

PUBLICAFFAIRS

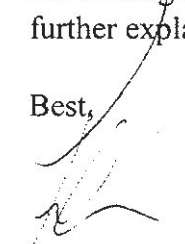
December 14, 1998

To our investors:

We are enclosing the final projections for PublicAffairs for 1998 and our budget for 1999. Also for your information, we have included the numbers for the consolidated Perseus Books Group. We have increased our projection for sales next year by about \$1 million over our original business plan. This number is based on the books we will publish in 1999 and a higher rate of returns than in the initial plan, using the now accepted industry average figure of about 30 percent.

Also included is an audio-tape of interviews with authors on the spring list to supplement the catalogue which you were sent last week. Please let me know if any of this needs further explanation.

Best,



Peter Osnos

1999 BUDGET
PublicAffairs, L.L.C

PERSEUS BOOKS GROUP
1999 Budget vs 1998 Forecast
Income Statement For the Twelve Months Ended December 31

CONSOLIDATED

	1999 Budget	% to Net Sales	1998 Forecast	% to Net Sales	Budget B(W) Forecast	% B(W)
Revenues						
Gross Sales	\$ 68,412	100%	\$ 55,466	100%	\$ 12,946	23%
Returns	(19,804)	-29%	(16,213)	-29%	(3,591)	-22%
Sales allowances	(301)	0%	(82)	0%	(219)	-267%
Net Sales - Books	48,307	100%	39,171	100%	9,136	23%
Other Publishing Income	2,002	4%	1,473	4%	529	36%
Total Revenues	50,309	104%	40,644	104%	9,665	24%
Cost of Goods Sold						
Plant	2,615	5%	1,920	5%	(695)	-36%
PP&B	9,219	19%	6,735	17%	(2,484)	-37%
Royalty	8,318	17%	6,658	17%	(1,660)	-25%
Revaluations	2,917	6%	1,965	5%	(952)	-48%
Total Cost of Goods Sold	23,069	48%	17,278	44%	(5,791)	-34%
Departmental Expenses	3,205	7%	4,604	12%	1,399	30%
Editorial	2,327	5%	1,877	5%	(450)	-24%
Production	1,149	2%	1,165	3%	16	1%
Advertising and Marketing	5,666	12%	4,722	12%	(944)	-20%
Operating Expenses	12,347	26%	12,368	32%	21	0%
Direct Contribution	14,893	31%	10,998	28%	3,895	35%
Sales & Distribution	5,915	12%	7,087	18%	1,172	17%
Central Services - unallocated	1,083	2%	1,203	3%	120	10%
Central Services	3,502	7%	1,703	4%	(1,799)	-106%
EBITDA	\$ 4,393	9%	\$ 1,005	3%	\$ 3,388	
Goodwill amortization	400	1%	296	1%	(104)	-35%
Depreciation	361	1%	182	0%	(179)	-98%
Taxes	200	0%	120	0%	(80)	
Interest Expense	1,644	3%	1,484	4%	(160)	-11%
Net Income	\$ 1,788	4%	\$ (1,077)	-3%	\$ 2,865	266%

PUBLIC AFFAIRS
INCOME STATEMENT
FULL YEAR 1998

PUBLIC AFFAIRS	Full Year 98		Full Year 98		ACTUAL B/(W)	
	Q6 FORECAST	% to Net Sales	BUDGET	% to Net Sales	BUDGET	% B/(W)
REVENUES						
GROSS SALES	\$ 6,522	100%	\$ 1,824	100%	\$ 4,698	100%
RETURNS	(2,125)	-33%	(547)	-30%	(1,578)	-288%
SALES ALLOWANCES	0	0%	0	0%	0	
NET SALES	4,397	100%	1,277	100%	3,120	100%
OTHER PUBLISHING INCOME	75	2%	20	2%	55	275%
REVENUES	4,472	102%	1,297	102%	3,175	
COST OF GOODS SOLD						
PAPER, PRINTING & BINDING	663	15%	183	14%	(480)	-262%
ROYALTIES	866	20%	172	13%	(694)	-403%
PLANT	118	3%	100	8%	(18)	-18%
REVALUATIONS	285	6%	56	4%	(229)	-409%
REMAINDER (NET)	0		0		0	
TOTAL COST OF GOODS SOLD	1,932	44%	511	40%	(1,421)	-278%
GROSS PROFIT	1,914	44%	786	62%	1,128	144%
DIRECT EXPENSES		0%		0%		
Dept. Gen, Editorial, & Marketing Ovhd	758	17%	804	63%	46	6%
		0%		0%		
Marketing & Publicity	335	8%	490	38%	155	-32%
TOTAL	1,093	25%	1,294	101%	201	
DIRECT CONTRIBUTION	1,447	33%	(508)	-40%	1,955	
CENTRAL SERVICES/MANAGEMENT FEES	131	3%	127	10%	(4)	-3%
DISTRIBUTION FEES - REGULAR	884	20%	192	15%	(692)	
DISTRIBUTION FEES - EXTRAORDINARY	535	12%	0	0%	(535)	-24%
EBITDA	\$ (103)	-2%	\$ (827)	-65%	\$ 724	
Depreciation/Amortization/Interest/Taxes	33	1%	0	0%	(33)	
NET INCOME	\$ (136)	-3%	\$ (827)	-65%	\$ 691	

