

**TRADEMARK ASSIGNMENT**

Electronic Version v1.1  
 Stylesheet Version v1.1

<b>SUBMISSION TYPE:</b>	NEW ASSIGNMENT		
<b>NATURE OF CONVEYANCE:</b>	ASSIGNS THE ENTIRE INTEREST AND THE GOODWILL		
<b>CONVEYING PARTY DATA</b>			
<b>Name</b>	<b>Formerly</b>	<b>Execution Date</b>	<b>Entity Type</b>
ADVANCED MARKETING SERVICES, INC.		02/16/2007	CORPORATION: DELAWARE
<b>RECEIVING PARTY DATA</b>			
<b>Name:</b>	BAKER & TAYLOR, INC.		
<b>Street Address:</b>	2550 WEST TYVOLA ROAD		
<b>Internal Address:</b>	SUITE 300		
<b>City:</b>	CHARLOTTE		
<b>State/Country:</b>	NORTH CAROLINA		
<b>Postal Code:</b>	28217		
<b>Entity Type:</b>	CORPORATION: DELAWARE		
<b>PROPERTY NUMBERS Total: 2</b>			
<b>Property Type</b>	<b>Number</b>	<b>Word Mark</b>	
Registration Number:	2873770	AMS. THE BEST COMPANY YOU'LL NEVER SEE.	
Registration Number:	2719099	THUNDER BAY	
<b>CORRESPONDENCE DATA</b>			
<b>Fax Number:</b>	(213)613-2950		
	<i>Correspondence will be sent via US Mail when the fax attempt is unsuccessful.</i>		
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<b>NAME OF SUBMITTER:</b>	RITA M. HAEUSLER		
<b>Signature:</b>	/rita m. haeusler/		

OP \$65.00 2873770

Date:

06/21/2007

**Total Attachments: 87**

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**ASSET PURCHASE AGREEMENT**

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**By and Between**

**ADVANCED MARKETING SERVICES, INC.**

**and**

**BAKER & TAYLOR, INC.**

**Dated as of February 16, 2007**

**TRADEMARK**

**REEL : 003566 FRAME: 0115**

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## ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT is made and entered into as of the 16th day of February, 2007 (the "Agreement") by and between (i) BAKER & TAYLOR, INC., a Delaware corporation ("Buyer"), and (ii) ADVANCED MARKETING SERVICES, INC., a Delaware corporation and a debtor and debtor in possession under Chapter 11 of the Bankruptcy Code ("Seller").

### Recitals

WHEREAS, Seller and certain of its Subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"), designated Case No. 06-11480 (CSS) (Jointly Administered) (collectively, the "Bankruptcy Case"), on December 29, 2006 (the "Petition Date").

WHEREAS, Seller is operating as a debtor in possession, no trustee or examiner having been sought or appointed, and has therefore continued in the possession of its assets and in the management of its business under Section 1107 and 1108 of the Bankruptcy Code.

WHEREAS, Seller desires to sell and Buyer desires to purchase all right, title and interest of Seller in, to and under the Purchased Assets (as defined in Section 1.01(a) herein), on the terms, provisions and conditions set forth in this Agreement, pursuant to Sections 363 and 365 of the Bankruptcy Code.

### Agreement

NOW, THEREFORE, in consideration of the premises and of the mutual covenants contained herein, the parties agree as follows:

## ARTICLE I. SALE AND PURCHASE OF ASSETS

### 1.01 Sale and Purchase of Assets.

(a) Purchased Assets. On the terms and provisions and subject to the conditions of this Agreement, at the Closing referred to in Section 2.01 hereof, pursuant to Sections 363 and 365 of the Bankruptcy Code, Seller shall sell, convey, assign, transfer and deliver to Buyer and Buyer shall purchase, acquire and accept, free and clear of any and all liens, claims, encumbrances, mortgages, security interests, pledges, claims, equities and other restrictions or charges of any kind or nature whatsoever, including without limitation all "interests" as such term is defined in Section 363(f) of the

Bankruptcy Code (collectively "Liens") except as expressly set forth in Schedule A, all of Seller's right, title and interest in, to and under the assets set forth in this Section 1.01 existing on and as of the Closing Date (the "Purchased Assets"), and the Purchased Assets shall consist of and shall include only the items set forth in this Section 1.01 (but shall exclude such of the same as are held by Seller in trust or for the benefit of parties other than Seller and its Subsidiaries (which are not property of Seller's bankruptcy estate)):

(i) the Contracts set forth on Schedule B hereto (the "Assigned Contracts"), subject to the additional rights of Buyer pursuant to Section 7.03;

(ii) all supplies, equipment, computer hardware, printers, servers, machinery, furniture, fixtures, leasehold improvements, and other tangible property owned or used by Seller in connection with the conduct of the Business and (A) located at the Assumed Facilities, other than the items listed on Schedule C hereto, which are Excluded Assets, (B) located at the Baltimore, Maryland facility or San Diego, California facility of Seller, but specifically excluding leasehold improvements and fixtures located at such facilities, which are Excluded Assets, or (C) used as of the Closing Date by the Assumed Facilities although located outside the Assumed Facilities or the Baltimore and San Diego facilities, other than any leasehold improvements and fixtures (collectively, the "Purchased Equipment");

(iii) all trade accounts receivable (including unbilled accounts receivable) of the Business (for avoidance of doubt, not including those invoiced by PGI/PGW) (the "Accounts Receivable");

(iv) [Reserved];

(v) that certain Inventory of APG selected by Buyer and listed on Schedule D hereto (the "Selected APG Inventory");

(vi) the capital stock of AMS Investments, AMS Mexico and AMS UK; provided, however, Buyer reserves the right in its sole discretion to instead acquire certain assets and selected liabilities of AMS Mexico and AMS UK, provided that the Foreign Asset Transfer Conditions are satisfied at or prior to Closing, and provided further that the parties acknowledge and agree that in such case they shall enter into an amendment which reflects the purchase of assets rather than stock, and such amendment shall reflect (among other things) that such assets are and shall be sold to Buyer subject to Liens and shall contain appropriate modifications to the terms contained in Sections 3.10, 1.01, 4.06 and 7.01(b) and which relate to Liens (or the absence thereof) on the Purchased Assets;

(vii) subject to Section 1.01(b)(ii), all Intellectual Property of Seller, provided that such Intellectual Property will remain subject to any Intellectual Property License Rights;

(viii) all office and packaging supplies owned or used by Seller in the conduct of the Business and located at the Assumed Facilities or the San Diego, California or Baltimore, Maryland facilities of Seller;

(ix) Permits, business licenses, and other authorizations of Governmental Authorities and third parties of Seller, to the extent transferable to Buyer, that are necessary to (A) the occupation of the Assumed Facilities, or (B) the operation of the Business from the Assumed Facilities (but not any facilities of the Business not being assumed by Buyer hereunder);

(x) any warranties of third parties on any Purchased Assets;

(xi) any books of account, ledgers, financial, accounting and Tax records and all general and personnel records, files, invoices, customers' and suppliers' lists, other distribution and mailing lists, price lists, reports, plans, advertising materials, catalogues, billing records, sales and promotional literature, manuals, and customer and supplier correspondence of Seller, in each case that pertain to the Purchased Assets (the "Records"), subject to the rights of Seller pursuant to Section 2.02(c); provided, further that Records do not include any confidential or proprietary information, or trade secrets, contained in any form or medium, that Seller or any Assigned Subsidiary is prohibited from transferring to a third party under applicable Legal Requirement (if any) or any information (including attorney-client communications) related to the Bankruptcy Case or any liabilities not assumed by Buyer ("Excluded Confidential Information");

(xii) the APG Product Prepayments;

(xiii) certain lock boxes and other bank accounts of Seller necessary for the operation of the Business, provided, that Seller shall execute any and all documents necessary to transfer title to such accounts to Buyer at the Closing; provided further that the cash and cash equivalents in such accounts as of the Closing are Excluded Assets;

(xiv) all goodwill associated with the Purchased Assets; and

(xv) all other assets relating to or necessary to conduct of the Business (other than the Excluded Assets); provided, however, that to the extent any Purchased Assets are required so that Seller may complete the transition services arrangement involving Seller and PGW, Seller shall have access to such

Purchased Assets free of charge (other than for long distance calls and other fees to third parties incurred as a result of Seller's use of such Purchased Assets) for a period of five (5) months after the Closing, provided further that Seller shall use commercially reasonable efforts in connection therewith to avoid adversely impairing the rights of Buyer to the use of the Purchased Assets.

(b) Excluded Assets. Notwithstanding the foregoing, Seller is not selling and Buyer is not purchasing pursuant to this Agreement, and the Purchased Assets shall not include, any assets not specifically listed in Section 1.01(a) (such assets not specifically so listed, the "Excluded Assets"), provided, however that (i) at any time prior to the entry of the Procedures Order, or (ii) with the reasonable consent of Seller within two (2) days after the entry of the Procedures Order, Buyer may, by written notification to Seller, provide to Seller a Schedule 1.01(b) which specifically lists certain assets (other than Assigned Contracts which are exclusively addressed in Section 7.03) to be excluded from purchase hereunder, which Schedule 1.01(b) shall be deemed to the extent necessary to amend such other Schedules or Sections hereof that may have listed such assets as Purchased Assets, and such assets shall become Excluded Assets, provided, further that in no event will the Purchase Price be reduced with respect to any such deletions or exclusions, nor shall any such deletions or exclusions, individually or in the aggregate, give Buyer a right to terminate this Agreement or not close the transaction contemplated hereby. The Excluded Assets shall include, but not be limited to:

- (i) The Purchase Price.
- (ii) The assets listed on Schedule C and Schedule E.
- (iii) Any bids or deposits received from any Person other than Buyer or its agents or representatives in connection with the proposed sale of any of the Purchased Assets or Business and any analysis prepared by or on behalf of Seller of any bids for the Purchased Assets or any portion thereof, or any materials relating to the negotiations with any potential bidder.
- (iv) All avoidance actions arising under Chapter 5 of the Bankruptcy Code and all proceeds thereof.
- (v) All capital stock (other than the capital stock of the Assigned Subsidiaries, in the event of a stock acquisition of the Assigned Subsidiaries).
- (vi) Seller's interest in Raincoast.
- (vii) The Excluded Confidential Information.
- (viii) Any cash, cash equivalents, securities and investments (for clarity, not including any equity interests in the Assigned Subsidiaries in the event

of a stock acquisition of the Assigned Subsidiaries) owned or held by Seller, including, but not limited to, any and all cash, checks, money orders, wire transfers or other deposits and all deposit and securities accounts, other than certain lock box and other bank accounts necessary for the operation of the Business, provided that the cash and cash equivalents in such accounts shall be an Excluded Asset and shall be withdrawn by Seller at or prior to Closing.

(ix) Insurance policies and Contracts, coverage, and claims owned by or payable to Seller (whether or not also payable to any of the Assigned Subsidiaries), and any proceeds therefrom, reserves thereunder, and other rights with respect thereto.

(x) Any assets of any employee benefit plan held or administered by Seller and/or the Excluded Subsidiaries, and any rights under any such plan or any Contract, agreement, or arrangement between any employee or consultant and Seller and/or any Excluded Subsidiary.

(xi) Other than in connection with the APG Product Prepayments, any claims, deposits, security deposits (provided that such security deposits to landlords of assumed real property leases shall be refunded to Seller and Buyer shall provide a new security deposit to each landlord of each assumed real property lease) and other security, prepaid expenses and other prepayments (including Product Prepayments), and prepaid assets, notes receivable and other miscellaneous receivables, refunds, causes of action, rights of recovery, rights of setoff, and rights of recoupment as of the Closing Date owned or enforceable by Seller and/or the Excluded Subsidiaries (even if relating to Purchased Assets or Assumed Obligations), including, without limitation, (A) accounts receivable from vendors, (B) prepayments and deposits with respect to freight costs, rent, cooperative advertising, computer and telecommunications costs, and occupancy costs, and travel advances, (C) claims or rights for refund or return of Taxes, (D) any litigation claims, rights, and causes of action (including without limitation stockholder derivative claims), and (E) any inter-company loans (or other inter-company claims) between or among Seller and any Excluded Subsidiaries; provided that, for clarity, the Accounts Receivable and rights with respect thereto are not within the scope of this Section 1.01(xi).

(xii) All Inventory other than the Inventory expressly defined as a Purchased Asset pursuant to Section 1.01(a)(v).

(xiii) Subject to the rights of Buyer under Section 7.03, all Contracts other than the Assigned Contracts

(xiv) All assets used solely in the business of PGI/PGW.

(xv) All supplies, equipment, computer hardware, printers, servers, machinery, furniture, fixtures, leasehold improvements, and other tangible property owned or used by Seller and located at facilities of Seller other than the Assumed Facilities and the Baltimore and San Diego facilities.

(xvi) All assets held by Seller in trust or for the benefit of parties other than Seller and its Subsidiaries (which are not property of Seller's bankruptcy estate)

(xvii) All goodwill of Seller not associated with the Purchased Assets.

(c) Method of Conveyance. The sale, transfer, conveyance, assignment and delivery by Seller of the Purchased Assets to Buyer in accordance with Section 1.01(a) hereof shall be effected on the Closing Date by Seller's execution and delivery to Buyer of (i) a bill of sale and assignment to transfer title to Buyer of the Purchased Assets, without representation, recourse, or warranty, express or implied, and (ii) such other duly executed assignments and other conveyance instruments with respect to Seller's transfer of intangible and Intellectual Property rights, real property interests, including, without limitation, assignment of leases, and other Purchased Assets as shall be reasonably necessary to be delivered by Seller to effectuate the purchase and sale of the Purchased Assets as contemplated by the terms hereof, in each case in form reasonably acceptable to Buyer (collectively the "Conveyance Documents")

(d) Assumed Obligations. Subject to the terms and conditions of this Agreement, at and as of the Closing, Buyer shall assume and agree to pay, perform, discharge and satisfy when due in accordance with their terms:

(i) all Liabilities under the Assigned Contracts accruing, arising out of, or to be performed during periods from and after the Closing;

(ii) the obligations of Buyer pursuant to provisions of this Agreement other than this Section 1.01(d), to the extent such obligations constitute Liabilities to be performed by Buyer;

(iii) all credit and other obligations and related Liabilities with respect to returns of products or other claims by customers of the Business occurring following the Closing, regardless of whether the corresponding sale of product was made by Seller or Buyer; provided, however, that such returns received prior to the Closing, but where credit has not been issued prior to the Closing, shall reduce the amount of the Accounts Receivable and consequently the Accounts Receivable Purchase Price; and

(iv) those liabilities and obligations of Seller expressly identified on Schedule F hereto.

((i)-(iv), collectively, the "Assumed Obligations")

(e) Excluded Liabilities. Except for the Assumed Obligations, Buyer shall not assume, and shall have no responsibility for, any other Liabilities of Seller, as a successor in interest or otherwise, including, without limitation (except to the extent expressly included in the Assumed Obligations):

(i) any obligation of Seller to any employee or consultant of Seller; any Liability with respect to or arising from any "employee benefit plan" of Seller (as defined in section 3(3) of the Employee Retirement Income Security Act of 1974, as amended) or other arrangement providing compensation or benefits to employees or consultants, including but not limited to, the Advanced Marketing Services, Inc. 401(k) Profit Sharing Plan, the Advanced Marketing Services, Inc. Flexible Benefits Plan, the Advanced Marketing Services, Inc. Executive Deferred Compensation Plan, the Advanced Marketing Services 2005 Deferred Compensation Plan, the Advanced Marketing Services, Inc. 1987 Stock Option Plan, the Advanced Marketing Services, Inc. 1995 Stock Option Plan, the Advanced Marketing Services, Inc. Discretionary Severance Guidelines, the Retention Bonus Plan for Eligible Employees, the Advanced Marketing Services, Inc. Corporate Incentive Plan for Eligible Employees of AMS Corporate and PGW, the Advanced Marketing Services, Inc. Relocation Policies and any incentive, retention, severance and commission plans and further including pre- and post-petition health insurance, employee benefits and similar liabilities, in each case accrued or incurred in the ordinary course of business or otherwise; any accrued pre- and post-petition salaries, wages (and related withholdings and payroll Taxes) and vacation/sabbatical/PTO, business expense reimbursements, and other ordinary course or otherwise employee expenses and liabilities, in each case accrued or incurred in the ordinary course of business or otherwise; and Liability of Seller with respect to the Worker Adjustment and Retraining Notification (WARN) Act or any analogous state or local law, regulation or ordinance; and any liability with respect to any collective bargaining agreement with any labor organization to which Seller may be party, including but not limited to that certain agreement with National Union of President Adolfo Lopez Mateos of Workers and Employees from general Commerce, Private Schools and Similes of the Mexican Republic; and any Liability with respect to COBRA coverage for employees or consultants of Seller terminated prior to or as part of the consummation of the transactions set forth in this Agreement;

(ii) Liabilities for costs or expenses incurred in connection with, or related to, the administration of the Bankruptcy Case, including without

limitation, any accrued professional fees and expenses of attorneys, accountants, financial advisors and other professional advisors related to the Bankruptcy Case;

(iii) Liabilities under any warranty or guaranty obligation of Seller arising from or relating to any acts or transactions prior to the Closing;

(iv) Subject to Section 7.03, Liabilities of Seller arising at any time under any and all Contracts other than the Assigned Contracts;

(v) Subject to Section 7.03, Liabilities of Seller arising under the Assigned Contracts which accrue, arise out of, and are to be performed at any time or times prior to the Closing;

(vi) Liabilities of Seller in respect of notes payable of Seller and indebtedness of Seller under credit facilities;

(vii) accounts payable of Seller;

(viii) Liabilities of Seller relating to subscription or other service fees that are unearned as of the Closing;

(ix) Liabilities of Seller for customer rebates or other promotional allowances;

(x) Liabilities of Seller relating to Taxes assessed or due prior to the Closing;

(xi) Liabilities of Seller relating, arising, or accruing to periods of time prior to the Closing;

(xii) Leasehold liabilities associated with the San Diego, California, and Baltimore, Maryland facilities;

(xiii) Fines, penalties, and other costs of Seller in connection with litigation proceedings brought by Governmental Authorities against Seller in connection with acts or omissions of Seller committed prior to the Closing.

(xiv) All Liabilities of Seller or any of Seller's Affiliates to any third party arising out of, resulting from or relating to any infringement, violation, or misappropriation of the Intellectual Property or any third party's Intellectual Property, to the extent arising prior to Closing or from actions occurring prior to Closing.

1.02 Payment for Assets.



(a) Purchase Price. As payment in full for the Purchased Assets being acquired by Buyer hereunder, Buyer shall pay to Seller, in the manner set forth in this Section 1.02, the following amounts (collectively, and as finally determined pursuant to this Section 1.02, the "Purchase Price"):

- (i)
- (ii) the Selected APG Inventory Price;
- (iii) the APG Product Prepayment Price; and
- (iv) the Accounts Receivable Price; plus or minus
- (v) the net proration of the Apportioned Obligations determined in accordance with Section 9.01.

(b) Determination Procedures—at Closing.

(i) Not later than February 28, 2007, Buyer shall deliver to Seller Schedule D. Buyer shall be permitted to update such Schedule D until the time of the Closing, provided that the Selected APG Inventory Price shall not be less than \$7.5 million.

(ii) Not later than three (3) business days prior to the Closing Date, Seller shall deliver to Buyer a statement showing Seller's good-faith estimate as of the date thereof of (A) the Selected APG Inventory Price, (B) the APG Product Prepayment Price, (C) the Accounts Receivable Price, (D) the Closing Payoff Amount and (E) the Purchase Price, together with Seller's calculations in support of each such amount in reasonable detail (the "Closing Estimated Price Statement").

(iii) The Closing Estimated Price Statement may be adjusted prior to Closing as mutually agreed to by Buyer and Seller, in each case in its sole discretion (and neither party shall be under any obligation of any kind to consider or agree to any such adjustment). For purposes of Closing, the Closing Estimated Price Statement (as so adjusted, if at all) shall set forth the Purchase Price.

(c) Post Closing Adjustment.

