON LANGUAGE SUITE, Pimsleur’s P2Go series, and new bestsellers like the Bro2Go app.
- Launched the Pulselt site for teens, combining pre-publication reads with advanced social networking capabilities that allow teens to share their interests and enthusiasms with peers.

- Made syndication arrangements to bring videos of S&S authors to some of the largest video sites on the web, including YouTube and MySpace, and also syndicated short excerpts of nonfiction titles to high profile websites like MSN and eHarmony, resulting in hundreds of thousands of page views while increasing the traffic at our own sites.
- Pioneered the Vook, a new hybrid text and video format.
- At the www.askdoctoroz.com site we became the first trade publisher to offer consumers the opportunity to purchase individual eChapters of books.
- Started Galley Grab, our internally conceived and executed electronic galley program.

These accomplishments make evident that we are learning how to extend our proven ability to find and attract readers in the digital world. The opportunities afforded us by digital publishing are not without risk. We must do everything in our power to uphold the value of our content against the downward pressures exerted by the marketplace and the perception that “digital” means “cheap.” We must work to defend the livelihoods of our authors at a time when instantaneous file transfer makes piracy easier than ever, and in a world in which many consider copyright irrelevant. Because we have feet in two worlds, we must establish the right balance of attention and investment between traditional publishing, which still represents the vast majority of our revenues, and the digital publishing marketplace, which is clearly poised to take off and is essential for our future.

These challenges will play out on all fronts in our business, from our interaction with authors and customers to how we acquire, produce, market, and distribute our books, and sometimes subjected to the scrutiny of the media and the blogosphere. The importance of making the right decisions has never been greater, and I have every confidence that we will continue to employ our publishing expertise and culture of innovation to keep Simon & Schuster on the path to a prosperous future in a new age of publishing.

I'd like to thank each of you for all that you have contributed to our success in 2009, and offer my very best and warmest wishes to you and your loved ones for a happy, healthy holiday season. I hope you can take this opportunity to get some well-deserved rest so that together we can bring our considerable energies to the best publishing yet produced by all the imprints of Simon & Schuster in 2010, even as we adjust to and tackle the new dimensions of our business, and may the New Year bring you and yours all the best.

