

**RANDOM HOUSE, INC.**  
**2008 DISTRIBUTOR EFFICIENCY PROGRAM (DEP) &**  
**2008 ADULT FREEDOM INCENTIVE PLAN**

There are 2 options for Adult Mass Market incentive earnings for Mass Merchandise Distributors. Distributors who service the Mass Merchandiser Market that elect to participate in the Freedom Incentive Plan for Adult product (see Appendix B) must do so by 1/15/08.

Otherwise, the account will be put on the **DEP**.

**RH ADULT & RH CHILDREN'S DEP PLANS:**

1. All Mass Market (MM) & Digest (DG) title purchases (except select product types – contact your rep for details) will participate in the plans to receive additional discount.
2. All MM & DG units (including those product types that are excluded for additional discount) will participate for sell-through calculations.
3. There will be separate sell-through % calculations for:
  - RH ADULT PLAN [includes Bantam Dell, Ballantine, Vintage/Anchor, and MM client publications. New lines that are added throughout the year will earn an incentive at whatever qualifying level is achieved with Bantam Dell, Ballantine, Vintage/Anchor, and MM client publications].
  - RH CHILDREN'S BOOKS PLAN (includes BFYR & Disney)
4. Business blends are required. The "business blend" is defined as the breakdown of an account's net sales among the Mass Merchandiser, Bookstore, and Education & Library markets. There will be an audit and update of the business blends each year in October to be applied to the following fiscal year.
5. Efficiency incentives are paid in the form of credits issued annually, and are calculated on net dollar billing at retail.
6. Eligibility to earn the efficiency discount is contingent on calendar year 2009 first-quarter unit returns not exceeding 35% of the total calendar year 2008 returns. **In addition, an account must be in good credit standing with Random House, Inc.,** and customers cannot deduct any estimated or anticipated incentive claim prior to the actual incentive credit being issued by RH, Inc.
7. The distributor must notify Random House in writing by January 15, 2008 of any changes in the percentage of its net MM business in the mass merchandise market in which in-store service is performed. Random House reserves the right to not pay any incentive on its business in accounts where in-store service is not provided.

**Returns Efficiency Component**

These grids calculate the discount incentive that a distributor can earn at various sell-through levels. The discount earned according to these grids will be adjusted by the distributor's payment efficiency as indicated on the grid at the bottom of the page.

**FOR ALL PARTICIPATING MASS MARKET & DIGEST BOOKS FOR RH, INC.**

**Portion of Distributor's Business Servicing the Mass Merchandiser Market:**

Sell-Through	60% +	56% - 59.9%	53% - 55.9%	50.0% - 52.9%
Incentive	4.00%	3.00%	2.00%	1.00%

**Portion of Distributor's Business Servicing the Bookstore Market:**

Sell-Through	80% +	71% - 79.9%
Incentive	2.00%	1.00%

**Portion of Distributor's Business Servicing the Education & Library Market:**

Sell-Through	85% +	80.0% - 84.9%	76.0% - 79.9%	71.0% - 75.9%
Incentive	4.00%	3.00%	2.00%	1.00%

**Payment Efficiency Component**

This grid calculates the adjustment made to a distributor's earned efficiency incentive based on payment efficiency. All divisions combine when determining an account's payment efficiency. For example, if an account is delinquent for 2 months for Bantam Dell Ballantine, but prompt every month for Children's, they will only receive 83% of ALL incentives earned for both divisions.

Months Prompt Payment	DEP Incentive Payout
12 out of 12	100%
11 out of 12	92%
10 out of 12	83%
9 out of 12	75%
8 out of 12	67%
7 out of 12	58%
6 out of 12	50%
5 out of 12	42%
4 out of 12	33%
3 out of 12	25%
2 out of 12	17%
1 out of 12	8%
0 out of 12	0%

## RANDOM HOUSE, INC.

**2008 ADULT FREEDOM INCENTIVE PLAN FOR MASS MERCHANDISE DISTRIBUTORS****FREEDOM PLAN QUALIFICATION:**

All mass merchandise distributor companies can qualify for the plan provided they meet the conditions below:

1. All new title orders for all formats must be submitted to RH by the established due dates (see following page for dates).
2. The RH frontlist and backlist must receive the appropriate support in the designated retail outlets, as merited by history, sale trends, and marketplace opportunities.
3. Hot-selling titles are to be replenished in the key retail accounts.
4. The account must be in good credit standing with RH. Accounts deemed not in good credit standing by the Random House credit department forfeit any and all rights to incentives earned as a result of this program.
5. Operations: The mass merchandise distributor is fully responsible for performing the necessary operational functions whether they are performed by the payer of record to RH and/or contracted out to a third party. This includes: making our product store-ready, meeting street dates, access to distributor templates, reorder replenishment, proper merchandising and product presentation. Title inventory information must also be made available upon request or via a direct feed.

**SECTION I:** Each mass merchandise distributor elects to participate in one of two offerings: a) bestseller positioning or b) sales efficiency. The qualifying discounts earned are paid on all mass market business from Random House. For either option, a quarterly payment of 2% of mass market net billings at retail will be paid provided that all qualifications are met and the mass merchandise distributor is keeping pace to earn additional incentives on either option. If the mass merchandise distributor falls below a pace to achieve a minimum of a 25% market share on the bestseller positioning plan or a 55% sales pace on the efficiency plan, RH will disqualify the mass merchandise distributor from the 2% quarterly incentive and charge back for any quarterly payments previously issued.

- a. **Mass Market Bestseller Positioning:** Based upon either a top 15 or top 20 monthly bestseller list determined and compiled by the mass merchandise distributor, the respective discounts will be paid at the close of the year, in addition to the quarterly 2% incentive advance, based upon the number of RH bestsellers in either the top 15 or top 20. There will be no more than 12 titles designated during the year for placement within a specified bestseller range (i.e., must be in top 5 or top 10). The qualifying months for bestseller listings are February, 2008 through January, 2009. The payment scale is as follows below:

<u>Number of Bestseller Titles</u>		
<u>Top 15</u>	<u>Top 20</u>	<u>Payment</u>
45	60	2.0%
46-47	61-62	2.1%
48-49	63-65	2.2%
50-51	66-67	2.3%
52-53	68-70	2.4%
54	71-72	2.5%
55-56	73-74	2.6%
57-58	75-77	2.7%
59-60	78-80	2.8%
61-62	81-83	2.9%
63	84	3.0%

- b. **Sales Efficiency:** Based upon the actual sales percentage in mass market units, the respective discounts will be paid at the close of the year in addition to the 2% quarterly incentive advance.

<u>Sell-Through %</u>	<u>Incentive</u>
60	1.0%
61	1.5%
63	2.0%
64	2.5%
65	3.0%

**SECTION II: The Backlist**

- a. All Louis L'Amour will bill at a base 52% discount beginning on January 2nd, 2008 and will also qualify for additional incentives under Section I.
- b. A mass merchandise distributor may earn 15 cents per unit ordered on selected major backlist authors to be announced. The qualifying orders are for planogram and major author distributions. Major author backlist that is value priced would not be eligible for this incremental incentive. It should be noted that some authors may only be eligible for designated periods of time while others may qualify for the entire year. Random House may add to or amend this list at any time. This backlist portion will also qualify for payments under Section I.

The following conditions can affect the incentive payment:

- Random House reserves the right to not pay incentive on its business in accounts where in-store service is not provided.
- For each late monthly payment to RH, there will be a 1/12 deduction in the incentive pay-out. No incentive deductions can be taken at any time.

## RANDOM HOUSE DISTRIBUTOR ORDER DUE DATES FOR 2008

On-Sale	Order Due Dates
12/26/07	10/05/07
01/29/08	11/07/07
02/26/08	12/05/07
03/25/08	01/09/08
04/29/08	02/06/08
05/27/08	03/05/08
06/24/08	04/02/08
07/29/08	05/07/08
08/26/08	06/04/08
09/30/08	07/02/08
10/28/08	08/06/08
11/25/08	09/03/08
12/30/07	10/08/08