(i) Not later than ten (10) days after the Closing Date, Seller shall prepare and deliver to Buyer a statement showing its final determination of each of (A) the Selected APG Inventory Price, (B) the APG Product Prepayment Price, (C) the Accounts Receivable Price, (D) the Closing Payoff Amount and (E) the

Purchase Price, together with Seller's calculations in support of each such amount in reasonable detail (the "Final Price Statement").

(ii) The Final Price Statement and the corresponding calculation of the Purchase Price (and each of the components thereof) shall be binding upon the parties unless Buyer given written notice of its disagreement therewith within ten (10) days following its receipt of the Final Price Statement in accordance with Section 1.02(c)(iii) below.

(iii) The Final Price Statement shall not be binding upon the parties if Buyer gives written notice of its disagreement to Seller within ten (10) days after its receipt of the Final Price Statement, specifying in reasonable detail the nature and extent of such disagreement (and containing Buyer's own determination of the Purchase Price and any disputed components thereof, including supporting calculations in reasonable detail)

(iv) If Buyer and Seller resolve any such disagreement to their mutual satisfaction within thirty (30) days after Buyer's receipt of such notice, that agreement shall be binding upon Buyer and Seller, and the Final Price Statement, with such changes, if any, as are so mutually agreed, shall become the Final Price Statement.

(v) If Seller and Buyer are unable to resolve any such disagreement within such thirty (30) day period, the disagreement shall be referred for final determination to an independent public accounting firm of national standing, mutually acceptable to both Buyer and Seller, that is not the independent auditor of either of Buyer or Seller (the "Selected Firm"), and in connection therewith Buyer and Seller shall each provide the Selected Firm with their respective determinations of the Purchase Price and any disputed components thereof. In accordance with subsection (A) below, the resolution of such disagreement and the Selected Firm's calculations of any disputed components of the Purchase Price shall be final and binding upon the parties and shall, together with those aspects of the Final Price Statement as to which no objection was made, be the Final Price Statement.

(A) The parties will cooperate with the Selected Firm during the term of its engagement. Without limiting the foregoing, each of Seller and Buyer shall during normal business hours and upon reasonable advance notice, provide the Selected Firm with such access to the books and records, including accountants' work papers and like documents, and personnel of Buyer and Seller as may be requested by the Selected Firm. In resolving any such disputed item or amount, the Selected Firm shall be functioning as an expert and not as an arbitrator and may not assign a value

to any item or amount that is higher than the highest value for such item or amount claimed by either party or lower than the lowest value for such item or amount claimed by either party. The Selected Firm shall determine only those items or amounts in dispute. The Final Price Statement and the determination of the Purchase Price shall become final and binding on the parties on the date the Selected Firm delivers its final resolution in writing to the parties. The parties shall request that such final resolution be delivered by the Selected Firm as expeditiously as possible, but not more than thirty (30) days following submission of such disputed matters. The costs, fees and expenses of the Selected Firm shall be borne by Buyer and Seller based on the percentage that the portion of the contested amount not awarded to such party bears to the amount actually contested by such party.

(vi) If the Purchase Price as finally determined and set forth on the Final Price Statement exceeds the Purchase Price set forth on the Closing Estimated Price Statement, then the amount of such excess shall be paid by Buyer to Seller, not more than five (5) days after the Final Price Statement becomes final pursuant to the foregoing clause (v), via wire transfer to Seller's account (which account number shall be provided to Buyer by Seller at least two (2) business days prior to such payment).

(vii) If the Purchase Price as finally determined and set forth on the Final Price Statement is less than the Purchase Price set forth on the Closing Estimated Price Statement (a "Purchase Price Shortfall"), then the amount of such Purchase Price Shortfall shall be offset by Buyer against the Final Payment and retained by Buyer, and such right of offset shall be Buyer's sole remedy with respect to any Purchase Price Shortfall.

(d) Timing of Payment of Purchase Price.

(i) On the Closing Date, Buyer shall make payment of 50% of the Purchase Price, subject to Section 1.02(d)(iv) (such netted amount, the "Closing Date Payment"), via wire transfer to Seller's account (which account number shall be provided to Buyer by Seller at least two (2) business days prior to the Closing Date).

(ii) No later than sixty (60) days following the Closing Date, Buyer shall make payment of 25% of the Purchase Price, subject to Section 1.02(d)(iv), via wire transfer to Seller's account (which shall be the same account referenced in the foregoing clause (i) unless otherwise provided to Buyer by Seller at least two (2) business day prior to such date)

(iii) No later than ninety (90) days following the Closing Date, Buyer shall make payment of the remaining 25% of the Purchase Price, subject to Section 1.02(d)(iv) (the "Final Payment"), via wire transfer to Seller's account (which shall be the same account referenced in the foregoing clause (i) unless otherwise provided to Buyer by Seller at least two (2) business days prior to such date); provided that, (A) the amount of the Final Payment is subject to offset to the extent provided in Section 1.02(c)(vii) and (B) in the event that, as of the date of the Final Payment, the Purchase Price has not been finally determined, and Buyer is claiming a Purchase Price Shortfall, Buyer may withhold from the Final Payment the amount of such claimed Purchase Price Shortfall, provided further that Buyer shall, within three days following the date on which the Final Price Statement becomes final, pay via wire transfer to Seller's account (as provided above in this clause (iii)) any such withheld amount which is not finally determined to constitute a Purchase Price Shortfall.

(iv) Notwithstanding the foregoing, if the amount of the Closing Date Payment as calculated pursuant to Section 1.02(d)(i) shall be less than an amount equal to the Closing Payoff Amount, the percentage of the Purchase Price payable on the Closing Date pursuant to Section 1.02(d)(i) shall be adjusted upwards to the extent necessary to cause the Closing Date Payment to equal the Closing Payment Amount, and in such event, the percentages of the Purchase Price payable pursuant to Sections 1.02(d)(ii) and (iii) shall be reduced accordingly.

#### 1.03 Tax and Related Matters.

(a) The Purchase Price shall be allocated, apportioned and adjusted among the Purchased Assets in the manner specified in a proposed IRS Form 8594 to be provided by Buyer within sixty (60) days following the Closing Date, subject to any material and reasonable objections thereto by Seller which shall be provided to Buyer within thirty (30) days following Seller's receipt thereof and provided that such allocation shall not, if this Agreement is amended to provide that there is a sale of assets rather than stock of any of the Assigned Subsidiaries, cause a breach or failure of any of the Foreign Asset Transfer Conditions. The parties agree that (i) in case of any such objection by Seller, they shall negotiate in good faith to promptly resolve such dispute, (ii) in any event the allocation will be agreed to by the parties no later than ninety (90) days following the Closing Date, and (iii) the parties shall abide by such allocation for all Tax reporting purposes.

(b) Subject to the Sale Order, Buyer will pay all sales, transfer, recording or similar Taxes that may be imposed by reason of the sale, assignment, transfer and delivery of the Purchased Assets. Buyer will timely file all Tax Returns required to be filed in connection with the payment of such Taxes

(c) Buyer shall pay any costs incurred in removing, disassembling or relocating the Purchased Assets.

## ARTICLE II. CLOSING

2.01 Closing. Subject to the conditions stated in Article VI of this Agreement, the closing of the transactions contemplated hereby (the "Closing") shall be held at 11:00 a.m. EST, on March 13, 2007, or, such earlier date as the parties may agree to, or if the conditions set forth in Section 6.02 have not been satisfied or waived on such date, on the second (2nd) business day after all such conditions shall have been satisfied or waived, at the offices of O'Melveny & Myers, LLP. The date upon which the Closing occurs is hereinafter referred to as the "Closing Date."

2.02 Deliveries by Seller. At or prior to the Closing, Seller shall deliver to Buyer:

- (a) the Conveyance Documents;
- (b) a certificate executed by Seller to the effect that the conditions set forth in Section 6.02(a) have been satisfied; and
- (c) the Records; provided, however, that, following the execution by Seller of a reasonable confidentiality agreement, Seller may make and retain copies of any such Records (and the equivalent records with respect to the Assigned Subsidiaries) for administrative, business, or legal purposes, and provided further that following the Closing and during the period required to complete the administration of the Bankruptcy Case, Buyer shall provide Seller with reasonable electronic access to the Records (and the equivalent records with respect to the Assigned Subsidiaries), as well as reasonable in-person access during ordinary business hours to or any copies of any such records as reasonably requested by Seller, provided that in no event shall Buyer be required to allow such access to the extent such access would adversely impair the rights of Buyer to the use of the Purchased Assets.

2.03 Deliveries by Buyer. At or prior to the Closing, Buyer shall deliver to Seller:

- (a) the amount and form of Purchase Price required to be paid at Closing pursuant to Section 1.02 hereof; and
- (b) a certificate executed by an authorized officer of Buyer, on behalf of Buyer, to the effect that the conditions set forth in Section 6.01(b) have been satisfied.

2.04 Termination in Absence of Closing.

(a) Termination. This Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing Date:

(i) by mutual written consent of Seller and Buyer;

(ii) by either Buyer or Seller, if on or before March 15, 2007, the Closing has not occurred, provided that the terminating party is not in material breach of any of its representations and warranties contained in this Agreement and has not failed in any material respect to perform any of its obligations hereunder and the delay in closing has not been caused by any action or inaction on the part of the terminating party;

(iii) by Seller, if there shall have been a material breach by Buyer of any of its representations, warranties, covenants or agreements contained in this Agreement, which breach would result in the failure to satisfy one or more of the conditions set forth in Section 6.01, and such breach shall be incapable of being cured or, if capable of being cured, shall not have been cured within ten (10) days after written notice thereof shall have been received by Buyer;

(iv) by Buyer, if there shall have been a material breach by Seller of any of its representations, warranties, covenants or agreements contained in this Agreement, which breach would result in the failure to satisfy one or more of the conditions set forth in Section 6.02, and such breach shall be incapable of being cured or, if capable of being cured, shall not have been cured within ten (10) days after written notice thereof shall have been received by Seller;

(v) by Buyer, provided that Buyer is not in material breach of any of its representations and warranties contained in this Agreement and has not failed in any material respect to perform any of its obligations hereunder, at any time after February 16, 2007, if the Procedures Order shall not have been entered by such date;

(vi) by Buyer, provided that Buyer is not in material breach of any of its representations and warranties contained in this Agreement and has not failed in any material respect to perform any of its obligations hereunder, at any time after March 2, 2007, if the Sale Order shall not have been entered by such date;

(vii) by Buyer, in the event that the Bankruptcy Court approves a transaction with any person or persons other than Buyer to purchase all or any material portion of the Purchased Assets (whether or not any such alternative transaction contemplated by such bid or bids shall be consummated); or

(viii) by either Seller or Buyer, if there shall be any law or regulation that makes consummation of the purchase and sale transaction contemplated by this Agreement illegal or otherwise prohibited or if any judgment, injunction, order or decree permanently restraining, prohibiting or enjoining Buyer or Seller from consummating such transaction is entered, and such judgment, injunction, order or decree shall become final and applicable.

(b) Notice of Termination. In the event of any termination pursuant to this Section 2.04, written notice thereof setting forth the reasons therefor shall promptly be given to the other parties and the transactions contemplated by this Agreement shall be terminated, without further action by any party.

(c) Abandonment. If this Agreement is terminated and the transactions contemplated hereby are abandoned as described in this Section 2.04, this Agreement shall become void and have no further force or effect, except for the provisions of this Agreement regarding expenses. Notwithstanding the preceding sentence, nothing in this Section 2.04 shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement or to impair the right of any party to compel specific performance by any other party of its obligations under this Agreement, provided however that, in the event that Buyer receives the Break-Up Fee or the Breach Fee in connection with a termination of this Agreement, such Break-Up Fee or Breach Fee (plus the Expense Reimbursement payable to Buyer pursuant to subsection (d) below) shall be Buyer's exclusive remedy with respect to any and all breaches by Seller prior to such termination of this Agreement.

(d) Payments. Notwithstanding anything in this Agreement to the contrary, in the event of a termination by Buyer of this Agreement pursuant to subsections (ii), (iv), (v), (vi), or (viii) above, Seller shall promptly pay to Buyer the Breach Fee plus the Expense Reimbursement; and in the event of a termination by Buyer of this Agreement pursuant to subsection (vii) above, Seller shall promptly pay to Buyer the Stalking Horse Protections

### ARTICLE III. REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Buyer as follows:

3.01 Organization and Standing. Seller is a corporation duly organized, validly existing and in good standing under the laws of Delaware. Seller has all corporate power and authority necessary to enable it to own, lease or otherwise hold its properties and assets and to carry on its Business as presently conducted. Seller is in good standing and duly qualified to do business in each jurisdiction in which the nature of the Business or the ownership, leasing or holding of its assets makes such qualification necessary, except

where the failure to be so qualified would not reasonably be expected to result in a material adverse effect on the Business.

3.02 Authorization. Subject to the entry of the Sale Order, Seller has all requisite power and authority to execute, deliver and perform this Agreement and each of the Collateral Agreements to which it is a party. Subject to the entry of the Sale Order, all corporate acts required to be taken by Seller to authorize the execution, delivery and performance of this Agreement and each of the Collateral Agreements and the consummation of the transactions contemplated hereby and thereby have been duly and properly taken. Subject to the entry of the Sale Order, this Agreement constitutes, and each of such Collateral Agreements when executed and delivered by Seller will constitute, a valid and legally binding obligation of Seller (assuming that this Agreement and such Collateral Agreements constitute valid and legally binding obligations of the other parties thereto), enforceable in accordance with its terms (except as limited by bankruptcy, insolvency and other laws of general application relating to the enforcement of creditors' rights and by general equitable principles).

3.03 Brokers. Except for Persons set forth in Schedule 3.03, all negotiations relative to this Agreement and the transactions contemplated hereby have been carried out by Seller directly with Buyer without the intervention of any Person on behalf of Seller in such manner as to give rise to any valid claim by any Person against Buyer for a finder's fee, brokerage commission or similar payment.

3.04 Litigation. Except for matters commenced in connection with the Bankruptcy Case, other than those matters disclosed on Schedule 3.04, and other than matters arising after the date of this Agreement that could not reasonably be expected to result in a material adverse effect on the Business, there are no actions, suits, or proceedings pending or, to the knowledge of Seller, threatened against Seller or any of the Assigned Subsidiaries.

3.05 No Subsidiaries. Except as set forth on Schedule 3.05, Seller owns no stock or other equity interest, directly or indirectly, in any corporation, partnership, joint venture, trust or other entity involved in the Business.

3.06 Employee Benefits. None of Seller or any of its Subsidiaries or any of their ERISA Affiliates is an "employer" (as defined in Section 3(5) of ERISA) in relation to any Benefit Plan. Within seven (7) days after the date hereof, Seller shall provide Buyer with copies of all Employee Plans.

3.07 Absence of Environmental Liabilities. To the knowledge of Seller, Seller has complied at all times with, and at all times prior to the Closing Date shall comply with, all applicable environmental laws, orders, regulations, rules and ordinances adopted, imposed or promulgated by any Governmental Authority relating to the Business, except



for such violations that could not reasonably be expected to result in a material adverse effect on the Business.

3.08 Intellectual Property. Seller is the record owner of all Intellectual Property registered in its name and either owns or holds a license or other right to use all Intellectual Property and licenses that are reasonably necessary to the conduct of the Business as currently conducted, and, to the knowledge of Seller, (i) the use of such Intellectual Property by Seller does not infringe upon or otherwise violate the rights of any other Person and (ii) there are no threatened actions by any Person seeking damages from or an injunction against Seller's use of such Intellectual Property. Attached hereto as Schedule 3.08(a) is a true, correct, and complete listing as of the date of this Agreement of all material patents, patent applications, trademarks, trademark applications, domain names, copyrights, and copyright registrations as to which Seller is the owner or is an exclusive licensee. Except as set forth on Schedule 3.08(b), Seller is not party to any contract pursuant to which it has granted any license or option to any of the items listed on Schedule 3.08(a).

3.09 Leases. Seller does not own any real property. Seller and the Assigned Subsidiaries enjoy peaceful and undisturbed possession under all real property leases material to their businesses (in the case of Seller, the Business) and to which they are parties or under which they are operating and all of such real property leases are valid and subsisting and no material default by Seller or the Assigned Subsidiaries exists under any of them, except for such defaults that individually, or in the aggregate, could not reasonably be expected to result in a material adverse effect on the Business. Except as set forth in Schedule 3.09, each of such real property leases, including, all amendments thereto, as provided to Buyer, is true, correct, and complete. Each of such real property leases has not been terminated and Seller has not delivered any notice of termination which such notice terminates any such lease at any time in the future.

3.10 Title to Assets. Except as set forth on Schedule A, at the Closing, Buyer shall acquire the Purchased Assets free and clear of all Liens. To the knowledge of Seller, the tangible personal property included in the Purchased Assets is in functional working order (ordinary wear and tear excepted), subject to Purchased Assets under repair in the ordinary course.

3.11 Compliance with Laws. Except as set forth in Schedule 3.11, to the knowledge of Seller, Seller has fully complied with, and is not in default under, any laws, regulations or orders applicable to the Purchased Assets or the Business, except to the extent that any such noncompliance or default would not have a material adverse effect on the Purchased Assets or the Business, as the case may be, or is otherwise excused or stayed by the operation or as a result of the Bankruptcy.

3.12 Taxes. Seller has withheld and paid all applicable withholding taxes relating to its employees (and shall continue to do the same through the Closing).

3.13 Updates. From the date hereof, until the Closing, Seller shall promptly notify Buyer by written update to its representations and warranties contained herein (including the Schedules hereto) of any matter occurring after the date hereof which, if existing or occurring on the date hereof would have been required to be set forth on a Schedule to this Agreement or which would render inaccurate any of the representations, warranties or statements of Seller set forth in this Agreement (each, a "Supplement"). Upon Buyer's receipt of such Supplement, such representations and warranties shall be deemed to be automatically updated as set forth therein; *provided, however*, that no Supplement provided pursuant to this section shall be deemed to cure any breach of any representation, warranty or covenant in this Agreement existing as of the date hereof.

3.14 Disclosure. To the knowledge of Seller, no representation or warranty by Seller contained in this Agreement and no statement by Seller contained in the Schedules hereto or in any certificate, list or other writing furnished to Buyer by Seller pursuant to any provision of this Agreement, contains any untrue statement of a material fact.

**ARTICLE IV.**  
**REPRESENTATIONS AND WARRANTIES OF BUYER**

Buyer hereby represents and warrants to Seller as follows:

4.01 Organization and Standing. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

4.02 Authorization. Buyer has full right, power and authority to enter into this Agreement and the Collateral Agreements and to perform its obligations hereunder and thereunder. All corporate and other proceedings required to be taken by Buyer to authorize the execution, delivery and performance of this Agreement and the Collateral Agreements and the consummation of the transactions contemplated hereby and thereby, have been duly and properly taken. This Agreement and the Collateral Agreements have been duly and validly executed and delivered by Buyer and constitute a legal, valid and binding obligation of Buyer, enforceable in accordance with their terms (except as limited by bankruptcy, insolvency and other laws of general application relating to the enforcement of creditors' rights and by general equitable principles). Subject to the approval of the Bankruptcy Court, the entry of the Sale Order, and applicable bankruptcy law, the execution, delivery and performance of this Agreement and the Collateral Agreements by Buyer: (i) does not violate or constitute a breach of or default under any contract, agreement or commitment to which Buyer is a party, under which it is obligated or to which Buyer is subject; and (ii) does not violate any judgment, order, statute, rule or regulation to which Buyer is subject or the certificate of incorporation or by-laws of

Buyer. Subject to the approval of the Bankruptcy Court, the entry of the Sale Order, and applicable bankruptcy law, no consent, approval, license, pennit or authorization of, or registration, declaration or filing with, any Governmental Authority or any third party is required to be obtained or made by or with respect to Buyer in connection with the execution and delivery of this Agreement or the Collateral Agreements or the consummation by Buyer of the transactions contemplated hereby and thereby. Buyer is solvent, has adequate capital, and has the financial wherewithal or committed financial resources to meet Buyer's obligations hereunder and perform the Assumed Obligations.

