

M&A Tax Services

Phaidon structuring Strawman structure

*Strictly private
and confidential
Draft*

15 October 2012

pwc

EFTA01127373

Important notice

This draft report is provided solely in connection with Project Picasso. Any liability PricewaterhouseCoopers LLP (“PwC”) will assume to JMWT LLC will be governed by a contract to be agreed between PwC and JMWT LLC. In the meantime, this draft report is provided on the basis that PwC accepts no liability (whether in contract, tort (including negligence), or otherwise) to JMWT LLC or to any other person in respect of Project Picasso.

A copy of this draft report may be made available in its entirety to JMWT LLC's advisers provided it is made clear to such recipients that we accept no responsibility to them in respect thereof (whether in contract, tort (including negligence), or otherwise). This draft report must not be made available or copied in whole or in part to any other person without PwC's express written permission.

JMWT LLC
c/o Paul Weiss
9 West 57th Street, 43rd floor
New York
NY 10019

Dear Sir/Madam,

Subject: Project Picasso – tax structuring

We report on JMWT LLC (the "Company") and its subsidiary undertakings (together, the "Target" or the "Group") in accordance with our contract dated 13 August 2012.

This report has been prepared for the purpose of the proposed acquisition of Phaidon Press Ltd and its subsidiaries.

This is a draft report. It is subject to amendment or withdrawal: our definitive findings / advice and conclusions will be set out in the final report.

Our advice will be based on the law, regulations and guidance applying at the date the services are provided. We will not monitor or be responsible for the effects of any subsequent changes in law, regulations or guidance.

Save as described in the contract or as expressly agreed by us in writing, we accept no liability (including for negligence) to anyone else or for any other purpose in connection with this report and it may not be provided to anyone else.

Yours faithfully

PricewaterhouseCoopers LLP



David Quantril
Partner

Telephone: [REDACTED]
Mobile: [REDACTED]

Gregor Lindsay
Senior Manger

Telephone: [REDACTED]
Mobile: [REDACTED]
E mail: [REDACTED]

PricewaterhouseCoopers LLP
7 More London Riverside, London SE1 2RT
T: [REDACTED]
F: [REDACTED]

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Services Authority for designated investment business.

Overview

- The following pages set out a proposed strawman structure for the acquisition of the Target. We understand that FHS Services SAGL is not being acquired by the target and we await details from the seller as to how this entity will be removed from the Group prior to acquisition.
- The use of the proposed structure allows some flexibility in how the acquisition may be financed which may be achieved through a mixture of debt and equity. If debt is introduced into the structure we would expect that interest on the debt can be offset in total or in part against the operating income of PPL through the use of UK group relief to surrender tax losses between UK group companies. The level of interest deductibility will be subject to the UK transfer pricing rules, refer to page 6 for further details.