PERSEUS BOOKS GROUP
1999 Budget vs 1998 Forecast
Income Statement For the Twelve Months Ended December 31

PUBLICAFFAIRS

	1999 Budget	% to Net Sales	1998 Forecast	% to Net Sales	Budget B(W) Forecast	% B(W)
Revenues						
Gross Sales	6,146	100%	\$ 6,522	100%	\$ (376)	-6% <u>Blind Man's Bluff</u> & two Starr books in 1998
Returns	(1,991)	-32%	(2,125)	-33%	134	6% Higher rate in 1998 based on anticipated 50% returns of <u>Starr Evidence</u>
Sales allowances	(12)	0%	-	0%	(12)	
Net Sales - Books	4,143	100%	4,397	100%	(254)	-6%
Other Publishing Income	487	12%	75	2%	412	549% Foreign rights on <u>The Crisis of Global Capitalism</u> & reprint rights on <u>Blind Man's Bluff</u> to be recorded in 1999
Total Revenues	4,630	112%	4,472	102%	158	4%
Cost of Goods Sold						
Plant	174	4%	118	3%	(56)	-47% Increase in new titles in 1999
PP&B	704	17%	663	15%	(41)	-6% Lower rate in 1998 due to effect of two Starr books
Royalty	985	24%	866	20%	(119)	-14% Lower rate in 1998 due to effect of two Starr books
Revaluations	279	7%	285	6%	6	2% 1998 includes \$130 of Starr book inventory destruction
Total Cost of Goods Sold	2,142	52%	1,932	44%	(210)	-11%
Departmental Expenses	648	16%	758	17%	110	15% Realignment of departments to correspond Perseus group accounting
Editorial	99	2%	-	0%	(99)	-100% classifications combined with the full year effect of staffing &
Production	120	3%	-	0%	(120)	-100% salary increases in 1999
Advertising and Marketing	718	17%	335	8%	(383)	-114% Reflects title advertising for a full year publishing program
Operating Expenses	1,585	38%	1,093	25%	(492)	-45%
Direct Contribution	903	22%	1,447	33%	(544)	-38%
Sales & Distribution	497	12%	1,419	32%	922	65% Combined effect of special shipping costs (\$535k) of Starr books & higher rates on actual net sales in 1998.
Central Services - unallocated			-			
Central Services	425	10%	131	3%	(294)	-224% Rate to Net Sales higher in 1999 due to mix of frontlist/backlist sales, combined with the need to hold 1998 allocations fixed
EBITDA	(19)	0%	\$ (103)	-2%	\$ 84	81%
Goodwill amortization	-	0%	-	0%	-	
Depreciation	31		16		(15)	-94%
Taxes	27	1%	15	0%	(12)	-100%
Interest Expense	-	0%	17	0%	17	
Net Income	\$ (77)	-2%	\$ (151)	-3%	\$ 74	49%

PERSEUS BOOKS GROUP

1999 Budget

Free Cash Flow for the Twelve Months Ended December 31

PublicAffairs

Budget

Receipts from Sales/Rights	5,677
Royalty Advances	1,007
Plant/PPB	1,383
Royalty Cycle Payments	600
Capital Expenditures	100
Distribution Fees	585
<u>Operating Expenses</u>	<u>1,888</u>
Free Cash Flow	114
<u>Interest Expense</u>	<u>-</u>
Total Cash Flow after Interest Payments	114