4.03 Litigation. There are no actions, suits, proceedings or investigations pending in any court or before any Governmental Authority (or, to the knowledge of Buyer, threatened) against Buyer which might result in a material adverse effect on the ability of Buyer to consummate the transactions contemplated hereby and fulfill all of its obligations hereunder.

4.04 Brokers. Except as set forth in Schedule 4.04, all negotiations relative to this Agreement and the transactions contemplated hereby have been carried out by Buyer directly with Seller without the intervention of any Person on behalf of Buyer in such manner as to give rise to any valid claim by any Person against Seller for a finder's fee, brokerage commission or similar payment.

4.05 No Application of HSR. No filing will be required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 in connection with the transactions contemplated hereunder, and this representation and warranty shall survive until the one (1) year anniversary of the Closing.

4.06 "AS IS" Transaction. Buyer hereby acknowledges and agrees that, except as otherwise expressly provided in this Agreement, Seller makes no representations or warranties whatsoever, express or implied, with respect to any matter relating to the Business or to the Purchased Assets (including, without limitation, income to be derived or expenses to be incurred in connection with the Business or the Purchased Assets, the physical condition of any personal or real property comprising a part of the Purchased Assets or which is the subject of any Assigned Contract to be assumed by Buyer at the Closing, the environmental condition or other matter relating to the physical condition of any real property or improvements which are the subject of any assigned lease to be assumed by Buyer at the Closing, the zoning of any such real property or improvements, the value or transferability of the Purchased Assets (or any portion thereof), the terms, amount, validity or enforceability of any Assumed Obligations, or the merchantability or fitness of the Purchased Assets). Without in any way limiting the foregoing, other than as expressly set forth in Article III of this Agreement, Seller hereby disclaims any warranty (express or implied) of merchantability or fitness for any particular purpose as to any portion of the Purchased Assets. Buyer further acknowledges that Buyer has had an opportunity to conduct an independent inspection and investigation of the physical

condition of the Purchased Assets, as Buyer deemed necessary or appropriate. Accordingly, if the Closing occurs, Buyer will accept the Purchased Assets at the Closing Date "AS IS," "WHERE IS," and "WITH ALL FAULTS," subject to the provisions of this Agreement and the Sale Order providing that the sale of the Purchased Assets is free and clear of all Liens except as expressly set forth in Schedule A.

**ARTICLE V.**  
**OBLIGATIONS PRIOR TO CLOSING**

From the date of this Agreement through the Closing:

5.01 Buyer's Access to Information and Properties. Seller shall permit Buyer and its authorized employees, agents, accountants, legal counsel and other representatives to have full access upon written request during ordinary business hours of Seller to the books, records, employees, counsel, accountants, engineers and other representatives of Seller as reasonably requested by Buyer for the purpose of fulfilling its obligations hereunder and consummating the transaction contemplated hereby. Seller shall make available to Buyer upon written request during ordinary business hours for examination and reproduction (or electronically) copies of all documents and data of every kind and character relating to the Business in possession or control of, or subject to reasonable access by, Seller, including, without limitation, all files, records, data and information, relating to the Business and the Purchased Assets (whether stored in paper, magnetic or other storage media) and all agreements, instruments, contracts, assignments, certificates, orders, and amendments thereto. Also, Seller shall during ordinary business hours allow Buyer upon written request full access to, and the right to inspect, the Business and the Purchased Assets. Notwithstanding anything to the contrary in this Section 5.01, Seller shall not be required to grant Buyer access (i) to any Excluded Confidential Information, (ii) to any other confidential information relating exclusively to Excluded Assets and/or Excluded Liabilities, or (iii) as prohibited by any Legal Requirement.

5.02 Seller's Conduct of Business and Operations. Seller shall keep Buyer reasonably advised, to the extent permitted by Legal Requirements, as to all changes to material operations and proposed material operations relating to the Purchased Assets. Seller shall comply in all material respects with the terms, provisions and conditions of the Bankruptcy Code. Except (i) as otherwise contemplated in this Agreement and (ii) for the termination of employment of any or all Employees of Seller other than the Hired Employees, Seller will use its commercially reasonable efforts to preserve the relationships of Seller existing as of the date hereof with Persons having significant business relations with Seller with respect to the Business or the Purchased Assets.

5.03 Buyer Notifications. Buyer shall give prompt notice to Seller of any representation or warranty made by Buyer contained in this Agreement becoming materially untrue or inaccurate or any failure of Buyer to comply with or satisfy in any

material respect any covenant, condition, or agreement to be complied with or satisfied by it under this Agreement

5.04 Removal of Excluded Equipment. The assets listed on Schedule C shall be removed by Seller from the applicable Assumed Facilities within thirty (30) days after the Closing Date.

5.05 Employee Cooperation; Selected Employees. Buyer, in consultation with Seller, shall determine those employees and independent contractors of Seller employed or engaged in connection with the Business to whom Buyer will offer employment (or engagement as an independent contractor) prior to or at the Closing, and shall provide Seller one or more lists collectively setting forth all such employees and independent contractors (the "Selected Employees") Seller shall not take any action, directly or indirectly, to prevent or discourage any employee or independent contractor previously so identified to Seller by Buyer as a Selected Employee from accepting employment (or engagement as an independent contractor, as the case may be) with Buyer, provided that Seller may offer Selected Employees part time employment as consultants in connection with the winddown of Seller's operations, and Buyer shall reasonably cooperate in accommodating such Selected Employees' consultation. Notwithstanding the foregoing, nothing herein shall obligate Seller to incur any expenses relating to its cooperation hereto (and pursuant to Section 8.01). Additionally, to the extent reasonably necessary in connection with the disposition of inventory and fulfillment of outstanding purchase orders retained by Seller following the Closing, for a period of thirty (30) days following the Closing Date, Buyer shall allow Seller to utilize on a part-time basis the services of inventory managers who are Hired Employees, provided that Seller shall reimburse Buyer for a portion of the salary of each such Hired Employee during such period corresponding to the percentage of such Hired Employee's time spent performing services for Seller (as opposed to Buyer) Buyer shall in no way be liable for the acts or omissions of such inventory managers in connection with their performance of services for Seller. In addition, Seller shall use commercially reasonable efforts to cause Buyer to be added as an additional loss insured on its insurance policies (to the extent applicable to the actions taken by such employees) on or prior to the Closing. Seller shall provide Buyer with reasonable access to communicate with the employees and independent contractors of Seller (with respect to the Business) from the date hereof through the Closing. Notwithstanding the foregoing, at Seller's request, Buyer shall hold open, for a period of not more than three (3) weeks, a position of employment for those Selected Employees to whom Seller offers employment during a winddown phase (subject to such Selected Employees' acceptance of such position).

5.06 Transitional Access.

(a) Notwithstanding anything to the contrary in this Agreement, for a period of twenty (20) days after the Closing Date, or such other number of days as

mutually agreed by Buyer and Seller, Buyer shall allow Seller to store, without any charge but at Seller's sole risk of loss, the Excluded Assets at the Assumed Facilities and the facilities of the Assigned Subsidiaries where such Excluded Assets were located on the Closing Date and Buyer shall reasonably cooperate with Seller (including, without limitation, to allow Seller, without any charge, for a period of twenty (20) days following the Closing Date, or such other number of days as mutually agreed by Buyer and Seller, reasonable access to the Assumed Facilities, the facilities of the Assigned Subsidiaries, the inventory tracking and other software and computer systems historically used by Seller or any of the Assigned Subsidiaries in connection with the Business, and the other Purchased Assets and assets of the Assigned Subsidiaries, in each case to the extent reasonably required and requested by Seller) in order to allow Seller to remove the Excluded Assets (including, without limitation, Inventory) within twenty (20) days after the Closing Date, or such other number of days as mutually agreed by Buyer and Seller, from the Assumed Facilities and the facilities of the Assigned Subsidiaries and to transfer such Excluded Assets to facilities retained by Seller and the Excluded Subsidiaries and/or sell or otherwise dispose of such Excluded Assets.

(b) Notwithstanding anything to the contrary in this Agreement, for a period of twenty (20) days after the Closing Date, or such other number of days as mutually agreed by Buyer and Seller, Seller shall allow Buyer to store, without any charge but at Buyer's sole risk of loss, the Purchased Assets at the facilities not assumed by Buyer where such Purchased Assets were located on the Closing Date and Seller shall reasonably cooperate with Buyer (including, without limitation, to allow Buyer, without any charge, for a period of twenty (20) days following the Closing Date, or such other number of days as mutually agreed by Buyer and Seller, reasonable access to the facilities not assumed by Buyer to the extent reasonably required and requested by Buyer) in order to allow Buyer to remove such Purchased Assets (including, without limitation, Inventory) within twenty (20) days after the Closing Date, or such other number of days as mutually agreed by Buyer and Seller, from the facilities not assumed by Buyer and to transfer such Purchased Assets to the Assumed Facilities.

5.07 Returns. Seller shall use commercially reasonable efforts to, as of immediately prior to Closing, have processed all returns it has received to such time, and shall adjust the Accounts Receivable accordingly.

5.08 Regulatory Filings: Commercially Reasonable Efforts.

(a) Regulatory Filings. Buyer and Seller shall coordinate and cooperate with one another and shall each use commercially reasonable efforts to comply with, and shall each refrain from taking any action that would impede compliance with, all Legal Requirements, and as promptly as practicable after the date hereof, Buyer and Seller shall make all filings, notices, petitions, statements, registrations, submissions of information, application or submission of other documents required by any Governmental Authority in

connection with the transactions contemplated hereby, including, if applicable: (i) Notification and Report Forms with the FTC and DOJ as required by the HSR Act, and (ii) filings under any other comparable pre-merger notification forms required by the merger notification or control laws of any applicable jurisdiction, as agreed by the parties hereto. Buyer and Seller shall comply as promptly as practicable with any request for additional information, documents or other materials received by such party hereto or any of its Subsidiaries or Affiliates from any Governmental Authority. Buyer and Seller will cause all documents that they are responsible for filing with any Governmental Authority under this Section 5.08(a) to comply in all material respects with all applicable Legal Requirements.

(b) Exchange of Information. Buyer and Seller each shall promptly supply the other with any information which may be required in order to effectuate any filings or application pursuant to this Section 5.08. Except where prohibited by applicable Legal Requirements, and subject to the Confidentiality Agreement, Buyer and Seller shall consult with outside counsel to the other prior to taking a position with respect to any such filing, shall permit outside counsel to the other to review and discuss in advance, and consider in good faith the views of the other in connection with any analyses, appearances, presentations, memoranda, briefs, white papers, arguments, opinions and proposals before making or submitting any of the foregoing to any Governmental Authority by or on behalf of any party hereto in connection with any investigations or other proceedings in connection with this Agreement or the transactions contemplated hereby (including under any antitrust laws or other fair trade Legal Requirement), coordinate with outside counsel to the other in preparing and exchanging such information and promptly provide outside counsel to the other with copies of all filings, presentations or submissions (and a summary of any oral presentations) made by such party to any Governmental Authority in connection with this Agreement or the transactions contemplated hereby, provided that with respect to any such filing, presentation or submission, Buyer and Seller need not supply outside counsel to the other with copies (or in case of oral presentations, a summary) to the extent that any Legal Requirement requires such party or its Subsidiaries to restrict or prohibit access to any such properties or information.

(c) Notification. Buyer and Seller will notify the other promptly upon the receipt of any comments from any officials of any Governmental Authority regarding this Agreement or the transactions contemplated hereby, including any filings made pursuant hereto and information provided to comply with any Legal Requirements. Whenever any event occurs that is required to be set forth in an amendment or supplement to any filing made pursuant to Section 5.08(a), Buyer and Seller, as the case may be, will promptly inform the other of such occurrence and cooperate in filing with the applicable Governmental Authority such amendment or supplement.

(d) Commercially Reasonable Efforts. Upon the terms and subject to the conditions set forth herein, each of the parties agrees to use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement. Notwithstanding the foregoing or anything to the contrary herein, Buyer acknowledges and agrees that the transactions provided for herein are and shall be subject to higher and better offers and that Seller shall not be in breach of this Agreement, including any implied covenant of good faith and fair dealing, in soliciting, evaluating, or pursuing any competing offers for a competing sale, either alone or in connection with any other organic transactions or agreements to sell or transfer some or all of their operations or assets, or in taking any other actions as may be required to fulfill their legal and/or fiduciary duties to their creditors and stakeholders or maximize their own values, provided that such actions of Seller are in accordance with the applicable procedures set forth in the Procedures Order. Buyer acknowledges and agrees that in the event Seller takes such actions the Stalking Horse Protections, when and to the extent payable pursuant to the terms of the Procedures Order and/or Section 2.04(d), shall constitute its sole remedy and protection.

5.09 Conduct of Business. From the date hereof through the Closing Date, Seller shall not sell or otherwise transfer or dispose of any APG Inventory to any existing customers or any other parties except to the extent that such sale(s), as of the date hereof, are currently the subject of existing purchase orders or necessary to fulfill existing delivery schedules.

5.10 Transition Services Agreement. The parties agree that, to the extent either party determines that the conduct of its business following the Closing requires any transitional services not provided for in this Agreement or requires additional details with respect to transitional arrangements not specified in this Agreement, the parties agree to mutually negotiate in good faith prior to Closing to reach a mutually acceptable Transition Services Agreement, which would be executed and delivered by each party at Closing.

5.11 Operating Expense Reductions. As and when practicable and for the information of Seller in connection with Seller's overall cost-reduction scheme, Buyer shall from time to time identify to Seller such aspects or elements of Seller's business which Buyer does not contemplate will be used by Buyer in the operation of its business on and after the Closing.



**ARTICLE VI.**  
**CONDITIONS TO SELLER'S AND BUYER'S OBLIGATIONS**

6.01 Conditions to Obligations of Seller. The obligations of Seller to carry out the transactions contemplated by this Agreement are subject, at the option of Seller, to the satisfaction, or waiver by Seller, of the following conditions:

(a) All representations and warranties of Buyer contained in this Agreement shall be true and correct at and as of the Closing, except to the extent all such inaccuracies have not had, and could not reasonably be expected to have, a Material Adverse Change with respect to Buyer. Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by terms such as "material", in which case Buyer shall have performed and complied with all of such covenants in all respects through the Closing.

(b) Buyer shall have furnished Seller with a certified copy of all necessary corporate action on its behalf approving its execution, delivery and performance of this Agreement.

(c) As of the Closing Date, no suit, action or other proceeding (excluding any such matter initiated by or on behalf of Seller or any stockholder of Seller) shall be pending or threatened before any Governmental Authority seeking to restrain Seller with respect to the transaction contemplated hereby or prohibit the Closing.

(d) Buyer shall have delivered at Closing all documents required to be delivered by Buyer pursuant to Section 2.03 hereof.

(e) An order approving this Agreement and the transaction provided herein shall have been entered by the Bankruptcy Court by March 2, 2007, and such order shall be in compliance in all material respects with the requirements with respect thereto set forth in Article VII hereof that materially affect the transaction provided for herein, and shall be final and non-appealable.

(f) If Buyer does not purchase all of the stock of AMS UK and AMS Mexico at Closing, the Foreign Asset Transfer Conditions shall have been satisfied.

6.02 Conditions to Obligations of Buyer. The obligations of Buyer to carry out the transactions contemplated by this Agreement are subject, at the option of Buyer, to the satisfaction, or waiver by Buyer, of the following conditions:

(a) All representations and warranties of Seller contained in this Agreement shall be true and correct at and as of the Closing, except to the extent all such inaccuracies have not had, and could not reasonably be expected to have, a material

adverse effect on the Business or the value or condition of the Purchased Assets. Seller shall have performed and complied with all of its covenants under this Agreement in all material respects through the Closing, except to the extent that such covenants are qualified by terms such as "material", in which case Seller shall have performed and complied with all of such covenants in all respects through the Closing.

(b) Seller shall have furnished Buyer with a certified copy of all necessary corporate action on its behalf approving its execution, delivery and performance of this Agreement and Buyer and its counsel shall have received all such counterpart originals or copies of such actions as it or they may reasonably request including, without limitation, duly authorized corporate resolutions of the board of directors of Seller.

(c) As of the Closing Date, no suit, action or other proceeding (excluding any such matter initiated by or on behalf of Buyer) shall be pending or threatened before any Governmental Authority seeking to restrain Buyer with respect to the transaction contemplated in this Agreement or prohibit the Closing.

(d) The Procedures Order shall have been entered by the Bankruptcy Court by February 16, 2007, shall be in compliance in all material respects with any applicable requirements with respect thereto pursuant to Article VII hereof, and shall be final and non-appealable.

(e) An order approving this Agreement and the transaction provided herein shall have been entered by the Bankruptcy Court by March 2, 2007, and such order shall be in compliance in all material respects with the requirements with respect thereto set forth in Article VII hereof that materially affect the transaction provided for herein, and shall be final and non-appealable.

(f) There shall not have been a Material Adverse Change with respect to Seller since the date of this Agreement.

(g) Seller shall have delivered at Closing all documents required to be delivered by Seller pursuant to Section 2.02 hereof.

#### **ARTICLE VII. BANKRUPTCY COURT APPROVAL**

7.01 Bankruptcy Approval Necessary. The approval of the Bankruptcy Court is required for the transactions contemplated by this Agreement to be enforceable. As soon as reasonably practicable but in no event more than three (3) business days following execution of the Agreement, Seller shall file or shall have filed a notification of Stalking Horse Bidder pursuant to the Motion of Debtors and Debtors in Possession Pursuant to

Sections 105(a), 363 and 364 of the Bankruptcy Code For an Order Approving Qualified Transaction Procedures filed by the debtors with the Bankruptcy Court on January 8, 2007 so that such motion is modified to seek the sale procedures and break-up fee outlined hereinbelow (the "Procedures Motion"), and (ii) a motion with the Bankruptcy Court seeking approval of this Agreement (the "Sale Motion"), each in form and substance consistent with this Agreement and materially and reasonably acceptable to Buyer.

(a) Procedures. The Procedures Motion shall seek entry of an order (the "Procedures Order") providing, in substance, for, and approving in their entirety, the bidding procedures listed on Schedule 7.01.

(b) Sale Order. The Sale Motion shall seek entry of an order (the "Sale Order"), in form and substance mutually and reasonably acceptable to Buyer and Seller, approving and authorizing this Agreement and the transactions contemplated hereby and implementation thereof and providing for all necessary and customary findings and holdings, including but not limited to the following:

(i) Seller has extensively and for a substantial period marketed the Purchased Assets, and all interested parties, potential bidders and parties who hold Liens in the Purchased Assets have received proper and adequate notice of the sale in accordance with the Bankruptcy Code and applicable orders of the Bankruptcy Court, including the Procedures Order and any other related orders;

(ii) Seller is authorized and directed to consummate and implement the transaction contemplated under this Agreement;

(iii) the terms of this Agreement are fair and reasonable and provide fair value for the Purchased Assets, Buyer's bid is the highest and best offer for the Purchased Assets, and the sale of the Purchased Assets to Buyer is in the best interests of Seller and its creditors and Seller's chapter 11 estate;

(iv) except as may be provided in this Agreement, the Purchased Assets are being sold free and clear of any and all Liens, with any such Liens to attach to the sale proceeds to be received by Seller in the same priority and subject to the same defenses and avoidability, if any, as before the Closing, and Buyer would not enter into this Agreement or purchase the Purchased Assets otherwise;

(v) the transfer of the Purchased Assets to Buyer will be a legal, valid and effective transfer of the Purchased Assets, and will vest Buyer with all right, title and interest of Seller to the Purchased Assets free and clear of any and all Liens, including any such Liens (A) that purport to give to any party a right or option to effect any forfeiture, modification, right of first refusal, or termination of

Seller's or Buyer's interest in the Purchased Assets, or similar rights, or (B) relating to Taxes or any other liabilities relating to the Purchased Assets, Seller, or the Business, other than the Assumed Obligations;

(vi) Seller's assignment and Buyer's assumption of the Assigned Contracts is approved on the terms provided in this Agreement, and Buyer has provided adequate assurances of future performance thereunder;

(vii) Buyer is a good faith buyer entitled to the protections afforded by Bankruptcy Code section 363(m) such that the reversal or modification on appeal of the Sale Order shall not affect the validity of the sale of the Purchased Assets as contemplated hereunder, negotiations have been fair and arms' length, and no party has engaged in any conduct that would cause the sale to be avoided under Bankruptcy Code section 363(n); and

(viii) Buyer shall have no obligations with respect to any Liabilities of Seller other than the Assumed Obligations and its obligations under this Agreement and the Collateral Agreements.

