Osnos, Peter

From: Osnos, Peter
Sent: Wednesday, July 30, 2014 4:22 PM
To: Jonas, Darrell
Subject: To the PublicAffairs Investors: An Update

We have been informed that the closing of the sale of Perseus Books to the Hachette Book Group has been postponed and the goal is now to close on August 31 instead of July 31. In the meantime, a draft memo is being prepared on the tax implications of the sale for the investors after discussions with tax specialists including an accountant with whom I have years of experience and will be sent to you after the close. Thanks for your patience and best regards Peter

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Memorandum

To: Members of PublicAffairs, L.L.C.

From: Board of Directors of PublicAffairs, L.L.C.

Date: August __, 2014

On July 31, 2014, Perseus Books, L.L.C. ("Perseus Books") sold substantially all of its assets to Hachette Book Group, Inc. ("Hachette") in accordance with an Asset Purchase Agreement with Hachette (the "Hachette Sale"). The purpose of this memo is to describe the implications for PublicAffairs.

PublicAffairs has a significant record of achievement as a publisher and a business. But while the purchase price for the overall company is a good one in today's market, it is not sufficient to generate proceeds for the PublicAffairs members. This is because the portion of the purchase price that would be paid to PublicAffairs members is more than offset by the funds provided by The Perseus Books Group over the years to help build the PublicAffairs business. A factor in this equation is the degree to which valuations of book publishers and many other content companies may have been negatively affected by digital technology including the rise of Amazon as a particularly significant industry participant. We believe Hachette represents a good home for the authors and books of PublicAffairs and there is a reasonable likelihood that PublicAffairs staff will have even more resources than before in bringing well written important books to readers. The details of the transaction and its impact are described below.

The Hachette Sale included PublicAffairs, L.L.C. ("PublicAffairs") and constituted a "Combined Transaction" under Section 2.16(b) of the First Amended and Restated Limited Liability Company Agreement for Public Affairs, L.L.C. (the "PublicAffairs Agreement"). As a result, under the "drag along" provisions in the PublicAffairs Agreement, all members of PublicAffairs were obligated to sell their ownership interests in PublicAffairs as part of the Hachette Sale. Under the PublicAffairs Agreement, a portion of the net proceeds (after payment of transaction and related expenses) from such Combined Transaction was required to be allocated to PublicAffairs based on the ratio of its Total Net Revenues for the three most recently completed fiscal years to the Total Net Revenues for entire Perseus Books Group for such period. That amount then was reduced by all intercompany indebtedness owed by PublicAffairs to any member of the Perseus Books Group. The amount of intercompany indebtedness owed by PublicAffairs as of June 30, 2014 was approximately $15.4 million. The portion of the net proceeds from the Hachette Sale that was allocated to PublicAffairs under the above formula was approximately $3.2 million. Thus, no proceeds or other amounts were payable to the members of PublicAffairs from the Hachette Sale.

In light of the foregoing and the logistics necessary to cause all membership interests in PublicAffairs to be transferred in accordance with the drag along rights contained in the PublicAffairs Agreement, the Board of Directors of PublicAffairs determined that it was more efficient for PublicAffairs to transfer substantially all of its assets to directly to Hachette, apply the allocated proceeds from such sale and certain other assets to partial repayment of the intercompany indebtedness owed by PublicAffairs, and have Perseus Books cancel all remaining intercompany indebtedness owed by PublicAffairs. Accordingly, the Board of Directors authorized such transfer of assets, such transfer has been completed, a portion of the intercompany indebtedness has been repaid and the remainder has been cancelled.

Since the intercompany indebtedness owed by PublicAffairs exceeds PublicAffairs' tax basis in its assets, the transactions described above will give rise to gain of approximately $7.4 million, the character of which will be cancellation of debt income. This gain will be allocated among the members of PublicAffairs based on the tax losses that have previously been allocated to the members in excess of the amount of their investment. These amounts will be reported on a final Schedule K-1 that will be provided to PublicAffairs' members. The allocation of this cancellation of debt income should not result in the need for any member of PublicAffairs to pay any federal income tax because PublicAffairs previously allocated tax losses to its members that exceeded their investments in the company; as a result, such excess tax losses should have been suspended by the members under the at risk basis limitation rules under Internal Revenue Code Section 465 and thus should be available to offset the gain from the cancelation of debt income. It is also worth noting that additional losses up to the member's original investment may remain suspended under the Passive Loss limitation rules under IRC Section 469 and would be deductible as a result of the asset transfer.

Please note that this summary of the tax consequences of the assets transfer is preliminary and will not be final until the returns have been finalized.