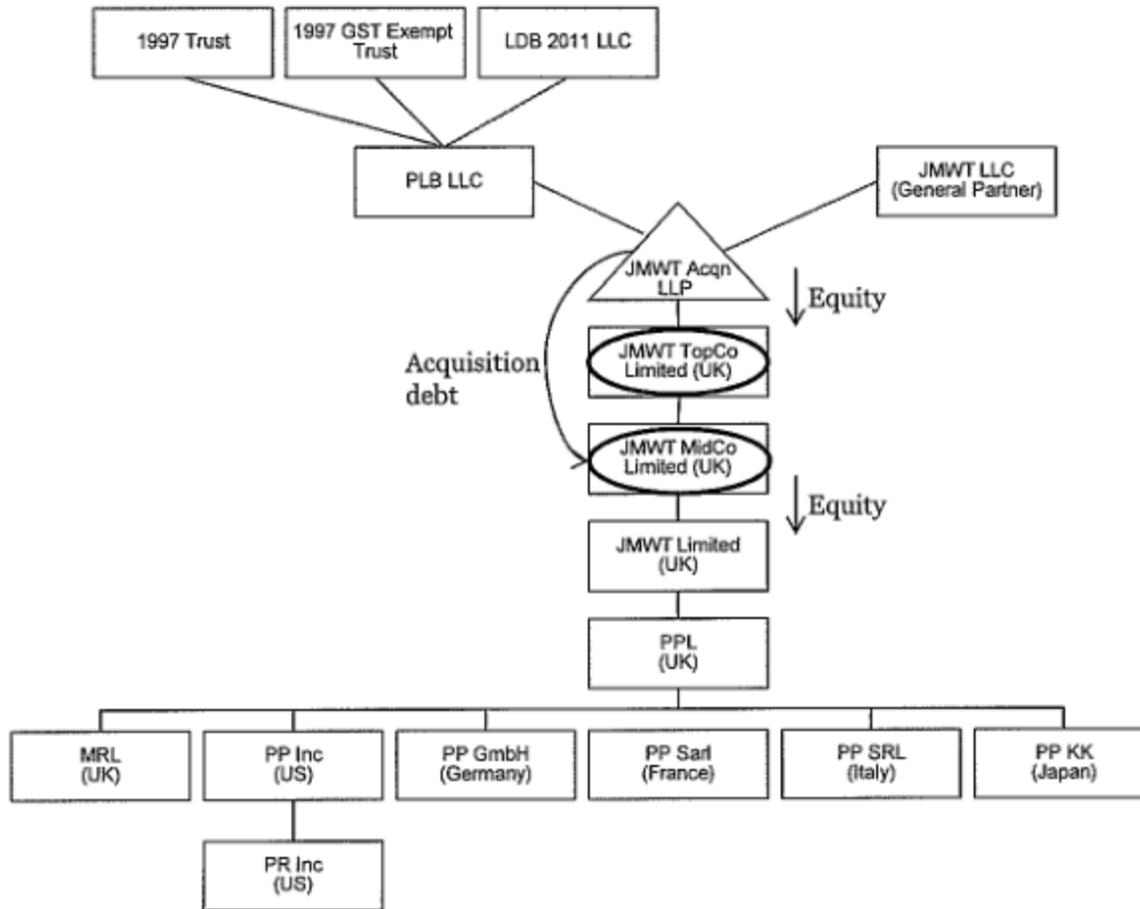
Objectives

The key objectives of the structure will be to:

- To ensure tax efficient offset of interest costs on shareholder debt against operating profits;
- Allow for flexibility for investing into the structure and allow for Section 338g election to be made for US tax purposes treating the acquisition as an asset deal rather than a stock transaction allowing step up in tax basis for the acquisition;
- Provide for tax efficient repatriation of profits to UK Bidco from operating group;
- Allow for future disposal of PPL without UK tax cost subject to availability of UK substantial shareholding exemption.

Appendix 1

Contract



Steps

- The acquisition structure is formed through a Limited Liability Partnership (LLP) owning 3 newly formed UK companies (JMWT TopCo Ltd, JMWT MidCo Ltd and JMWT Ltd). JMWT TopCo Ltd and JMWT MidCo Ltd will be disregarded for US tax purposes.
- JMWT TopCo Ltd will be funded by equity of £27,470,000.
- JMWT TopCo Ltd will then subscribe for equity in JMWT MidCo Ltd of £27,470,000 and the LLP (JMWT Acquisition LLP) will provide shareholder debt of £13,735,000 to JMWT MidCo Ltd.
- JMWT MidCo Ltd will then subscribe for equity of £41,205,000 in JMWT Ltd with JMWT Ltd then using these proceeds to purchase the target.
- The debt of £13,735,000 requires to be on suitable arm's length terms for UK transfer pricing purposes. As such the level of debt, the terms and the rate of interest require to be equivalent to what a 3rd party would be prepared to provide. Our understanding is that the intention would be to put a sustainable level of debt into the structure based on the anticipated performance of the business.
- Acquisition debt from JMWT Acquisition LLP to JMWT MidCo Ltd provides for tax relief for interest with interest income not being subject to US federal income tax due to the election to disregard JMWT TopCo Ltd and JMWT MidCo Ltd. UK withholding tax requires to be managed on payments of interest from JMWT MidCo Ltd to JMWT Acquisition LLP, however, it should be possible to structure this in a tax efficient manner.
- To the extent that the interest expense creates tax losses in JMWT MidCo Ltd, the losses may be available to offset taxable profits of PPL through the surrender of UK group relief. JMWT TopCo Ltd and JMWT Ltd should have no net interest cost or income for UK tax purposes.
- Allows for a Section 338g election for US tax purposes to provide a step up in the PPLs assets to FMV. The subsequent depreciation and amortisation on the assets reduces US E&P in PPL.
- JMWT Ltd will be able to receive dividends from subsidiaries free of UK corporation tax whilst a future disposal of the shares of PPL may qualify for the UK substantial shareholding exemption to exempt any gains from UK corporation tax.
- Consideration could be given to disregarding the target and its subsidiaries, excluding Phaidon Press Inc and Phaidon Retail Inc, for US tax purposes.

Steps continued

- JMWT Ltd will be a "controlled foreign corporation" for U.S. federal income tax purposes. As a result, Mr. Black (and any other U.S. person that holds at least 10% of JMWT Ltd (looking through JMWT Acquisition LLP, JMWT TopCo Ltd, JMWT MidCo Ltd and any other foreign intermediary)) will have to include his pro rata share of JMWT Ltd's "subpart F income" – a category that generally includes dividends, interest, royalties and foreign currency gains. It is not anticipated that such income would be material in the Group due to the nature of the business.
- A portion of any gain on exit (to the extent of earnings and profits are accumulated while Mr. Black held the company) will be recharacterized as dividend income rather than capital gain. Such dividends should constitute "qualified dividend income," which under current law is taxed at a maximum U.S. federal income tax rate of 15%.