(ix) Upon the Closing of the Agreement and the transactions contemplated thereby, Buyer shall not be deemed to (i) be the successor to Seller, (ii) have, defacto or otherwise, merged with or into Seller, or (iii) be a continuation or substantial continuation of Seller or the enterprise of Seller.

(x) The Closing Payoff Amount shall be paid as directed by Wells Fargo Foothill for application to the obligations under the Prepetition Credit Agreement and the DIP Credit Agreement.

Additionally, and without in any way limiting the effect of Sections 2.01 and 6.02(e), the Sale Motion shall request that the Sale Order provides that it shall become effective immediately and that the provisions of Federal Rules of Bankruptcy Procedure 6004(h) and 6006(d) shall be waived for cause.

7.02 Waiver of Conditions. Seller may waive any or all of the conditions precedent in Section 6.01 of this Agreement, and Buyer may waive any and all of the conditions precedent in Section 6.02, in either case by written notification to the other party.

7.03 Executory Contracts.

(a) Subject to the terms and conditions of this Agreement, and in reliance on the representations, warranties and covenants set forth in this Agreement, Seller shall, pursuant to Section 365 of the Bankruptcy Code, with the approval and pursuant to order of the Bankruptcy Court, assume and then sell, assign, transfer and

convey to Buyer all Assigned Contracts, to the extent executory. Nothing herein shall constitute an admission that any Assigned Contract is an executory contract.

(b) Buyer shall be responsible for any and all monetary cures or other payments required under Bankruptcy Code Section 365 to assume and assign the Assigned Contracts to Buyer, and Buyer shall be responsible for providing evidence as to the adequate assurance of future performance required under Section 365 of the Bankruptcy Code. The Sale Order shall provide that the assumption and assignment to Buyer of the Assigned Contracts is approved, subject only to (i) payment of all cures or other payments or actions required to assume and assign the Assigned Contracts to Buyer and (ii) Buyer's right to exclude any Contract from the definition of Assigned Contracts in accordance with the terms of this Section 7.03.

(c) Should Buyer or Seller, following the date hereof and prior to the Contract Determination Date, identify any executory contract of Seller that (i) is not listed on Schedule B, (ii) relates to the Business, (iii) is not an Excluded Asset (and does not relate exclusively to Excluded Assets), and (iv) a copy (true and correct in all substantive respects) of which was not made available to Buyer at least one (1) business day prior to the date hereof, Seller shall, as and if requested in writing by Buyer, take commercially reasonable efforts, and in compliance with Section 365 of the Bankruptcy Code, to assume and assign such executory contract pursuant to the terms of this Agreement.

(d) Buyer shall have the right to designate any Contract that would otherwise be a Purchased Asset as an Excluded Asset by written notice to Seller at any time prior to the date that is sixty (60) days following the Closing Date or, if such date does not fall on a business day, the next succeeding business day (the "Contract Determination Date"). Such Contracts shall be deemed Excluded Assets for all purposes hereunder upon such notice to Seller.

(e) In the event Buyer elects after the Closing Date to exclude any Contracts from the Assigned Contracts in accordance with the preceding Section 7.03(d), then notwithstanding anything to the contrary herein, Buyer shall indemnify Seller and Seller's bankruptcy estate for all amounts that arise under each such Contract (including amounts due, damages, and reasonable attorney's fees and costs with respect thereto), if any, during the period from and including the Closing Date to the date such Contract is excluded from the Assigned Contracts.

(f) If any non-debtor party to an executory contract objects to the assumption and assignment of such Contract, and such party's consent is required under Section 365(c) of the Bankruptcy Code for the assumption and assignment of such executory contract to Buyer, Buyer agrees that such executory contract shall be deemed an Excluded Asset, without any adjustment to the Purchase Price (and no such circumstance shall, individually or in the aggregate constitute a Material Adverse Change

with respect to Seller or otherwise give Buyer a right to terminate this Agreement or not close the transaction contemplated hereby), unless such consent is obtained.

**ARTICLE VIII.**  
**POST-CLOSING OBLIGATIONS**

**8.01 Employees.**

(a) Effective as of the end of business on the Closing Date, Buyer will offer to employ certain employees and independent contractors of Seller. Seller shall provide commercially reasonable cooperation and assistance to Buyer in transitioning such employees who accept such offers to employment with Buyer.

(b) To the extent permitted under the benefit plans of Buyer in which the Hired Employees are enrolled (the "Buyer Plans"), Buyer shall take all necessary actions to provide that Hired Employees will receive full credit for years of service with Seller under the Buyer Plans to the extent taken into account for such purposes under the benefit plans of Buyer.

(c) To the extent permitted under the Buyer Plans, Buyer shall give credit under those of its Buyer Plans that are welfare benefit plans for all amounts credited toward deductibles and out-of-pocket maximums, and time accrued against applicable waiting periods, by Hired Employees (including their eligible dependents), in respect of the calendar year in which the Closing occurs. For any Hired Employee or dependent of a Hired Employee who has satisfied Seller's pre-existing condition exclusion and/or who has creditable coverage from another group plan or individual plan, such Hired Employee or such dependent would not be subject to Buyer's pre-existing condition exclusion. If a Hired Employee or dependent of a Hired Employee has partially satisfied Seller's pre-existing condition exclusion, the amount of time credited to the completion of that pre-existing condition exclusion will be honored by Buyer.

(d) Buyer shall be responsible for making continuation coverage under IRC Section 4980B and Sections 601-608 of ERISA ("COBRA") available to any Hired Employee and any eligible spouse or dependent who experiences a "qualifying event," as defined in IRC Section 4980B(f)(3), after the Closing Date

**8.02 Further Assurances.** Following the Closing, Seller and Buyer shall execute and deliver such documents, and take such other actions, as shall be reasonably requested by the other party to carry out the transactions contemplated by this Agreement. Following the Closing and upon reasonable notice, both Buyer and Seller shall provide any and all documentation relating to the Purchased Assets that is reasonably requested by each other.

8.03 Maintenance and Disposition of Records. Buyer will preserve and maintain the Records for a period of two (2) years following the Closing Date. After such two-year period, Buyer will provide at least 60 days prior written notice to Seller, c/o O'Melveny & Myers LLP, of their intent to dispose of any such Records, and Seller and its Affiliates will be given the opportunity, at their cost and expense, to remove and retain all or any part of such Records as they may select.

8.04 Intellectual Property. Buyer hereby grants Seller a non-exclusive, perpetual, royalty-free license (or sublicense, as the case may be), exclusively in connection with the disposition of the Inventory not purchased by Buyer hereunder and the performance of the Excluded Liabilities, in and to the Intellectual Property and all rights in, to and under the Assigned Contracts as in each case are embodied in such Inventory, are otherwise necessary to the disposition of the Inventory, or are necessary to the performance of the Excluded Liabilities, in each case without breach of any Contract or Legal Requirement. If Buyer is unable to provide such license or sublicense without breach of any Contract or Legal Requirement, then, Buyer shall cooperate with Seller in any reasonable arrangement designed to provide to Seller the benefits of such a license or sublicense, whether directly or through Buyer acting as an agent for Seller.

**ARTICLE IX.**  
**MISCELLANEOUS**

9.01 Prorations. The parties agree that financial responsibility for (i) all water, gas, electricity and other utilities, sewer, and other municipal charges, common area maintenance reimbursements to lessors, local business or other license fees, merchants' association dues, rental payments, and other similar periodic charges and assessments (including such of the foregoing which have or may become a lien thereon, whether or not recorded, prior to the Closing Date) for which Buyer shall be responsible under the Assumed Facilities and the facilities of the Assigned Subsidiaries and other real property interests and interests in related improvements acquired by Buyer hereunder (whether by fee ownership or as the result of an Assigned Contract), and (ii) any real estate and personal property Taxes thereon or otherwise respect to the Purchased Assets that are due or become due without acceleration for any Straddle Period ((i) and (ii) collectively, the "Apportioned Obligations"), and any refund, rebate or similar payment received by Seller or Buyer for any Taxes that are Apportioned Obligations, will be apportioned between Seller and Buyer by dividing (A) the number of days in the applicable Straddle Period falling on or before the Closing Date and the number of days in the applicable Straddle Period falling after the Closing Date by (B) the total number of days in such Straddle Period, and multiplying the result by the total amount of such Apportioned Obligations for such Straddle Period. Seller will be responsible for the amount apportioned to days on or before the Closing Date and will pay any Apportioned Obligations which are due and payable prior to the Closing, and Buyer will be responsible for the amount apportioned to

days after the Closing Date and will pay any Apportioned Obligations which are due and payable after the Closing. The Purchase Price shall be adjusted up or down as appropriate based on the amount of the Apportioned Obligations. The proration of the Apportioned Obligations made pursuant to this Section 9.01 shall be final and in no event shall Seller be responsible for any Apportioned Obligations attributable to any period after the Closing Date.

9.02 Confidentiality. The parties acknowledge that Seller and Buyer have previously executed a confidentiality agreement dated July 12, 2006 (the "Confidentiality Agreement"), which Confidentiality Agreement will continue in full force and effect in accordance with its terms (subject to any modification thereof that has occurred or may subsequently occur as a matter of Legal Requirement as a result of the Bankruptcy Case).

9.03 Costs and Expenses Except as otherwise expressly provided in this Agreement, each of the parties to this Agreement shall bear its own expenses incurred in connection with the negotiation, preparation, execution and closing of this Agreement and the transactions contemplated hereby. Without limiting the foregoing, each party shall bear the expenses of any finder, broker, agent or other intermediary who acted for or on behalf of such party in connection with the negotiation or consummation of the transactions contemplated hereby.

9.04 Notices. Any notice, request, instruction, correspondence or other document to be given hereunder by any party hereto to another (herein collectively called "notice") shall be in writing and delivered personally or mailed by registered or certified mail, postage prepaid and return receipt requested, or by facsimile, as follows:



IF TO BUYER:

Mr. James Melton  
Baker & Taylor, Inc  
2550 West Tyvola Road  
Charlotte, North Carolina 28217

With a copy to:

Schulte Roth & Zabel LLP  
919 Third Avenue  
New York, New York 10022  
(212) 593-5955

And

Troutman Sanders LLP  
405 Lexington Avenue  
New York, New York 10174  
Mitchel H. Perkiel, Esq.  
(212) 704-5915

IF TO SELLER:

Advanced Marketing Services, Inc.  
5880 Oberlin Drive  
San Diego, California 92121  
Attention: Chief Executive Officer  
Facsimile: (858) 452-2237

With a copy to:

O'Melveny & Myers LLP  
610 Newport Center Drive, Suite 1700  
Newport Beach, California 92660-6429  
Attention: Gary J Singer, Esq.  
Facsimile: (949) 823-6994

and

O'Melveny & Myers LLP  
Embarcadero Center West  
275 Battery Street  
San Francisco, CA 94111-3305  
Attention: Suzanne S Uhland, Esq.  
Facsimile: (415) 984-8701

Each of the above addresses for notice purposes may be changed by providing appropriate notice hereunder. Notice given by personal delivery or registered mail shall be effective upon actual receipt. Notice given by facsimile shall be effective upon actual receipt if received during the recipient's ordinary business hours, or at the beginning of the recipient's next normal business day after receipt if not received during the recipient's

ordinary business hours. All notices by facsimile shall be confirmed by the sender thereof promptly after transmission in writing by registered mail or personal delivery. Anything to the contrary contained herein notwithstanding, notices to any party hereto shall not be deemed effective with respect to such party until such notice would, but for this sentence, be effective both as to such party and as to all other Persons to whom copies are provided above to be given.

9.05 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware without reference to the choice of law principles thereof, that defer to or result in the application of the substantive laws of another jurisdiction. Venue and jurisdiction for any legal action concerning this Agreement will be exclusively in the Bankruptcy Court.

9.06 Entire Agreement; Amendments and Waivers. This Agreement, together with all Schedules attached hereto and all Collateral Agreements and the Confidentiality Agreement, constitutes the entire agreement between and among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties (including, without limitation, that certain Letter of Intent between Buyer and Seller dated February 12, 2007), and there are no warranties, representations or other agreements between the parties in connection with the subject matter hereof except as set forth specifically herein or contemplated hereby. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (regardless of whether similar), nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

9.07 Binding Effect and Assignment. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns; but neither this Agreement nor any of the rights, benefits or obligations hereunder shall be assigned, by operation of law or otherwise, by any party hereto without the prior written consent of the other party, provided, however, that nothing herein shall prohibit the assignment, whether prior to or after Closing, of all (but not less than all) of Buyer's rights and obligations to one or more direct or indirect Subsidiaries or other Affiliates of Buyer (including Subsidiaries or Affiliates to be formed after the execution of this Agreement) or financing sources of Buyer solely for purposes of collateral security, each of which shall be a "Buyer" hereunder (for purposes of clarification, Buyer may opt to create one or more Affiliates or Subsidiaries for purposes of taking title to one or more subsets of the Purchased Assets at the Closing, and such transfers shall for all purposes be and be deemed to be sales and transfers hereunder and under the Sale Order); provided that notwithstanding any such assignment Buyer shall remain liable for all performance required of Buyer under this Agreement, and provided further that nothing

herein shall prohibit the assignment, whether prior to or after Closing, of this Agreement or any rights or obligations hereunder by Seller to a successor to Seller to the extent provided by operation of the Bankruptcy Code (or other laws or Legal Requirements). Nothing in this Agreement, express or implied, is intended to confer upon any Person other than the parties hereto and their respective permitted successors and assigns any rights, benefits or obligations hereunder.

9.08 Remedies. The rights and remedies provided by this Agreement are cumulative, and the use of any one right or remedy by any party hereto shall not preclude or constitute a waiver of its right to use any or all other remedies. Such rights and remedies are given in addition to any other rights and remedies a party may have by law, statute or otherwise.

9.09 Schedules. The Schedules referred to herein are attached hereto and incorporated herein by this reference.

9.10 Multiple Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

9.11 Construction. The provisions of this Agreement shall be construed according to their fair meaning and neither for nor against any party hereto irrespective of which party caused such provisions to be drafted. Each of the parties acknowledge that it has been represented by an attorney in connection with the preparation and execution of this Agreement.

9.12 Survival. Provided the Closing occurs, the representations and warranties and the covenants required to be performed prior to the Closing Date contained in this Agreement shall terminate as of the Closing Date (other than the representations and warranties contained in Section 4.05). All covenants and other obligations required to be performed after the Closing Date shall survive the Closing Date.

9.13 Attorneys' Fees. In the event any suit or other legal proceeding is brought for the enforcement of any of the provisions of this Agreement, the parties hereto agree that the prevailing party or parties shall be entitled to recover from the other party or parties upon final judgment on the merits reasonable attorneys' fees, including attorneys' fees for any appeal, and costs incurred in connection with such suit or proceeding.

9.14 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or part thereof, not essential to the commercial purpose of this Agreement, or the application thereof to any Person or any circumstance, is illegal, invalid or unenforceable, (i) a

suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (ii) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability.

9.15 Benefit; Risk of Loss. Upon consummation of the Closing, Buyer will receive the benefits of the Purchased Assets and accrue the obligations of the Assumed Obligations (including with respect to the Assigned Contracts) from and after 12:01 a.m. EST on the Closing Date, and as of such time, the risk of loss of the Purchased Assets shall be deemed transferred from Seller to Buyer.

#### ARTICLE X. DEFINITIONS

Capitalized terms used in this Agreement are used as defined in this Article X or elsewhere in this Agreement.

##### 10.01 Definitions.

(a) Accounts Receivable Price. The term "Accounts Receivable Price" shall be an amount equal to \_\_\_\_\_ of the net aggregate face amount of the Accounts Receivable as of the Closing Date, as set forth on the books and records of Seller. For the avoidance of doubt, Accounts Receivable shall equal the gross amount of the Accounts Receivable less any and all allowances, reserves or deductions for doubtful accounts as set forth on the books and records of Seller.

(b) Affiliate. The term "Affiliate" shall mean, with respect to any Person, any other Person controlling, controlled by or under common control with such Person. The term "Control" as used in the preceding sentence means, with respect to a corporation, the right to exercise, directly or indirectly, more than 50% of the voting rights attributable to the shares of the controlled corporation and, with respect to any Person other than a corporation, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person.

(c) AMS Investments. The term "AMS Investments" means Advanced Marketing Services Investments, Inc., a wholly-owned direct Subsidiary of Seller.

(d) AMS UK. The term "AMS UK" shall mean Advanced Marketing (Europe) Limited, a wholly-owned direct Subsidiary of Seller.

(e) AMS Mexico. The term "AMS Mexico" shall mean Advanced Marketing S. de R.L. de C.V., a wholly-owned Subsidiary of Seller in which Seller holds

a 99% equity interest directly and the remaining 1% equity interest indirectly through AMS Investments.

(f) APG. The term "APG" shall mean Advantage Publishers Group, a division of Seller.

(g) APG Product Prepayments. The term "APG Product Prepayments" shall mean Product Prepayments with respect to APG.

(h) APG Product Prepayment Price. The term "APG Product Prepayment Price" shall mean an aggregate amount that is equal to of the APG Product Prepayments.

(i) Assigned Subsidiaries. The term "Assigned Subsidiaries" shall mean AMS UK, AMS Mexico, and AMS Investments.

(j) Assumed Facilities. The term "Assumed Facilities" shall mean, collectively, the following facilities of Seller:

- (i) Indianapolis, Indiana Returns Center
- (ii) Sacramento, California
- (iii) Ashland, Oregon
- (iv) Bentonville, Arkansas.

(k) Benefit Plan. The term "Benefit Plan" means a "defined benefit plan" (as defined in Section 3(35) of ERISA).

(l) Breach Fee. The term "Breach Fee" means a payment equal to million.

(m) Break-Up Fee. The term "Break-Up Fee" means the amount equal to of the sum of (i) (ii) the minimum Selected APG Inventory Purchase Price, (iii) the Seller's and Buyer's jointly established good faith estimate of the APG Product Prepayment Price, and (iv) the Seller's and Buyer's jointly established good faith estimate of the Accounts Receivable Price.

(n) Business. The term "Business" shall mean the business conducted by Seller as of the date hereof, consisting of (i) wholesaling and contract distribution of general interest books and other media (and the provision of certain related supply chain and other services) to membership warehouse clubs and other retailers, and (ii) through APG, publishing and repackaging books and marketing such books through Seller's separate wholesale and distribution product sales channels, but, for avoidance of doubt,

not including the business conducted by PGI/PGW or any other Subsidiary or Affiliate of Seller (or any Subsidiary of any such Subsidiary or Affiliate).

(o) Closing Payoff Amount. The term "Closing Payoff Amount" shall mean an amount equal to all debts outstanding as of the Closing Date pursuant to (i) that certain Loan and Security Agreement dated April 27, 2004, by and among Seller, PGI/PGW, certain lenders, and Wells Fargo Foothill, Inc., as amended (the "Prepetition Credit Agreement") and (ii) that certain Amended and Restated Loan and Security Agreement (Debtor in Possession), dated as of January 3, 2007 by and among Seller, certain of its Subsidiaries, Wells Fargo Foothill and certain other lenders (the "DIP Credit Agreement"). Such amounts shall be paid as directed by Wells Fargo Foothill for application to the obligations under the Prepetition Credit Agreement and the DIP Credit Agreement.

(p) Collateral Agreements. The term "Collateral Agreements" shall mean any or all other agreements, instruments or documents required or expressly provided under this Agreement to be executed and delivered in connection with the transactions contemplated by this Agreement.

(q) Contracts. The term "Contracts," when described as being those of or applicable to any Person, shall mean any and all contracts, agreements, franchises, understandings, arrangements, leases, licenses, registrations, authorizations, easements, servitudes, rights of way, mortgages, bonds, notes, guaranties, liens, or other instruments or undertakings to which such Person is a party or to which or by which such Person or the property of such Person is subject or bound, and (except with respect to pre-Closing Contracts of Buyer) relating in any manner to or associated with the Business or the Purchased Assets.

(r) Employee Plan. The term "Employee Plan" means, as of the Closing Date, all written plans, practices and arrangements, formal or informal, whether applicable to a group of individuals or a single individual, and whether active, frozen or terminated, currently providing compensation (other than salary or wages) or other benefits of any type or nature with respect to the employees of the Business, including but not limited to all plans providing benefits for such employees that are employee benefit plans as defined in Section 3(3) of ERISA.

(s) ERISA. The term "ERISA" means the Employee Retirement Income Security Act of 1974.

(t) ERISA Affiliate. The term "ERISA Affiliate" means (a) any Person subject to ERISA whose employees are treated as employed by the same employer as the employees of Seller or a Subsidiary of Seller under IRC Section 414(b), (b) any trade or business subject to ERISA whose employees are treated as employed by the same

employer as the employees of Seller or a Subsidiary of Seller under IRC Section 414(c), (c) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any organization subject to ERISA that is a member of an affiliated service group of which Seller or a Subsidiary of Seller is a member under IRC Section 414(m), or (d) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any Person subject to ERISA that is a party to an arrangement with Seller or a Subsidiary of Seller and whose employees are aggregated with the employees of Seller or a Subsidiary of Seller under IRC Section 414(o).

(u) Excluded Subsidiaries. The term "Excluded Subsidiaries" means all Subsidiaries of Seller other than (i) the Assigned Subsidiaries and (ii) the wholly-owned Subsidiaries of the Assigned Subsidiaries (and any wholly-owned Subsidiaries of such Subsidiaries).

(v) Expense Reimbursement. The term "Expense Reimbursement" means reasonable and documented out-of-pocket fees and costs, including costs of counsel, in an amount not to exceed

(w) Governmental Authorities. The term "Governmental Authorities" shall mean any nation or country (including but not limited to the United States) and any commonwealth, territory or possession thereof and any political subdivision of any of the foregoing, including but not limited to courts, departments, commissions, boards, bureaus, agencies, ministries or other instrumentalities.

(x) Hired Employees. The term "Hired Employees" shall mean all employees and independent contractors of Seller prior to the Closing who accept (and commence) employment (or the performance of services as an independent contractor, as the case may be) with Buyer.

(y) Intellectual Property. The term "Intellectual Property" means, with respect to Seller, (a) all trademarks, service marks, trade names, trade dress, product names and slogans both registered and unregistered, and any common law rights and good will appurtenant thereto, and all applications and registrations thereof; (b) all copyrights in copyrightable works and all other ownership rights in any works of authorship, any derivations thereof and all moral rights appurtenant thereto and all applications and registrations thereof; (c) all registered, reserved and unregistered domain names, uniform resource locators and keywords; (d) all computer and electronic data, documentation and software, including both source and object code, computer and database applications and operating programs; (e) all Trade Secrets; (f) the right to sue both in equity and for damages occurring after the Closing of any or all of the foregoing; (g) all existing copies and tangible embodiments of any or all of the foregoing, in whatever form or medium; (h) all right, title and interest (free and clear) in and to Seller's website(s), including without limitation, the framework and infrastructure of such web site(s), the layout design and the

"look and feel" thereof, all related software, source code and object code, all CGI, HTML, XML or other coding, all scripts and applets, all web graphics and data, all navigational buttons, all server configurations, and any and all attendant intellectual property rights therein; (i) all AMS customer data collected in the ordinary course of the Business; and (j) all other intellectual property rights relating to any or all of the foregoing including any renewals, continuations or extensions thereof, in each case as owned by Seller.

(z) Intellectual Property License Rights. Intellectual Property License Rights means any rights of a non-debtor party in, to or under any Intellectual Property of Seller as such rights existed on the Petition Date, to the extent such rights would be enforceable against Seller or Seller's bankruptcy estate under section 365(n) of the Bankruptcy Code.

(aa) Inventory. The term "Inventory" of a Person shall mean finished goods inventory, including inventory in transit in which title has been transferred to such Person (but not including works-in-process, inventory on order, or other inventory in transit and not yet delivered or rights with respect to any thereof) to which such Person holds title that is used or held for use in the conduct of the business of such Person (in the case of Seller, the Business).

(bb) IRC. The term "IRC" means the Internal Revenue Code of 1986, as amended.

(cc) Legal Requirements. The term "Legal Requirements," when described as being applicable to any Person, shall mean any and all laws (statutory, judicial or otherwise), ordinances, regulations, judgments, orders, directives, injunctions, writs, decrees or awards of, and any Contracts with, any Governmental Authority (foreign or domestic), in each case as and to the extent applicable to such Person or such Person's business, operations or properties.

(dd) Liability. The term "Liability" shall mean any debt, liability, commitment and guaranty, warranty or obligation of any kind, character or nature whatsoever, whether known or unknown, secured or unsecured, accrued, fixed, absolute, potential, contingent or otherwise, and whether due or to become due.

(ee) Material Adverse Change. The term "Material Adverse Change" means (i) with respect to Seller, (A) a change in (or effect on) the condition (financial or otherwise), properties, assets (including intangible assets), liabilities (including contingent liabilities), rights, obligations, operations, or business, which change (or effect) is materially adverse to the financial condition, properties, assets, liabilities, rights, obligations, operations, or business of Seller taken as a whole; or (B) a material adverse change in the ability of Seller to consummate the transactions contemplated by this



Agreement and fulfill, in all material respects, all its obligations hereunder, and (b) with respect to Buyer, a material adverse change in the ability of Buyer to consummate the transactions contemplated by this Agreement and fulfill, in all material respects, all of its obligations hereunder. Notwithstanding the foregoing, the following factors and events (and changes or effects arising therefrom) shall not be deemed to be (or to be a partial cause of) a Material Adverse Change with respect to Seller:

(i) the rate of orders and material terminations or reductions or statements of intent to terminate or materially reduce any material customer relationships of Seller; and

(ii) the rate of orders and material terminations or reductions or statements of intent to terminate or materially reduce any material supplier relationships.

(ff) Permits. The term "Permits" shall mean any and all permits, rights, approvals, licenses, authorizations, legal status, orders or Contracts under any Legal Requirement or otherwise granted by any Governmental Authority.

(gg) Person. The term "Person" shall mean any individual, partnership, joint venture, firm, corporation, association, limited liability company, trust or other enterprise or any governmental or political subdivision or any agency, department or instrumentality thereof.

(hh) Product Prepayments. The term "Product Prepayments" shall mean, as of the Closing Date, prepayments made by Seller in respect of the following: (i) works-in-process, and (ii) inventory on order or in transit and not yet delivered, in each case in which title has not yet been transferred to Seller as of the Closing Date.

(ii) PGI/PGW. The term "PGI/PGW" shall mean, collectively, (i) Publishers Group Incorporated, a wholly-owned direct Subsidiary of Seller ("PGI"), and (ii) Publishers Group West Incorporated, a wholly-owned direct Subsidiary of PGI ("PGW").

(ij) Raincoast. The term "Raincoast" shall mean Raincoast Book Distribution, Limited, an Affiliate of Seller.

(kk) Selected APG Inventory Price. The term "Selected APG Inventory Price" shall mean an aggregate amount that is equal to of the aggregate cost charged to Seller for the Selected APG Inventory, provided that the Selected APG Inventory Price (as set forth on the Closing Estimated Price Statement and not as adjusted (if at all) after Closing pursuant to Section 1.02(c)) shall not be less than

(ll) Stalking Horse Protections. The term "Stalking Horse Protections" shall mean the Break-Up Fee and the Expense Reimbursement.

(mm) Straddle Period. The term "Straddle Period" shall mean any Tax or other applicable year or period beginning before the Closing Date and ending after the Closing Date.

(nn) Subsidiary. The term "Subsidiary" of any Person shall mean any Person of which a majority of the outstanding voting securities or other voting equity interests are owned, directly or indirectly, by such Person.

(oo) Tax or Taxes. The term "Tax" or "Taxes" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under IRC §59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

(pp) Tax Return. The term "Tax Return" means any all federal, state, county and local tax returns and other returns and reports which were required to be filed in respect of all Taxes, levies, license, registration and permit fees, charges or withholding of any nature whatsoever.

(qq) Trade Secrets. The term "Trade Secrets" shall mean information of Seller, including but not limited to technical or non-technical data, formulas, patterns, compilations, programs, financial data, financial plans, product or service plans or lists of actual or potential customers or suppliers, which (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other Persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

(rr) Foreign Asset Transfer Conditions. The term "Foreign Asset Transfer Conditions" shall mean the following: that the directors of each of AMS UK and AMS Mexico (and each of their respective Subsidiaries to the extent such Subsidiaries are a party to any transfer of assets) shall have received reasonable assurances that the transactions to be consummated at Closing:

(i) shall comply in all respects with all applicable Legal Requirements, including any fraudulent transfer, voidable preference, or other such creditor protection Legal Requirements,

(ii) shall not cause any such Subsidiaries to become insolvent under any legal or accounting standard applicable to such Subsidiary, and

(iii) shall not otherwise cause any such directors to incur any meaningful risk of personal liability with respect to any potential claim or other matter under any Legal Requirement that such directors would not have in the absence of such transactions.

#### 10.02 Other Definitional Provisions

(a) The words "hereof," "herein," and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(b) The words and phrases "including," and "including, but not limited to," when used in this Agreement shall mean "including, without limitation".

(c) The terms defined in the singular shall have a comparable meaning when used in the plural, and vice versa.

(d) The word "or" shall not be exclusive.

(e) The terms "dollars" and "\$" shall mean United States dollars.

(f) The term "commercially reasonable" shall mean, in addition to its general use and meaning, with respect to any matter involving litigation or disputes involving or requiring a ruling from the Bankruptcy Court, the preparation and filing of any motions or papers, including supporting affidavits or declarations and any reply or objection papers as required or permitted, in a manner reasonably calculated to achieve the intended result.

(g) The term "knowledge" (or similar expressions, including "to the knowledge of"), with respect to Seller, shall refer to the actual knowledge (without any duty of inquiry) of Loren Paulsen, Gary Rautenstrauch and Gary Lloyd.

(h) References to specific named statutes and generally accepted accounting principles are intended to be and shall be construed as references to statutes of the United States of the stated name and United States generally accepted accounting principles, respectively, unless the context otherwise requires.

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the parties as of the day first above written.

BUYER:

BAKER & TAYLOR, INC.,  
a Delaware corporation

By: 

Name: RICHARD WILLIS

Title: Chairman, President, CEO

SELLER:

ADVANCED MARKETING SYSTEMS,  
INC.,  
a Delaware corporation

By: \_\_\_\_\_

Gary Rautenstrauch  
Chief Executive Officer

FROM RL&F

(THU) 2 15' 07 21:58/ST 21:57/NO 4864902680 P 2

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the parties as of the day first above written.

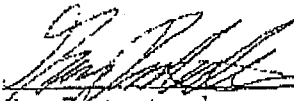
BUYER:

BAKER & TAYLOR, INC.,  
a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SELLER:

ADVANCED MARKETING SYSTEMS, INC.,  
a Delaware corporation

By:   
Gary Rautenstrauch  
Chief Executive Officer

TRADEMARK

REEL: 003566 FRAME: 0164

Schedule 3.08(a)  
Intellectual Property

1. Trademarks

<u>Description</u>	<u>Application / Registration No.</u>	<u>Filing Date</u>
UNITED STATES		
AMS THE BEST COMPANY YOU'LL NEVER SEE	76519532/2873770	June 4, 2003  Registration: August 17, 2004
BATHROOM READER	78851112	March 31, 2006
BATHROOM READERS' INSTITUTE	78851137	March 31, 2006
BLUE FIN	78904282	June 8, 2006
PAGES	76654252	January 30, 2006
PARFAIT PRESS	78898357	June 1, 2006
PARFAIT PRESS	78899143	June 2, 2006  [Suspended by USPTO as a duplicate of Application 78898357]
PORTABLE PRESS	78898265	June 1, 2006
PORTABLE PRESS	78899175	June 2, 2006
SILVER DOLPHIN	78901054	June 5, 2006
THE MAGAZINE FOR PEOPLE WHO LOVE BOOKS	76654221	January 30, 2006
THUNDER BAY	76427348/2719099	July 5, 2002  Registration: May 27, 2003
UNCLE JOHN'S BATHROOM READER FOR KIDS ONLY	78397403/2942006	April 6, 2004  Registration: April 19, 2005
NEW MEXICO		

<u>Description</u>	<u>Application / Registration No.</u>	<u>Filing Date</u>
PUBLISHER OUTLET SERVICE	1850340	
EUROPE		
PORTABLE PRESS		
UNCLE JOHN'S BATHROOM READER		
LAUREL GLEN		
THUNDER BAY		
SILVER DOLPHIN		
CANADA		
PORTABLE PRESS		
UNCLE JOHN'S BATHROOM READER		
BATHROOM READERS' INSTITUTE		
LAUREN GLEN		
SILVER DOLPHIN		
THUNDER BAY		
BATHROOM READER		
AUSTRALIA		
LAUREL GLEN		
THUNDER BAY		
SILVER DOLPHIN		
COMMON LAW		
LAUREL GLEN		
UNCLE JOHN'S BATHROOM READER		
ADVANCED GLOBAL DISTRIBUTION SERVICES		
PGW PUBLISHERS GROUP WORLDWIDE		

2. Instituto Mexicano de la Propiedad Industrial holds the following imprint registrations:

Silver Dolphin  
Degustis  
Numen



3. Copyrights

REG #	TITLE	Pub Date	Application Date	App Receipt Date	Registration Date	Registrant Name
SR 383-609	Uncle John's Bathroom Reader The Audio	10/06/04	3/10/06	3/21/06	3/21/2006	Advanced Marketing Services
TX 2-559-885	Uncle John's Bathroom Reader	12/27/88	applied for by John Jayna		12/30/1988	Bathroom Readers' Institute
TX 2-958-662	Uncle John's Third Bathroom Reader	11/16/90			11/30/90	Bathroom Readers' Institute
TX 3-028-944	Uncle John's Second Bathroom Reader	11/22/89			3/26/91	Bathroom Readers' Institute
TX 3-198-542	Uncle John's Fourth Bathroom Reader	11/28/91	applied for by John Jayna		12/31/1991	Bathroom Readers' Institute
TX 4-410-693	Special Financing	3/20/86			7/8/96	Advanced Marketing Services
TX 4-998-230	Uncle John's Bathroom Reader Calendar 2000	08/03/99		9/15/99	9/15/99	Bathroom Readers' Institute
TX 5-257-395	Uncle John's Bathroom Reader Calendar 2001	07/18/00		9/7/00	9/7/00	Bathroom Readers' Institute
TX 5-430-376	Uncle John's Bathroom Reader Page-A-Day Stickers: Calendar 2002	07/23/01		8/29/01	8/29/2001	Advantage Publishing Group
TX 5-591-904	Uncle John's Bathroom Reader: Page-A-Day Calendar, 2003	07/01/02		8/8/02	8/8/2002	Bathroom Readers' Press
TX 5-761-013	Uncle John's Absolutely Absorbing Bathroom Reading The Miniature Edition	09/15/02	Running Press applied		10/15/2002	Advanced Marketing Services
TX 5-816-465	Uncle John's Bathroom Reader Page-A-Day 2004 Calendar & Online	07/18/03		10/6/03	10/6/2003	Bathroom Readers' Press
TX 5-839-377	Uncle John's Bathroom Reader Plunges Into History	09/01/01	7/22/03	8/6/03	8/6/2003	Advanced Marketing Services
TX 5-839-378	Uncle John's Bathroom Reader	08/02/02	7/22/03	8/6/03	8/6/2003	Advanced Marketing Services

REG #	TITLE	Pub Date	Application Date	App Receipt Date	Registration Data	Registrant Name
TX 5-840-866	Plunges Into The Universe Uncle John's Bathroom Reader	06/15/03			8/6/2003	Services Advanced Marketing Services
TX 5-869-425	Plunges Into Great Lives Uncle John's Ultimate Bathroom Reader	10/15/96	7/22/03	10/21/03	10/21/2003	Advanced Marketing Services
TX 5-875-015	Necessary numbers, an everyday guide to sizes, measures, and more	09/16/02	7/22/03	10/21/03	12/10/2003	Advanced Marketing Services
TX 5-875-016	Quilted Northern 100th Anniversary Bathroom Reader	09/18/02	7/22/03	8/20/03	8/20/2003	Advanced Marketing Services
TX 5-896-486	Uncle John's Presents Book of the Dumb	11/17/03	12/1/03	1/14/04	1/14/2004	Advanced Marketing Services
TX 5-896-487	Uncle John's Unstoppable Bathroom Readers	11/07/03	12/1/03	1/14/04	1/14/2004	Advanced Marketing Services
TX 5-921-747	Uncle John's Ahh-Inspiring Bathroom Reader	10/03/02	7/22/03	8/20/2003 and 3/16/04	8/20/2003	Advanced Marketing Services
TX 5-921-748	Uncle John's Fifth Bathroom Reader	10/22/92	7/22/03	10/21/2003 and 3/16/04	8/20/2003	Advanced Marketing Services
TX 5-921-749	Uncle John's Second Bathroom Reader	12/01/89	7/22/03	8/20/2003 and 3/16/04	8/20/2003	Advanced Marketing Services
TX 5-921-750	Uncle John's Seventh Bathroom Reader	10/06/94	7/22/03	8/20/03 and 3/16/04	8/20/2003	Advanced Marketing Services
TX 5-921-751	Uncle John's Electrifying Bathroom Reader For Kids Only	06/02/03	7/22/03	8/20/2003 and 3/16/04	8/20/2003	Advanced Marketing Services
TX 5-921-762	Uncle John's Third Bathroom Reader	12/05/90	7/22/03	8/20/2003 and 3/16/04	8/20/2003	Advanced Marketing Services
TX 5-951-087	Uncle John's Absoluting Absorbing Bathroom Reader	10/13/99	7/22/03	10/21/2003 and 3/16/04	12/10/2003	Advanced Marketing Services
TX 5-951-088	The Best of Uncle John's Bathroom Reader	08/14/95	7/22/03	8/20/03	8/20/2003	Advanced Marketing Services
TX 5-951-089	Uncle John's Supremely Satisfying Bathroom Reader	10/22/01	7/22/03	8/20/2003 and 3/16/04	8/20/2003	Advanced Marketing Services
TX 5-951-106	Uncle John's Sixth Bathroom Reader	12/13/93	7/22/03	10/21/03	12/10/2003	Advanced Marketing Services
TX 5-951-107	Uncle John's Bathroom Reader For Kids Only	09/10/02	7/22/03	8/20/2003 and 3/16/04	8/20/2003	Advanced Marketing Services
TX 5-951-108	Uncle John's All-Purpose Extra	10/17/00	7/22/03	10/21/2003	8/20/2003	Advanced Marketing Services

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TRADEMARK

REEL: 003566 FRAME: 0169

REG #	TITLE	Pub Date	Application Date	App Receipt Date	Registration Date	Registrant Name
TX 5-951-109	Strength Bathroom Reader Uncle John's Legendary Lost Bathroom Reader	08/23/99	7/22/03	8/20/2003 and 3/16/04	8/20/2003	Services Advanced Marketing Services
TX 5-951-113	Uncle John's Indispensable Guide to the Year 2000	12/04/98	7/22/03	8/20/2003 and 3/16/04	8/20/2003	Advanced Marketing Services
TX 5-951-236	Uncle John's Bathroom Reader Puzzle Book No. 1	04/16/03	7/22/03	8/20/03	8/20/2003	Advanced Marketing Services
TX 5-980-176	Blame it on the Weather	09/30/02	7/22/03	10/21/03	12/10/2003	Advanced Marketing Services
TX 5-960-543	Uncle John's Giant 10th Anniversary Bathroom Reader	10/___/97	7/22/03	8/20/2003 and 3/16/04	8/20/2003	Advanced Marketing Services
TX 5-960-544	Uncle John's Biggest Ever Bathroom Reader - Hard Cover (Published by Thunder Bay Press)	03/01/02	7/22/03	10/21/2003, 5/14/04	12/10/2003	Advanced Marketing Services
TX 5-960-551	Uncle John's Great Big Australian Bathroom Reader	01/01/02	7/22/03	10/21/2003, 5/14/04	12/10/2003	Advanced Marketing Services
TX 5-979-668	Uncle John's Presents Mom's Bathub Reader	04/09/04	5/11/04	5/25/04	5/25/2004	Advanced Marketing Services
TX 5-981-291	Uncle John's Great Big Bathroom Reader, UK Edition	11/05/03	7/22/03	8/20/03	8/20/2003	Advanced Marketing Services
TX 6-029-682	Uncle John's Bathroom Reader Puzzle Book No. 2	04/01/04	8/30/04	5/25/2004, 9/3/04	5/25/2004	Advanced Marketing Services
TX 6-054-328	Uncle John's Bathroom Plunges Into Texas	5/15/04			9/8/04	Advanced Marketing Services
TX 6-080-764	Uncle John's Bathroom Reader Plunges Into The Presidency	09/15/04	11/15/04	11/29/04	11/29/2004	Advanced Marketing Services
TX 6-082-428	Uncle John's Presents Book of the Dumb 2	11/01/04	11/15/04	11/29/04	11/29/2004	Advanced Marketing Services
TX 6-200-853	Uncle John's Bathroom Reader Plunges Into Texas	06/15/04	5/23/05	5/31/05	5/31/2005	Advanced Marketing Services
TX 6-297-092	Uncle John's Bathroom Reader Plunges Into History Again	09/01/04	11/18/05	12/14/05		Advanced Marketing Services
TX 6-319-994	Uncle John's Bathroom Reader Puzzle Book No. 3	10/07/05	3/10/08	3/21/08	3/21/2008	Advanced Marketing Systems
TX 6-323-463	Uncle John's Top Secret Bathroom Reader For Kids Only	06/15/04	11/18/05	12/14/05	12/14/2005	Advanced Marketing Services
TX 6-324-904	Uncle John's Bathroom Reader	08/17/05	3/10/06	3/21/06	3/21/2006	Advanced Marketing Services

REG #	TITLE	Pub Date	Application Date	App Receipt Date	Registration Date	Registrant Name
TX 6-325-014	Christmas Collection Uncle John's Bathroom Reader Plunges into New Jersey	05/24/05	3/10/06	3/21/06	3/21/2006	Services Advanced Marketing Systems
TX 6-325-015	Tees Off on Golf	03/02/05	3/10/06	3/21/06	3/21/2006	Advanced Marketing Systems
TX 6-325-016	Uncle John's Colossal Collection of Quotable Quotes	10/05/04	3/10/06	3/21/06	3/21/2006	Advanced Marketing Systems
TX 6-325-025	Uncle John's Wild & Woolly Bathroom Reader for Kids Only	01/28/05	3/10/06	3/21/06	3/21/2006	Advanced Marketing Systems
TX 6-326-357	Plunges into Hollywood	02/02/06	3/10/06	3/21/06	3/21/2006	Advanced Marketing Systems
TX 6-326-358	Uncle John's Book of Fun	10/05/04	3/10/06	3/21/06	3/21/2006	Advanced Marketing Systems
TX 6-326-359	Uncle John's Fast-Acting Long- Lasting Bathroom Reader	09/06/05	3/10/06	3/21/06	3/21/2006	Advanced Marketing Systems
TX 6-326-360	Uncle John's Bathroom Reader Plunges into Michigan	09/06/05	3/10/06	3/21/06	3/21/2006	Advanced Marketing Systems
TX 6-326-361	Uncle John's Bathroom Reader Treasury	04/09/04	3/10/06	3/21/06	3/21/2006	Advanced Marketing Systems
TX 6-326-374	Uncle John's Slightly Irregular Bathroom Reader	11/08/04	3/10/06	3/21/06	3/21/2006	Advanced Marketing Systems
TX 6-328-340	Uncle John's Great Big Bathroom Reader	09/30/98	3/10/06 reapplied: submitted 7/03 but copyright ofc issued certificate to UK title w/same name	3/21/06	3/21/2006	Advanced Marketing Systems
TX 6-335-499	Uncle John's Legendary Lost Bathroom Reader - Hard Cover (Published by Thunder Bay Press)	09/05/03	3/10/06	3/21/06	3/21/2006	Advanced Marketing Systems
TX 6-336-359	Uncle John's Giant Australian Bathroom Reader	06/25/05	3/10/06	3/21/06	3/21/2006	Advanced Marketing Services
TX 6-342-858	Uncle John's Gigantic Bathroom Reader	03/10/06	3/10/06	3/30/06	3/30/2006	Advanced Marketing

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TRADEMARK

REEL: 003566 FRAME: 0171

REG #	TITLE	Pub Date	Application Date	App Receipt Date	Registration Date	Registrant Name
	Reader					
TX 6-359-390	Uncle John's Extraordinary Book of Facts	03/22/06	3/24/06	4/5/06	4/5/2006	Systems Advanced Marketing Services
TX 6-402-464	Uncle John's Bathroom Reader Tales to Inspire	05/01/06	5/1/06	6/1/06	6/1/2006	Advanced Marketing Services
TX 6-406-227	Uncle John's Strange and Scary Bathroom Reader for Kids Only	06/22/06	5/22/06	6/13/06	6/13/2006	Advanced Marketing Services
TX 6-443-892	Uncle John's Journal	10/01/06	9/28/06	9/28/06	10/20/2006	Advanced Marketing Services
TX 6-445-117	Uncle John's Curiously Compelling Bathroom Reader	11/01/06	10/2/06	10/20/06	10/20/2006	Advanced Marketing Services
TX 6-445-920	Uncle John's BR Cat Lover's Companion	11/01/06	9/28/06	9/28/06	10/20/2006	Advanced Marketing Services
	Uncle John's AHH-Inspiring Bathroom Reader The Miniature Edition		Running Press will register 12/5/06			
	Uncle John's Bathroom Reader Book of Love	01/07/06				Advanced Marketing Services
	Uncle John's Bathroom Reader Plunges into Minnesota	07/01/06	7/11/06			
	Uncle John's Bathroom Reader Puzzle Book #4	10/01/06	8/21/06			
	Uncle John's Bathroom Reader Shoots and Scores	10/24/05				
	Uncle John's BR Sudoku Challenge	08/01/06	7/10/06			
	Uncle John's Slightly Irregular Bathroom Reader (the Audio)	08/05/05	3/10/06			
	Uncle John's Supremely Satisfying Bathroom Reader The Miniature Edition		Running Press applied for			

Schedule 3.08(a) - Page 8

4. Domain Names.

advantagebooksonline.com  
advmkt.com  
advmkt.com.mx  
advpubgrp.com  
aglco.com  
bathroomreader.com  
ireadpages.com  
laurelglenbooks.com  
pages-magazine.com  
pagesforbooklovers.com  
portablepress.com  
readalot.com  
silverdolphinbooks.com  
thunderbaybooks.com  
unclejohn.com  
bluefinglobal.com  
bluefintrucking.com  
bluefinworldwide.com  
gobluefin.com  
advmkt.co.uk

5. Seller operated under the DBAs listed below for a period of time without having registered those DBAs. Seller has since registered all such DBAs.

Bluefin Global Logistics  
Bathroom Reader  
Bluefin Global  
Bathroom Readers' Institute  
Portable Press  
Uncle John's Bathroom Reader For Kids Only  
Laurel Glen  
Silver Dolphin Books  
Thunder Bay Press  
Parfait Press

**AMENDMENT NO. 1**  
**to**  
**ASSET PURCHASE AGREEMENT**

This AMENDMENT NO. 1 TO ASSET PURCHASE AGREEMENT (this "Amendment") is dated as of February 16, 2007, by and between (i) BAKER & TAYLOR, INC., a Delaware corporation ("Buyer"), and (ii) ADVANCED MARKETING SERVICES, INC., a Delaware corporation and a debtor and debtor in possession under Chapter 11 of the Bankruptcy Code ("Seller").

WHEREAS, Buyer and Seller earlier on the date hereof entered into that certain Asset Purchase Agreement (the "Agreement"); and

WHEREAS, Buyer and Seller desire to amend the terms of the Agreement as set forth herein;

NOW, THEREFORE, the parties agree as follows:

I. Section 1.02(d) of the Agreement is hereby amended and restated in its entirety to read as follows:

“(d) Timing of Payment of Purchase Price.

(i) On the Closing Date, Buyer shall make payment of (A) \_\_\_\_\_, plus (B) the Selected APG Inventory Price, plus (C) \_\_\_\_\_ of the sum of the APG Product Prepayment Price and the Accounts Receivable Price (such sum, the "Combined APG/AR Price"), plus or minus the net proration of the Apportioned Obligations determined in accordance with Section 9.01, subject to Section 1.02(d)(iv) (such netted amount, the "Closing Date Payment"), via wire transfer to Seller's account (which account number shall be provided to Buyer by Seller at least two (2) business days prior to the Closing Date).

(ii) No later than thirty (30) days following the Closing Date, Buyer shall make payment of \_\_\_\_\_ of the Combined APG/AR Price, subject to Section 1.02(d)(iv), via wire transfer to Seller's account (which shall be the same account referenced in the foregoing clause (i) unless otherwise provided to Buyer by Seller at least two (2) business day prior to such date).

(iii) No later than sixty (60) days following the Closing Date, Buyer shall make payment of the remaining \_\_\_\_\_ of the Combined APG/AR Price, subject to Section 1.02(d)(iv) (the "Final Payment"), via wire transfer to Seller's account (which shall be the same account referenced in the foregoing clause (i) unless otherwise provided to Buyer by Seller at least two (2) business

days prior to such date); provided that, (A) the amount of the Final Payment is subject to offset to the extent provided in Section 1.02(c)(vii) and (B) in the event that, as of the date of the Final Payment, the Purchase Price has not been finally determined, and Buyer is claiming a Purchase Price Shortfall, Buyer may withhold from the Final Payment the amount of such claimed Purchase Price Shortfall, provided further that Buyer shall, within three days following the date on which the Final Price Statement becomes final, pay via wire transfer to Seller's account (as provided above in this clause (iii)) any such withheld amount which is not finally determined to constitute a Purchase Price Shortfall.

(iv) Notwithstanding the foregoing, if the amount of the Closing Date Payment as calculated pursuant to Section 1.02(d)(i) shall be less than an amount equal to the Closing Payoff Amount, the percentage of the Combined APG/AR Price payable on the Closing Date pursuant to Section 1.02(d)(i) shall be adjusted upwards to the extent necessary to cause the Closing Date Payment to equal the Closing Payment Amount, and in such event, the percentages of the Combined APG/AR Price payable pursuant to Sections 1.02(d)(ii) and (iii) shall be reduced accordingly."

2. Schedule B of the Agreement is hereby amended by the addition of the following item under Section VIII thereof:

"D. Distribution Agreement with The United States Playing Card Company (as amended)"

3. Except as expressly modified herein, the Agreement shall remain in full force and effect in accordance with its original terms.

4. Capitalized terms that are not defined herein shall have the meanings ascribed to them in the Agreement.

5. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

*[Signatures on following page.]*



IN WITNESS WHEREOF, this Amendment has been signed by or on behalf of each of the parties as of the day first above written.

BUYER:

BAKER & TAYLOR, INC.,  
a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SELLER:

ADVANCED MARKETING SYSTEMS, INC.,  
a Delaware corporation

By: \_\_\_\_\_  
Gary Rautenstrauch  
Chief Executive Officer

**AMENDMENT NO. 2**  
**to**  
**ASSET PURCHASE AGREEMENT**

This AMENDMENT NO. 2 TO ASSET PURCHASE AGREEMENT (this "Amendment") is dated as of March \_\_, 2007, by and between (i) BAKER & TAYLOR, INC., a Delaware corporation ("Buyer"), and (ii) ADVANCED MARKETING SERVICES, INC., a Delaware corporation and a debtor and debtor in possession under Chapter 11 of the Bankruptcy Code ("Seller").

WHEREAS, Buyer and Seller entered into that certain Asset Purchase Agreement, dated as of February 16, 2007, and Amendment No. 1 thereto dated as of February 16, 2007 (as amended, the "Agreement"); and

WHEREAS, Buyer and Seller desire to amend further the terms, provisions and conditions of the Agreement as more fully set forth herein;

NOW, THEREFORE, the parties agree as follows:

1. The first sentence of Section 1.01(a) of the Agreement is hereby amended and restated in its entirety to state as follows:

"(a) Purchased Assets. On the terms and provisions and subject to the conditions of this Agreement, at the Closing referred to in Section 2.01 hereof, pursuant to Sections 363 and 365 of the Bankruptcy Code, Seller shall sell, convey, assign, transfer and deliver to Buyer and Buyer shall purchase, acquire and accept, free and clear of any and all liens, claims, encumbrances, mortgages, security interests, pledges, claims, equities, reclamation rights and claims under sec. 546 (c) of the Bankruptcy Code and any similar rights and claims, and other restrictions or charges of any kind or nature whatsoever, including without limitation all "interests" as such term is defined in Section 363(f) of the Bankruptcy Code (collectively "Liens") except as expressly set forth in Schedule A, all of Seller's right, title and interest in, to and under the assets set forth in this Section 1.01 existing on and as of the Closing Date (the "Purchased Assets"), and the Purchased Assets shall consist of and shall include only the items set forth in this Section 1.01 (but shall exclude such of the same as are held by Seller in trust or for the benefit of parties other than Seller and its Subsidiaries (which are not property of Seller's bankruptcy estate))."

2. Section 1.01(a)(ii) of the Agreement is hereby amended and restated in its entirety to state as follows:

"(ii) all supplies, equipment, computer hardware, printers, servers, machinery, furniture, fixtures, leasehold improvements, and other tangible property owned or used by Seller in connection with the conduct of the Business and (A) located at the Assumed Facilities, other than the items listed on Schedule C hereto, which are Excluded Assets, (B) located at the San Diego, California facility of Seller, but specifically excluding leasehold improvements and fixtures located at such facility, which are Excluded Assets, (C) used as of the Closing Date by the Assumed Facilities although located outside the Assumed Facilities or the San Diego, California facility, other than

any leasehold improvements and fixtures; or (D) located in the Baltimore, Maryland facility which relate to or are necessary to the conduct of the Business (collectively, the "Purchased Equipment")"

3. Section 1.01(a)(viii) of the Agreement is hereby amended and restated in its entirety to state as follows:

"(viii) all office and packaging supplies owned or used by Seller in the conduct of the Business and located at the Assumed Facilities or the San Diego, California facility of Seller;"

4. Section 1.01(a)(xiii) of the Agreement is hereby amended and restated in its entirety to state as follows:

"(xiii) certain lock boxes and other bank accounts of Seller necessary for the operation of the Business; provided, that Seller shall execute any and all documents necessary to transfer title to such accounts to Buyer at the Closing; provided, further, that if assignment thereof is not permitted by bank rules or procedures or by applicable law, then Buyer may open new accounts therefor and Seller shall transfer to Buyer's new lock boxes or bank accounts any Purchased Assets relating to such lock boxes or bank accounts; provided, however, that in all events any cash and cash equivalents in such accounts as of the Closing are Excluded Assets;"

5. Section 1.01(b)(xv) of the Agreement is hereby amended and restated in its entirety to state as follows:

"(xv) All supplies, equipment, computer hardware, printers, servers, machinery, furniture, fixtures, leasehold improvements, and other tangible property owned or used by Seller and located at facilities of Seller other than the Assumed Facilities and the San Diego, California facility, and, other than to the extent set forth in Section 1.01(a)(ii), the Baltimore, Maryland facility."

6. Section 1.02(a)(i) of the Agreement is hereby amended and restated in its entirety to state as follows:

"(a) **Purchase Price.** As payment in full for the Purchased Assets being acquired by Buyer hereunder, Buyer shall pay, in the manner set forth in this Section 1.02, to Seller the amounts set forth in subsections (i)-(vi) below (collectively, and as finally determined pursuant to this Section 1.02, the "Purchase Price"):

- (i)
- (ii) the Selected APG Inventory Price;
- (iii) the APG Product Prepayment Price;
- (iv) 100% of AMS's cost for all of The United States Playing Card Company inventory on hand and on order as of the Closing Date;

(v) the Accounts Receivable Price, minus as described in Section 1.02(d)(iii); plus or minus

(vi) the net proration of the Apportioned Obligations determined in accordance with Section 9.01."

7. Section 1.02(b)(i) of the Agreement is hereby amended and restated in its entirety to state as follows:

"(i) Not later than March 14, 2007, Buyer shall deliver to Seller Schedule D. Buyer shall be permitted to update such Schedule D until the time of the Closing, provided that the Selected APG Inventory Price shall not be less than "

8. Section 1.02(d) of the Agreement is hereby amended and restated in its entirety to state as follows:

"(d) Timing of Payment of Purchase Price.

(i) On the Closing Date, Buyer shall make payment of (A) \$20.0 million, plus (B) the Selected APG Inventory Price, plus (C) of the sum of the APG Product Prepayment Price and the Accounts Receivable Price (such sum, the "Combined APG/AR Price"), plus (D) of AMS's cost for all of The United States Playing Card Company inventory on hand and on order as of the Closing Date, plus or minus (E) the net proration of the Apportioned Obligations determined in accordance with Section 9.01, subject to Section 1.02(d)(iv) (such netted amount, the "Closing Date Payment"), via wire transfer to Seller's account (which account number shall be provided to Buyer by Seller at least two (2) business days prior to the Closing Date).

(ii) No later than thirty (30) days following the Closing Date, Buyer shall make payment of of the Combined APG/AR Price, subject to Section 1.02(d)(iv), via wire transfer to Seller's account (which shall be the same account referenced in the foregoing clause (i) unless otherwise provided to Buyer by Seller at least two (2) business day prior to such date).

(iii) No later than sixty (60) days following the Closing Date, Buyer shall make payment of (A) the remaining of the Combined APG/AR Price, subject to Section 1.02(d)(iv), minus (B) (the "Final Payment"), via wire transfer to Seller's account (which shall be the same account referenced in the foregoing clause (i) unless otherwise provided to Buyer by Seller at least two (2) business days prior to such date); provided that, (A) the amount of the Final Payment is subject to offset to the extent provided in Section 1.02(c)(vii) and (B) in the event that, as of the date of the Final Payment, the Purchase Price has not been finally determined, and Buyer is claiming a Purchase Price Shortfall, Buyer may withhold from the Final Payment the amount of such claimed Purchase Price Shortfall, provided further that Buyer shall, within three (3) days following the date on which the Final Price Statement becomes final, pay via wire transfer to Seller's account (as provided above in this clause (iii)) any such withheld amount which is not finally determined to constitute a Purchase Price Shortfall.

(iv) Notwithstanding the foregoing, if the amount of the Closing Date Payment as calculated pursuant to Section 1.02(d)(i) shall be less than an amount equal to the Closing Payoff Amount, the percentage of the Combined APG/AR Price payable on the Closing Date pursuant

to Section 1.02(d)(i) shall be adjusted upwards to the extent necessary to cause the Closing Date Payment to equal the Closing Payment Amount, and in such event, the percentages of the Combined APG/AR Price payable pursuant to Sections 1.02(d)(ii) and (iii) shall be accordingly reduced pro rata."

9. Section 1.03(a) is hereby amended by appending thereto the following sentence:

"Seller and Buyer agree that the portion of the Purchase Price allocated for the capital stock of AMS Mexico shall not exceed \_\_\_\_\_"

10. Section 2.02(c) is hereby amended and restated in its entirety to state as follows:

"(c) the Records; provided, however, that, following the execution by Seller of a reasonable confidentiality agreement, Seller may make and retain copies of any such Records (and the equivalent records with respect to the Assigned Subsidiaries) for administrative, business, or legal purposes, and provided further that following the Closing and during the period required to complete the administration of the Bankruptcy Case, Buyer shall provide Seller, the official committee of unsecured creditors of Seller (the "Committee"), and any subsequently appointed Chapter 11 or 7 trustee (the "Trustee") with reasonable electronic access to the Records (and the equivalent records with respect to the Assigned Subsidiaries), including access to computer stored and/or generated information relating to the Records, as well as reasonable in-person access during ordinary business hours to or any copies of any such records as reasonably requested by Seller, at the requesting party's expense, if any costs are incurred, provided that in no event shall Buyer be required to allow such access to the extent such access would adversely impair the rights of Buyer to the use of the Purchased Assets or the conduct of its business. All parties shall act in a commercially reasonable fashion in complying with this subsection."

11. Section 5.10 is hereby amended and restated in its entirety to state as follows:

"Transition Services Agreement. Each party shall execute and deliver at Closing a Transition Services Agreement in the form attached hereto as Exhibit A."

12. Section 6.02 is hereby amended by the addition of subsection (h) thereto as follows:

"(h) Seller shall have purchased from AMS UK all of the capital stock of (i) Publishers Group UK Limited, a private limited company organized under the laws of England and Wales, and (ii) H.I. Marketing Limited, a private limited company organized under the laws of England, in consideration for the forgiveness of \_\_\_\_\_ of net receivables owed by AMS UK to Seller (approximately \_\_\_\_\_ of accounts receivable owed by AMS UK to Seller offset by approximately \_\_\_\_\_ owed by Publishers Group UK Limited to Advanced Marketing (UK) Limited, a wholly owned subsidiary of AMS UK)."

13. Section 8.03 is hereby amended and restated in its entirety to state as follows:

"Maintenance and Disposition of Records. Buyer will preserve and maintain the Records for a period of two (2) years following the Closing Date. After such two-year period, Buyer will provide at least sixty (60) days prior written notice to (i) Seller, c/o O'Melveny & Myers LLP, (ii) the Committee, and (iii) the Trustee, of Buyer's intent to dispose of any such Records, and Seller and its Affiliates, the Committee, and the Trustee will be given the opportunity, at their respective cost and expense, to remove and retain all or any part of such Records as they may select."

14. Section 8.05 is hereby inserted as follows:

"AMS Mexico Taxes. Seller agrees to promptly pay any income or capital gains Taxes that are measured by the difference between the portion of the Purchase Price paid by Buyer for the capital stock of AMS Mexico and Seller's tax basis in such capital stock and that is due to a Governmental Authority of Mexico; provided, however, that as between Buyer and Seller, Seller shall have no liability for any other taxes imposed by any Governmental Authority of Mexico with respect to the transfer of the capital stock of AMS Mexico to Buyer."

15. Section 10.01(j) of the Agreement is hereby amended and restated in its entirety to state as follows:

(i) Assumed Facilities. The term "Assumed Facilities" shall mean, collectively, the following facilities of Seller:

(A) Indianapolis, Indiana Distribution Center

(B) Woodland, California

(C) Ashland, Oregon (2 locations)

(D) Bentonville, Arkansas.

16. Schedule B of the Agreement is hereby amended and restated in its entirety as set forth on Exhibit A attached hereto.

17. Except as expressly modified herein, the Agreement shall remain in full force and effect in accordance with its original terms.

18. Capitalized terms that are not defined herein shall have the meanings ascribed to them in the Agreement.

19. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

20. The provisions of Article IX of the Agreement shall apply mutatis mutandis to this Amendment.

*[Signatures on following page.]*

IN WITNESS WHEREOF, this Amendment has been signed by or on behalf of each of the parties as of the day first above written.

BUYER:

BAKER & TAYLOR, INC.,  
a Delaware corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

SELLER:

ADVANCED MARKETING SYSTEMS, INC.,  
a Delaware corporation

By: \_\_\_\_\_

Gary Rautenstrauch  
Chief Executive Officer

**EXHIBIT B**

**Transition Services Agreement**

**TRADEMARK**

**REEL : 003566 FRAME: 0183**



## TRANSITION SERVICES AGREEMENT

THIS TRANSITION SERVICES AGREEMENT is made as of the \_\_\_ day of March, 2007 ("TSA"), by and among Advanced Marketing Services, Inc., a Delaware corporation ("AMS"), and Baker & Taylor, Inc., a Delaware corporation ("B&T") (AMS and B&T being each a "Party" and collectively, the "Parties"). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Asset Purchase Agreement, dated February 16, 2007, as amended, by and between B&T and AMS (the "B&T Purchase Agreement").

### Recitals:

A. On December 29, 2006, AMS, together with certain of its subsidiaries, filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"), designated Case No. 06- 1 1480 (CSS) (Jointly Administered) (collectively, the "Bankruptcy Case").

B. On February 16, 2007 AMS and B&T entered into the B&T Purchase Agreement, pursuant to which B&T has agreed to purchase, and AMS has agreed to sell, certain assets of AMS pursuant to Sections 363 and 365 of the Bankruptcy Code after issuance of a final, non-appealable order of the Bankruptcy Court in form and substance mutually and reasonably acceptable to B&T and AMS approving and authorizing the B&T Purchase Agreement and the transactions contemplated thereby and implementation thereof and providing for all necessary and customary findings and holdings.

C. AMS, Publishers Group West, Incorporated, a California corporation ("PGW"), Perseus Books, L.L.C. ("Perseus Books") and Client Distribution Services, Inc. ("CDS") have entered into that certain Amended and Restated Purchase Agreement (the "Perseus Purchase Agreement"), pursuant to which PGW has agreed to assume pursuant to the Bankruptcy Code and thereafter to sell and assign to CDS its rights under certain distribution agreements with certain publishers, and CDS has agree to purchase and assume on a prospective basis all of PGW's obligations thereunder.

D. In connection with the closing of the transactions described under the Perseus Purchase Agreement, AMS, PGW, Perseus Books and CDS have entered into that certain transition services agreement, dated February 28, 2007, to delineate the Parties' responsibility for certain shared resources and obligations (the "Perseus Transition Services Agreement").

E. The Parties desire to enter into this TSA to address certain transitional assistance that (i) AMS may need in connection with the Perseus Transition Services Agreement and the winding down of AMS' business, and (ii) B&T may need in connection with the B&T Purchase Agreement.

NOW, THEREFORE, the Parties hereto, in consideration of the mutual covenants herein contained, and for other good and valuable consideration as recited in the B&T Purchase Agreement, covenant and agree as follows:

1. Services. During the Term (as hereinafter defined), each of AMS and B&T shall provide to the other the transitional services (collectively, the "Services") as set forth on Schedule A, which is incorporated herein and made a part of this TSA. The Parties may agree to amend such Schedule to (i) add Services or (ii) change existing Services, as long as (a) each such amendment is in writing and signed by each Party and (b) any amendment that would increase AMS's operating costs by ten percent (10%) or more with respect to new Services shall be subject to the approval of either the committee representing the unsecured creditors in the Bankruptcy Case (the "Creditors Committee") or the Bankruptcy Court.

2. Performance of Services.

(a) Representatives. The Parties shall each nominate a representative to act as the primary contact person for the provision of all Services (each a "Representative"). The initial Representative for B&T shall be Gary Dayton, and the initial Representative for AMS shall be Curtis Smith. The Parties shall advise each other in writing of any change in the Representatives.

(b) Independent Contractors. The Parties are independent contractors under this TSA. When AMS's employees act under the terms of this Agreement, they shall be deemed at all times to be under the supervision and responsibility of AMS, and when B&T's employees act under the terms of this Agreement, they shall be deemed at all times to be under the supervision and responsibility of B&T. Notwithstanding any reimbursement of labor costs as provided herein or otherwise, no person employed by AMS and acting under the terms of this Agreement shall be deemed to be acting as agent or employee of B&T or any customer of B&T for any purpose whatsoever, and no person employed by B&T and acting under the terms of this Agreement shall be deemed to be acting as agent or employee for AMS or any customer of AMS for any purpose whatsoever. Nothing contained in this TSA is to be construed to create a partnership or joint venture between the Parties or to make any Party the partner, agent, legal representative or employee of another Party for any purpose whatsoever. No Party has any express or implied right or authority to assume or create any obligations on behalf of, or in the name of, another Party or to bind another Party in any way or for any purpose.

(c) Discontinuing Specific Services. Neither Party shall have any obligation to use any of the Services of the other Party and may discontinue use of any of the Services of the other Party by providing 21 days' prior written notice thereof to the other Party.

(d) Invoicing and Payment. Each of AMS and B&T shall invoice the other Party, and such other Party shall pay such invoices, according to the terms set forth in Schedule A.

3. Special Provisions Relating to AMS. Nothing in this TSA shall prevent or be deemed to prevent AMS's right and ability, during the Term, to enter into organic transactions, to sell or transfer some or all of its remaining operations or assets, or to take other actions as may be required to fulfill its own legal and/or fiduciary duties to its own creditors and stakeholders or maximize its own values (including without limitation engaging in an orderly liquidation of its businesses), regardless of whether any such transaction or transactions inhibits or impairs AMS's ability to provide the Services due from it. Notwithstanding the foregoing, AMS shall notify B&T in writing at least 21 days prior to charging B&T for changes in the costs of providing

Services (any such change, a "Change in Service Cost") that result from AMS entering into any organic transaction, transferring any material assets or operations, or taking any other action that would diminish in any material manner the provision of such Services. Within 10 days of its receipt of a notification under the immediately preceding sentence, B&T shall notify AMS in writing if any material Change in Service Cost is unacceptable, whereupon the provision of such unacceptable Service shall terminate at the end of the original 21 day period specified in this Section 3.

4. Other Responsibilities. Equipment and software (excluding maintenance directly required for equipment and software necessary for the provision of the Services), regardless of the Party or Parties using such equipment or software, will be the sole responsibility of its owner.

5. Term and Termination.

(a) General. The term of this TSA (the "Term") shall commence automatically and without further action upon the Closing and simultaneously with such Closing, and shall continue for a period of six (6) months thereafter, unless otherwise extended by the Parties in a writing signed by all of the Parties. Notwithstanding the foregoing, a shorter time for performance of any of the Services set forth on Schedule A, may be set forth in the description of such Services, in which case the time for the performance of such Service(s) shall expire as set forth therein.

(b) Termination for Material Breach or Default. If any Party commits a material breach of this TSA and fails to cure such breach within 30 days of receipt of written notice thereof from a non-breaching Party, then the non-breaching Party may terminate this TSA immediately upon written notice.

(c) End of the Term. Upon termination of this TSA, the Parties shall reasonably cooperate to effect an orderly, efficient, effective and expeditious winding-up of the Services, provided that the Parties shall not be required to provide any Services or incur any costs other than as expressly set forth in this TSA, including Schedule A hereto. Termination of this TSA pursuant to the terms hereunder shall not vitiate the obligation of any Party to pay the amounts owing to the other Party prior to the termination of this TSA.

(d) Survival of Certain Obligations. Notwithstanding anything to the contrary contained herein, the Parties agree that the provisions herein related to the remittance of collections by each Party with respect to each other Party's receivables shall remain in full force and effect after the Term and shall survive any termination of this TSA.

6. Confidentiality.

(a) Confidential Information. Any and all information disclosed by one Party to another Party, in connection with the performance of the Services under this TSA, whether disclosed in writing, orally or visually, is considered confidential information ("Confidential Information"), unless such information (i) is or becomes available to the public (other than as a result of a disclosure by the recipient or its representatives); (ii) was known to the recipient on a

non-confidential basis prior to the disclosure to the recipient by the disclosing Party or its representatives; or (iii) becomes available to the recipient on a non-confidential basis from a source other than the disclosing Party or one of its representatives entitled to disclose it.

(b) Protection of Confidential Information. The recipient shall maintain the other Party's Confidential Information in confidence in the same manner used to protect its own confidential information, provided that no less than a reasonable standard of care is used to protect the confidentiality of the other Party's Confidential Information. The recipient shall not, except as required by Law, disclose the other Party's Confidential Information to others or use it for purposes other than fulfilling its obligations pursuant to this TSA. The recipient further agrees to limit disclosure of Confidential Information to those employees and agents who are bound to maintain the confidentiality of the Confidential Information of the disclosing Party. After termination of this TSA, or at any other time requested by the disclosing Party, the recipient shall return or destroy, at the disclosing Party's direction, all documents, samples or other materials embodying the Confidential Information, and shall retain no copies thereof. This Section 6(b) shall remain in effect for three (3) years after termination of this TSA.

7. Warranties, Remedies and Indemnification.

(a) Warranties.

(1) Each of AMS and B&T represents and warrants to the other that it shall perform the Services it provides to the other hereunder in a professional and workmanlike manner. Furthermore, each of AMS and B&T represents and warrants to the other that it shall perform such Services in material compliance with all applicable Laws.

(2) Remedies. In the event that either Party fails to perform a Service, such Party shall use commercially reasonable efforts promptly to correct such error or perform such Service as promptly as possible following receipt of written notice of such failure from the other Party, and in the event that non-performing Party fails to do so, the sole remedy of the other Party shall be for such Party to pay an appropriately reduced or pro-rated fee with respect to such Service.

(c) Indemnification. B&T hereby agrees to defend, indemnify and hold AMS harmless from and against any loss, liability, damage or expense whatsoever (including court costs and reasonable attorneys' fees) incident to any third party claim, action or proceeding against AMS to the extent it arises from or relates to the performance by AMS of the Services (each, a "Loss"), except for any Loss to the extent due to or resulting from the willful misconduct or gross negligence of AMS. AMS hereby agrees to defend, indemnify and hold B&T harmless from and against any Loss, except for any Loss to the extent due to or resulting from the willful misconduct or gross negligence of B&T.

8. Notices. All notices and other communications hereunder to any Party shall be contained in a written instrument addressed to such Party at the address set forth below or such other address as may hereafter be designated in writing by the addressee to the addressor listing all Parties and shall be deemed given (a) when delivered in person or duly sent by facsimile or

electronic mail to a facsimile number or electronic mail address furnished by the addressee for the purpose of receiving notices and other communications or (b) two days after being duly sent by Federal Express or other recognized express courier service:

To AMS:

Advanced Marketing Services, Inc.  
5880 Oberlin Drive  
San Diego, CA 92121  
Attention: Gary Lloyd, General Counsel  
Facsimile: (858) 450-3560

with copies to:

O'Melveny & Myers LLP  
Embarcadero Center West  
275 Battery Street  
San Francisco, CA 94111-3305  
Attention: Suzanne Uhland and Loren Weber  
Facsimile: (415) 984-8701

To B&T:

Baker & Taylor, Inc.  
2550 West Tyvola Road, Suite 300  
Charlotte, NC 28217  
Attention: Chief Operations Officer  
Fax: (704) 998-3310

with a copy to:

Baker & Taylor, Inc.  
2550 West Tyvola Road, Suite 300  
Charlotte, NC 28217  
Attention: General Counsel  
Fax: (704) 998-3317

9. Cooperation. Subject to all of the terms of this TSA, each Party shall cooperate and provide information as reasonably necessary to the performance of any requirement of this TSA.

10. Choice of Law; Submission to Jurisdiction. This TSA shall be governed by and interpreted in accordance with the laws of the State of Delaware applicable to contracts executed and performed in that state without regard to the state's conflicts of law provisions that would defer to, or result in the application of, the substantive laws of another jurisdiction. Without limiting any Party's right to appeal any order of the Bankruptcy Court or to seek withdrawal of the reference with regard to any matter, (i) the Bankruptcy Court shall retain exclusive jurisdiction to enforce the terms of this TSA and to decide any claims or disputes which may

arise or result from, or be connected with, this TSA, any breach or default hereunder, or the transactions contemplated hereby, and (ii) any and all actions related to the foregoing shall be filed and maintained only in the Bankruptcy Court, and the Parties hereby consent to and submit to the jurisdiction and venue of the Bankruptcy Court and shall receive notices at such locations as indicated in Section 8 hereof.

11. Other Provisions. This TSA (including Schedule A) and the B&T Purchase Agreement constitute the entire agreement among the Parties and supersede any prior understandings, agreements, or representations by or among the Parties, written or oral, that may have related in any way to the subject matter hereof. This TSA shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. No Party may assign either this TSA or any of its rights or interests, or delegate its obligations hereunder without the prior written approval of the other Party; provided, however, that (a) B&T may assign any or all of its rights and interests hereunder to an operating subsidiary of B&T; provided, further, that no such assignment shall affect the obligations of B&T under this TSA and the B&T Purchase Agreement, and (b) AMS may assign all of its rights, interests and/or obligations hereunder to a legal or business successor in connection with the sale or transfer of all or any substantial portion of its assets or businesses. No amendment or waiver of any provision of this TSA shall be valid unless the same shall be in writing and signed by each Party bound thereby. This TSA may be executed in counterparts, and by the Parties in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of this TSA by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. This Agreement is intended solely for the benefit of the parties hereto, and does not confer upon any third party the status of a third-party beneficiary.

[Remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the undersigned have executed this TSA as of the date set forth above.

BAKER & TAYLOR, INC.

By: \_\_\_\_\_  
Name:  
Title:

ADVANCED MARKETING SERVICES, INC.

By: \_\_\_\_\_  
Name:  
Title:

PUBLISHERS GROUP WEST, INCORPORATED

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page to Transition Services Agreement]

## SCHEDULE A

### General

- AMS and B&T will make commercially reasonable efforts to physically segregate B&T, AMS and PGW/CDS inventory at closing.
- AMS and B&T will make commercially reasonable efforts to segregate the B&T, AMS and PGW/CDS inventory and orders in all of the applicable information systems used by the Parties at the closing date of the transactions described in the B&T Purchase Agreement (the "Closing Date") and thereafter.
- B&T will make commercially reasonable efforts to work with AMS to determine the list of employees that B&T will hire at closing, this list to be confidential until such as time at B&T's sole discretion, B&T chooses to make the employment offers to these AMS employees; provided, that this list shall be immediately shared with the Creditors Committee's professional representatives; provided, further, that the list shall not at any time be shared by such representatives with the Creditors Committee.
- AMS/PGW and B&T management will make commercially reasonable efforts to implement a reasonable training and monitoring program intended to ensure compliance with the rules and procedures relating to tracking of labor to be allocated under this TSA.
- B&T will make commercially reasonable efforts to provide AMS with transitional access to all of the information systems to be purchased by B&T pursuant to the B&T Purchase Agreement in connection with AMS' performance of its obligations under the Perseus Transition Services Agreement.
- B&T will make commercially reasonable efforts to provide AMS with transitional access to all of the information systems to be purchased by B&T pursuant to the B&T Purchase Agreement in connection with AMS' efforts to wind down its business.
- Notwithstanding anything to the contrary herein, for a period of thirty (30) days (the "Grace Period") after the Closing Date, each of B&T and AMS shall allow the other to store in the facilities controlled by the respective parties after the Closing Date (except with respect to those portions of the Indianapolis Distribution Center and the Indianapolis Returns Center utilized for the transition of PGW to Perseus), without any charge (including for rent or utilities) but at such other party's sole risk of loss, any Purchased Assets (in the case of B&T) or Excluded Assets (in the case of AMS) where such assets were located on the Closing Date.

### Allocation of Costs

B&T will use the following guidelines in allocating costs to AMS/PGW under this TSA:

- After the Grace Period (but beginning on the Closing Date with respect to those portions of the Indianapolis Distribution Center utilized for the transition of PGW to Perseus), a prorata share of rent and additional rent will be invoiced to and paid by AMS/PGW to B&T on a monthly basis in arrears based on the square footage occupied by PGW inventory and operations in the Indianapolis Distribution Center and Norcal Distribution Center as of the Closing Date. The prorata share of rent and additional rent will only be reduced if contiguous space is vacated and



made available to B&T in reasonably usable segments in accordance with a space succession plan provided by B&T to AMS prior to the Closing Date. AMS and B&T will meet on a monthly basis to determine the then-current space utilization of the respective parties and the amount, if any, of reduction of the prorata share of rent and additional rent.

- After the Grace Period (but beginning on the Closing Date with respect to those portions of the Indianapolis Distribution Center utilized for the transition of PGW to Perseus), a prorata share of common area charges, real estate taxes and utilities will be invoiced to and paid by AMS/PGW to B&T on a monthly basis in arrears based on the square footage occupied by PGW inventory and operations in the Indianapolis Distribution Center and Norcal Distribution Center as of the Closing Date. The prorata share of common area charges, real estate taxes and utilities will only be reduced if contiguous space is vacated and made available to B&T in reasonably usable segments in accordance with a space succession plan provided by B&T to AMS prior to the Closing Date.
- After the Grace Period, a prorata share of rent and additional rent will be invoiced to and paid by AMS to B&T on a monthly basis in arrears based on the square footage occupied by AMS inventory and operations (wind-down and/or otherwise categorized) in the applicable facilities as of the Closing Date. The prorata share of rent and additional rent will only be reduced if contiguous space is vacated and made available to B&T in reasonably usable segments in accordance with a space succession plan provided by B&T to AMS prior to the Closing Date.
- After the Grace Period, a prorata share of common area charges, real estate taxes and utilities will be invoiced to and paid by AMS to B&T on a monthly basis in arrears based on the square footage occupied by AMS wind-down inventory and operations (wind-down and/or otherwise categorized) in the applicable facilities as of the Closing Date. The prorata share of common area charges, real estate taxes and utilities will only be reduced if contiguous space is vacated and made available to B&T in reasonably usable segments in accordance with a space succession plan provided by B&T to AMS prior to the Closing Date.
- The full hourly employee cost on an hourly basis to B&T of labor provided by B&T in connection with this TSA will be invoiced to and paid by AMS/PGW to B&T on a monthly basis in arrears. AMS/PGW and B&T will make the necessary system adjustments to the on site Kronos time clock system so as to utilize this Kronos time clock system to track the labor assigned to the work of each party AMS, PGW and B&T. This data will be used as the basis for the allocation of labor resources and the reconciliation of the necessary labor expenses to be allocated back/invoiced and to each party. AMS/PGW and B&T management will meet on a monthly basis to make such allocation and perform such reconciliation.
- The full salaried employee cost on an hourly basis (assuming for this purpose a 40 hour work week) to B&T of time provided by B&T in connection with this TSA will be invoiced to and paid by AMS/PGW to B&T on a monthly basis in arrears. This data to be tracked manually and reconciled on a monthly basis by AMS/PGW and B&T management.

- The current invoice prices for all supplies used in connection with this TSA will be invoiced to and paid by AMS/PGW to B&T on a monthly basis in arrears. Supplies will be inventoried and segregated at closing and then manually tracked based on the usage by each of AMS and PGW.

AMS will use the following guidelines in allocating costs to B&T under this TSA:

- After the Grace Period, a prorata share of rent and additional rent will be invoiced to and paid by B&T to AMS/PGW on a monthly basis in arrears based on the square footage occupied by B&T inventory; equipment and other assets (other than as used to support the AMS/PGW inventory and other transitional services provided to AMS/PGW); and operations in the Baltimore Distribution Center and San Diego Corporate Headquarters as of the Closing Date. The prorata share of rent and additional rent will only be reduced if B&T has substantially vacated the space; provided, that with respect to the San Diego Corporate Headquarters, such reduction shall take effect on the first day of the monthly rental period following the date on which B&T has vacated the space. Notwithstanding the foregoing, to the extent that B&T has negotiated a lease with the landlord of the San Diego Corporate Headquarters on terms more favorable than and superseding the current lease, B&T shall allocate a prorata share of rent and additional rent for the applicable space to AMS/PGW on terms reflecting the new B&T lease.
- After the Grace Period, a prorata share of common area charges, real estate taxes and utilities will be invoiced to and paid by B&T to AMS/PGW on a monthly basis in arrears based on the square footage occupied by B&T inventory; equipment and other assets (other than as used to support the AMS/PGW inventory and other transitional services provided to AMS/PGW); and operations in the Baltimore Distribution Center and San Diego Corporate Headquarters as of the Closing Date. The prorata share of common area charges, real estate taxes and utilities will only be reduced if B&T has substantially vacated the space; provided, that with respect to the San Diego Corporate Headquarters, such reduction shall take effect on the first day of the monthly rental period following the date on which B&T has vacated the space.
- After the Grace Period, a prorata share of rent and additional rent will be invoiced to and paid by B&T to AMS/PGW on a monthly basis in arrears based on the square footage occupied by B&T inventory; equipment and other assets (other than as used to support the AMS/PGW inventory and other transitional services provided to AMS/PGW); and operations in the Indianapolis Return Center as of the Closing Date and, for each succeeding month, as of the last day of the preceding month; provided, that, from and after 90 days after the Closing Date, B&T shall become solely responsible for all rent and additional rent in connection with the Indianapolis Return Center effective as of the date on which AMS has vacated the space. Notwithstanding the foregoing, to the extent that B&T has negotiated a lease with the landlord of the Indianapolis Return Center on terms more favorable than and superseding the current lease, B&T shall allocate a prorata share of rent and additional rent for the applicable space to AMS/PGW on terms reflecting the new B&T lease. AMS and B&T will meet on a monthly basis

to determine the then-current space utilization of the respective parties and the amount, if any, of reduction of the prorata share of rent and additional rent. AMS will use commercially reasonable efforts to maintain its current lease for the Indianapolis Return Center for a period of 180 days from the Closing Date, or such longer period as B&T may reasonably request (on the same terms and conditions set forth in this TSA) by written notice delivered to AMS no later than 150 days after the Closing Date; provided, however, that AMS's obligations to maintain such lease shall be subject to applicable laws and the term of AMS's current lease for the Indianapolis Return Center.

- After the Grace Period, a prorata share of common area charges, real estate taxes and utilities will be invoiced to and paid by B&T to AMS/PGW on a monthly basis in arrears based on the square footage occupied by B&T inventory; equipment and other assets (other than as used to support the AMS/PGW inventory and other transitional services provided to AMS/PGW); and operations in the Indianapolis Return Center as of the Closing Date and, for each succeeding month, as of the last day of the preceding month; provided, that, from and after 90 days after the Closing Date, B&T shall become solely responsible for all common area charges, real estate taxes and utilities in connection with the Indianapolis Return Center effective as of the date on which AMS has vacated the space.
- The full hourly employee cost on an hourly basis to AMS of labor provided by AMS in connection with this TSA will be invoiced to and paid by B&T to AMS on a monthly basis in arrears. AMS/PGW and B&T will make the necessary system adjustments to the on site Kronos time clock system so as to utilize this Kronos time clock system to track the labor assigned to the work of each party AMS, PGW and B&T. This data will be used as the basis for the allocation of labor resources and the reconciliation of the necessary labor expenses to be allocated back/invoiced and to each party. AMS/PGW and B&T management will meet on a monthly basis to make such allocation and perform such reconciliation.
- The full salaried employee cost on an hourly basis (assuming for this purpose a 40 hour work week) to AMS of time provided by AMS in connection with this TSA will be invoiced to and paid by B&T to AMS on a monthly basis in arrears. This data to be tracked manually and reconciled on a monthly basis by AMS/PGW and B&T management.
- The current invoice prices for all supplies used in connection with this TSA will be invoiced to and paid by AMS/PGW to B&T on a monthly basis in arrears. Supplies will be inventoried and segregated at closing and then manually tracked based on the usage by each of AMS, PGW and B&T.

AMS and B&T will reconcile these expenses to be invoiced back to either party and make net payments on a monthly basis.

Without limiting the generality of the foregoing, the Parties shall attempt in good faith to reach agreement on all disputed matters with respect to any amounts due to or by each Party hereunder. Should the Parties be unable to resolve their disputes they shall enter into a nonbinding mediation process with an accounting firm mutually agreed to by B&T, AMS,

and the Creditors Committee provided that such agreed upon accounting firm cannot be currently engaged by any Party or the Creditors Committee (or any member thereof) or have previously served as any Party's or the Creditors Committee's (or any member's) principal accounting firm (such agreed upon accounting firm, the "Mediation Firm"). The Mediation Firm may consider only those items and amounts submitted to the Mediation Firm that the Parties have been unable to resolve. The Parties shall make readily available to the Mediation Firm all relevant books and records and any work papers (including those of their respective accountants) relating to the amount in dispute and all other items reasonably requested by the Mediation Firm. In the event the Parties determine after negotiating in good faith, or having the Mediation Firm perform an audit, that a Party has been over- or underbilled, the proper amounts shall promptly be disbursed or reimbursed, as appropriate; provided that if B&T has been overbilled by an amount that exceeds 10% of the aggregate amount that B&T has paid AMS under this Agreement, the reasonable costs of such audit shall be paid by AMS and in all other cases the reasonable costs of such audit shall be paid by B&T. The Parties will cooperate to promptly address any good faith disputes over the existence and amount of any such over- or underbilling.

In the event that any amounts owed to AMS or B&T by the other are not paid in full when due, interest shall thereafter accrue, at a rate equal to 1.5% per month and compounded on a monthly basis, until such unpaid portion of the amount owed, together with accrued interest thereon, and all expenses (including, without limitation, all reasonable fees and disbursements of counsel actually incurred) that may be paid or incurred by AMS or B&T, as applicable, have been repaid by the other. Notwithstanding the foregoing, no interest shall accrue during any period for which a party fails to pay any amount that is subject to a good faith dispute.

#### Insurance

AMS and PGW will carry all-risk insurance in form and substance reasonably satisfactory to B&T to cover all risks, casualties and loss of any and all inventory, supplies, assets, equipment, property (owned, leased and/or used), personal injuries and death involved in any way with this TSA and/or the services, support and/or access to be provided hereunder, including the following:

- Workers' Compensation Insurance covering all personnel engaged by AMS and PGW having access to any B&T facilities, with liability limits no less than statutory minimum limits.
- Comprehensive General Liability Insurance for property damage, bodily injury and/or personal injury caused by or contributed to by AMS and/or PGW, with liability limits no less than \$1,000,000 per occurrence.
- Comprehensive Automobile Liability Insurance for bodily injury, personal injury or property damage resulting from operation of motor vehicles owned and/or leased by AMS and/or PGW arising out of or in connection with the performance of services to be rendered under this TSA, with liability limits no less than \$1,000,000 per occurrence.

- Employer's Liability Insurance with limits no less than \$500,000 per occurrence.
- AMS/PGW shall name Baker & Taylor, Inc. as an additional insured under said insurance policies. Such policies shall provide that B&T shall receive no less than ten (10) days' prior written notice of any cancellation of coverage.

B&T will carry all-risk insurance in form and substance reasonably satisfactory to AMS and PGW to cover all risks, casualties and loss of any and all inventory, supplies, assets, equipment, property (owned, leased and/or used), personal injuries and death involved in any way with this TSA and/or the services, support and/or access to be provided hereunder, including the following:

- Workers' Compensation Insurance covering all personnel engaged by B&T having access to any AMS or PGW facilities, with liability limits no less than statutory minimum limits.
- Comprehensive General Liability Insurance for property damage, bodily injury and/or personal injury caused by or contributed to by B&T, with liability limits no less than \$1,000,000 per occurrence.
- Comprehensive Automobile Liability Insurance for bodily injury, personal injury or property damage resulting from operation of motor vehicles owned and/or leased by B&T arising out of or in connection with the performance of services to be rendered under this TSA, with liability limits no less than \$1,000,000 per occurrence.
- Employer's Liability Insurance with limits no less than \$500,000 per occurrence.
- B&T shall name AMS and PGW as additional insureds under said insurance policies. Such policies shall provide that AMS and PGW shall receive no less than ten (10) days' prior written notice of any cancellation of coverage.

#### Indianapolis Returns Center

B&T will use commercially reasonable efforts to provide the following transitional support for AMS, at AMS's sole cost except where otherwise indicated, at the Indianapolis Returns Center ("Returns Center"):

- Transitional support services in connection with AMS' performance of its obligations under the full term of five (5) months of the Perseus Transition Services Agreement. Transitional access to all of the information systems, and available resources in connection with AMS' processing of AMS pre-petition returns backlogged at the Returns Center, as well as AMS returns received at the Returns Center between the petition date and closing and any returns in transit at the time of closing.
- Transitional access to all of the information systems, and available resources in connection with AMS' processing of PGW pre-petition returns backlogged at the Returns Center, as well as PGW returns received at the Returns Center

between petition date and closing and during the term of the Perseus Transition Agreement.

- Transitional access to all of the information systems, and available resources in connection with AMS' processing of publisher returns at the Returns Center under the publisher book return program.
- Transitional access to all of the information systems, and available resources in connection with AMS' processing the removal of the remaining sold/liquidated assets from the Returns Center within ninety (90) days of closing.

AMS will use commercially reasonable efforts to provide the following transitional support for B&T at the Returns Center:

- AMS will make commercially reasonable efforts, at B&T's sole cost, to support moving the APG inventory purchased by B&T to the Indianapolis DC within twenty (20) days of closing.
- AMS will make commercially reasonable efforts, at B&T's sole cost, to provide B&T with training and transitional support services as and when requested by B&T at the Returns Center to the extent that AMS has employees or other personnel present there during the Term or any portion thereof (provided, that AMS shall be under no obligation to retain any employees for such purposes).
- Transitional space occupied as of the Closing Date by B&T inventory, equipment, other assets, and operations as contemplated by this TSA.

#### Indianapolis Distribution Center

B&T will use commercially reasonable efforts to provide the following transitional support for AMS, at AMS's sole cost except where otherwise indicated, at the Indianapolis Distribution Center ("Distribution Center"):

- Transitional space and support services in connection with AMS' performance of its obligations under the full five (5) month term of the Perseus Transition Services Agreement.
- Transitional space and support services in connection with AMS' servicing of AMS-PGW clients that do not move to Perseus; provided, however, all such clients must vacate the Distribution Center within ninety (90) days.
- Transitional space, access to all of the information systems, and available resources in connection with AMS' processing of publisher returns under the publisher book return program.
- Transitional space, access to all of the information systems, and available resources in connection with AMS' processing of the removal of the remaining sold/liquidated assets from the Distribution Center.
- Transitional space and support services in connection with AMS' bankruptcy case, reconciliation of claims and AMS' wind-down process.

- In all events, the needs of B&T's operations shall take priority over furnishing any such space, access to all of the information systems, or resources to AMS/PGW hereunder; provided, however, that to the extent any Purchased Assets are required so that AMS may complete the transition services arrangement involving AMS and PGW, AMS shall have access to such Purchased Assets free of charge (other than for long distance calls and other fees to third parties incurred as a result of AMS's use of such Purchased Assets) for a period of six (6) months after the Closing, provided further that AMS shall use commercially reasonable efforts in connection therewith to avoid adversely impairing the rights of B&T to the use of the Purchased Assets. Notwithstanding the foregoing, the supporting processes relating to shipments to customers of AMS/PGW shall have priority over any needs of B&T's operations, other than the supporting processes relating to shipments to customers of B&T.

AMS will use commercially reasonable efforts to provide the following transitional support for B&T at the Distribution Center:

- AMS will make commercially reasonable efforts, at AMS's sole cost, to remove all publisher return policy inventory from the Distribution Center and send it back to the publishers within ninety (90) days of the Closing Date.
- AMS will make commercially reasonable efforts, at AMS's sole cost, to remove all non-B&T purchased inventory from the Distribution Center within ninety (90) days of the Closing Date. AMS will not transfer any non-B&T purchased inventory to the Distribution Center.
- AMS will transfer, at B&T's sole cost, the material handling equipment currently located at the Baltimore facility to the Distribution Center to support all transitional services under this TSA.
- AMS will make commercially reasonable efforts, at B&T's sole cost, to provide B&T with training and transitional support services as and when requested by B&T at the Distribution Center to the extent that AMS has employees or other personnel present there during the Term or any portion thereof (provided, that AMS shall be under no obligation to retain any employees for such purposes).

#### Norcal Distribution Center

B&T will use commercially reasonable efforts to provide the following transitional support for AMS, at AMS's sole cost except where otherwise indicated, at the Norcal Distribution Center ("Norcal"):

- Transitional space and support services in connection with AMS' performance of its obligations under the full five (5) month term of the Perseus Transition Services Agreement.

- Transitional space and support services in connection with AMS' servicing of AMS-PGW clients that do not move to Perseus; provided, however, all such clients must vacate Norcal within (90) days of closing.
- Transitional space, access to all of the information systems, and available resources in connection with AMS' processing of publisher returns under the publisher book return program.
- Transitional space, access to all of the information systems, and available resources in connection with AMS' processing of the removal of the remaining sold/liquidated assets from Norcal.
- Transitional space and support services in connection with AMS' bankruptcy case, reconciliation of claims and AMS' wind-down process.
- In all events, the needs of B&T's operations shall take priority over furnishing any such space, access to all of the information systems, or resources to AMS/PGW hereunder. In no event shall B&T be required to take any action or engage in any forbearance in connection with this TSA if in the exercise of B&T's sole judgment any such act or forbearance could give rise to any adverse impact to the business or assets purchased by B&T pursuant to the B&T Purchase Agreement.

AMS will use commercially reasonable efforts to provide the following transitional support for B&T at Norcal:

- AMS will make commercially reasonable efforts, at AMS's sole cost, to remove all publisher return policy inventory from Norcal and send it back to the publishers within ninety (90) days of the Closing Date.
- AMS will make commercially reasonable efforts, at AMS's sole cost, to remove all non-B&T purchased inventory from Norcal within ninety (90) days of the closing of the transactions described in the B&T Purchase Agreement.
- AMS will make commercially reasonable efforts, at AMS's sole cost, to remove the Accusort automation system equipment within one hundred and twenty (120) days from closing.
- AMS will make commercially reasonable efforts, at B&T's sole cost, to provide B&T with training and transitional support services as and when requested by B&T at Norcal to the extent that AMS has employees or other personnel present there during the Term or any portion thereof (provided, that AMS shall be under no obligation to retain any employees for such purposes).

#### Baltimore Distribution Center

AMS will comply with and use commercially reasonable efforts, at B&T's sole cost, to accomplish the following:

- Move any B&T purchased inventory from the Baltimore Distribution Center to the Indianapolis Distribution Center within twenty (20) days of the Closing Date.



- Not transfer any non-B&T purchased inventory to the Indianapolis Distribution Center.
- Transfer the material handling equipment currently located at the Baltimore Distribution Center to the Indianapolis Distribution Center to support all transitional services under this TSA. Such transfer shall occur once such material handling equipment is no longer required by AMS/PGW, but in no event later than 120 days after the Closing Date.
- To provide B&T with training and transitional support services as and when requested by B&T at the Baltimore Distribution Center to the extent that AMS has employees or other personnel present there during the Term or any portion thereof (provided, that AMS shall be under no obligation to retain any employees for such purposes).

B&T will comply with and use commercially reasonable efforts to accomplish the following.

- Remove all other purchased assets within 30 days after all the inventory has been removed from the distribution center.

#### San Diego Corporate Headquarters, Assets and Employees

B&T will use commercially reasonable efforts to provide the following transitional support for AMS at the San Diego Corporate Headquarters:

- Transitional support services in connection with AMS' performance of its obligations under the Perseus Transition Services Agreement.
- Transitional support services in connection with AMS' servicing of AMS-PGW clients that do not move to Perseus.
- Transitional access to all of the information systems, and available resources in connection with AMS' processing of publisher returns under the publisher book return program.
- Transitional access to all of the information systems, and available resources in connection with AMS' processing of the removal of the remaining sold/liquidated assets from the assumed facilities.
- Transitional support services in connection with the administration of AMS' bankruptcy case, reconciliation of claims and AMS' wind-down process.

AMS will use commercially reasonable efforts to provide the following transitional support for B&T at the San Diego Corporate Headquarters:

- AMS will make commercially reasonable efforts to provide B&T with training and transitional support services as and when requested by B&T at the San Diego Corporate Headquarters to the extent that AMS has employees or other personnel present there during the Term or any portion thereof (provided, that AMS shall be under no obligation to retain any employees for such purposes).

- Transitional space occupied as of the Closing Date by B&T inventory, equipment, other assets, and operations as contemplated by this TSA.

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