

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

In re ADVANCED MARKETING
SERVICES, INC. SECURITIES
LITIGATION

Case No. 04-CV-00121 RTB (AJB)

CLASS ACTION

This Document Relates To:

JUDGE ROGER T. BENITEZ

ALL ACTIONS.

MAGISTRATE JUDGE ANTHONY J. BATTAGLIA

NOTICE OF:

- (1) PENDENCY OF CLASS ACTION,
- (2) HEARING ON PROPOSED SETTLEMENT, AND
- (3) ATTORNEYS' FEE PETITION AND RIGHT TO SHARE IN NET SETTLEMENT FUND

NOTICE OF PENDENCY AND PROPOSED SETTLEMENT OF CLASS ACTION: If you purchased Advanced Marketing Services, Inc. common stock during the period from January 16, 1999 through and including January 13, 2004, please be advised that your rights may be affected by a Class Action lawsuit pending in this court.

A Federal Court authorized this Notice. This is not a solicitation from a lawyer.

NOTICE OF SETTLEMENT: Please also be advised that Lead Plaintiff Police and Fire Retirement System of the City of Detroit ("Detroit P&F" or "Lead Plaintiff") has reached a proposed settlement that will resolve all claims of Lead Plaintiff and the Class (as defined in paragraph 1 below) against all defendants (the "Settlement"). This Notice explains important rights you may have including your possible receipt of cash from the Settlement. Your legal rights are affected whether you do or do not act. Also enclosed is a Proof of Claim and Release form ("Proof of Claim") that you must complete and submit either online at www.amssettlement.com by December 19, 2006 or via mail postmarked no later than December 19, 2006 to participate in the Settlement. Please read this Notice carefully!

1. **Statement of Plaintiff Recovery:** This Notice relates to the proposed settlement of a class action lawsuit filed against (i) Advanced Marketing Services, Inc. ("AMS" or the "Company"); and Edward J. Leonard, Michael M. Nicita, and Charles C. Tillinghast (the "Individual Defendants"; collectively with AMS, the "Defendants"). The total value of the Settlement is \$6,000,000 in cash plus interest. The Settlement will create a Settlement Fund to pay claims of investors who purchased and retained AMS common stock during the period from January 16, 1999 through and including January 13, 2004 (the "Class Period"), and who were damaged thereby (the "Class"). Such investors are referred to in this Notice as "Class Members." The Net Settlement Fund (the Settlement Fund less notice and administration costs and attorneys' fees and litigation expenses awarded to counsel representing plaintiffs ("Lead Counsel")) will be distributed in accordance with a Plan of Allocation (the "Plan of Allocation"). Lead Plaintiff's damages expert estimates that approximately 10.65 million shares may have been impacted by the conduct about which Lead Plaintiff complains. Thus, assuming that the owners of all affected shares elect to participate, the average per share recovery from the Settlement Fund would be approximately \$0.56 per damaged share.

2. **Reasons for the Settlement:** The Settlement resolves claims that the Defendants violated federal securities laws. The Defendants deny that they violated federal securities laws, and the Settlement should not be construed as an admission of wrongdoing by the Defendants. In light of the amount of the Settlement and the immediacy of recovery to the Class, Lead Plaintiff believes that the proposed Settlement is fair, reasonable and adequate, and in the best interests of the Class. Lead Plaintiff believes that the Settlement provides a substantial benefit, namely \$6,000,000 in cash plus interest less the various deductions described in this Notice, as compared to the risk that all or some of the claims in the Action could have been dismissed in response to Defendants' anticipated motions to dismiss and/or for summary judgment or that a similar, smaller, or no recovery would be achieved after a trial and appeals, possibly years in the future, in which the Defendants would have the opportunity to assert substantial defenses to the claims asserted against them.

3. **Statement of Average Amount of Damages Per Share:** The settling parties do not agree on the average amount of damages per share that would be recoverable if Lead Plaintiff was to prevail on the claims asserted against the Defendants. The settling parties disagree on, among other things: (i) the amount of inflation, if any, allegedly caused by the alleged misrepresentations and omissions; (ii) whether the alleged misrepresentations and omissions were material to investors; (iii) the percent of responsibility, if any, of each of the Defendants for the alleged misrepresentations and omissions; and (iv) whether the statements Defendants allegedly made were false, material or otherwise actionable under federal securities laws.

4. **Statement of Attorneys' Fees and Expenses Sought:** Lead Counsel (as defined in paragraphs 1 and 7) intends to apply for an award of attorneys' fees in the amount of 18% of the Settlement Fund. In addition, Lead Counsel intends to apply for reimbursement of litigation expenses paid and incurred in connection with the prosecution and resolution of the claims against the Defendants, in an amount not to exceed \$150,000. If the Court (as defined in paragraphs 6 and 8) approves Lead Counsel's fee and expense application, the average cost per damaged share will be approximately \$0.12.

5. **Identification of Attorneys' Representatives:** Any questions regarding the Settlement should be directed to Lead Counsel: Blair A. Nicholas or Benjamin Galdston, Bernstein Litowitz Berger & Grossmann LLP, 12481 High Bluff Drive, Suite 300, San Diego, California 92130, 888-924-1888, www.blbglaw.com; or to counsel for the Defendants: Seth Aronson, Amy Longo or Allan Johnson, O'Melveny & Myers, 400 South Hope Street, Los Angeles, California 90071, 213-430-6000, www.omm.com.

YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT:	
SUBMIT A PROOF OF CLAIM ONLINE OR VIA MAIL POSTMARKED NO LATER THAN DECEMBER 19, 2006	The only way to get a payment.
EXCLUDE YOURSELF FROM THE CLASS EITHER ONLINE AT www.amssettlement.com BY SEPTEMBER 20, 2006, OR VIA MAIL POSTMARKED NO LATER THAN SEPTEMBER 20, 2006	Get no payment. This is the only option that allows you to ever be part of any other lawsuit against the Defendants with respect to the claims in this case.
OBJECT NO LATER THAN SEPTEMBER 20, 2006	Write to the Court and explain why you do not like the Settlement.
GO TO THE HEARING ON OCTOBER 16, 2006 AT U.S. DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA AND FILE A NOTICE OF INTENTION TO APPEAR NO LATER THAN SEPTEMBER 20, 2006	Ask to speak in Court about the fairness of the Settlement.
DO NOTHING	Get no payment. Give up your rights.

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WHY DID I GET THIS NOTICE?

6. This Notice is given pursuant to Rule 23 of the Federal Rules of Civil Procedure and an Order of the United States District Court for the Southern District of California (the "Court") because you or someone in your family may have purchased AMS common stock during the Class Period. The Court sent you this Notice because, as a potential Class Member, you have a right to know about your potential options prior to the trial or settlement of this case. Additionally, you have the right to understand how a class action lawsuit may generally affect your legal rights. If the Court approves the Settlement, after any objections and appeals are resolved, a claims administrator approved by the Court will make payments pursuant to the Settlement.

7. In a class action lawsuit, the Court selects one or more people, known as a Class Representative, to sue on behalf of all people with similar claims, commonly known as the Class or the Class Members. By Order dated May 5, 2004, the Court appointed Detroit P&F as the Class Representative, and the law firm of Bernstein Litowitz Berger & Grossmann LLP ("Bernstein Litowitz") as Lead Counsel for the Class ("Lead Counsel"). Class Actions are generally used in lawsuits that affect a large number of individuals. In effect, the Class Action operates to consolidate all similar claims into a single action, thus providing the Class Members with both consistency and efficiency. Once the Class is certified, the Court must resolve all issues on behalf of the Class Members, except for those, if any, who choose to exclude themselves from the Class. (For more information on excluding yourself from the Class, please read "What If I Do Not Want To Be A Part Of The Settlement? How Do I Exclude Myself?" located further below.)

8. The Court in charge of this case is the United States District Court for the Southern District of California, and the case is known as *In re Advanced Marketing Services, Inc. Securities Litigation*. The Judge presiding over this case is the Honorable Roger T. Benitez, United States District Judge, who has designated the Honorable Anthony J. Battaglia, United States Magistrate Judge, to oversee all matters arising before the start of trial. The people who are suing are called the Plaintiffs, and those who are being sued are called the Defendants. In this case, the plaintiff is the Class, and the defendants are AMS, Edward J. Leonard, Michael M. Nicita, and Charles C. Tillinghast.

9. This Notice explains the lawsuit, the Settlement, your legal rights, what benefits are available, who is eligible for them, and how to get them. The purpose of this Notice is to inform you of this case, that it is a class action, and how you might be affected. Also it is to inform you of the terms of the proposed Settlement, and of a hearing to be held by the Court to consider the fairness, reasonableness, and adequacy of the proposed Settlement and the application for attorneys' fees and reimbursement of litigation expenses (the "Final Approval Hearing").

10. The Final Approval Hearing will be held at 10:30 a.m. on October 16, 2006, before the Honorable Roger T. Benitez, at the United States District Court for the Southern District of California, Courtroom 3, 4th Floor, United States Courthouse, 940 Front Street, San Diego, California 92101, to determine:

- (i) whether the proposed Settlement is fair, reasonable and adequate and should be approved by the Court;
- (ii) whether the claims against the Defendants should be dismissed with prejudice as set forth in the Stipulation of Settlement (the "Stipulation");
- (iii) whether the proposed Plan of Allocation is fair and reasonable and should be approved; and
- (iv) whether the application by Lead Counsel for an award of attorneys' fees and reimbursement of litigation expenses should be approved.

11. This Notice does not express any opinion by the Court concerning the merits of any claim in the lawsuit, and the Court still has to decide whether to approve the Settlement. If the Court approves the Settlement, payments will be made after appeals, if any, are resolved and after the completion of all claims processing. Please be patient.

WHAT IS THIS CASE ABOUT? WHAT HAS HAPPENED SO FAR?

12. Based in San Diego, AMS describes itself as a leading global provider of customized wholesaling services to book retailers, a major contract distribution service for select publishers, and a custom publishing source for its book publishing partners. The Company was founded in 1982 and went public in July 1987. AMS primarily serves the membership warehouse club industry and other specialty retailers. AMS ships more than 100 million books worldwide each year. AMS also provides a variety of advertising and marketing services to book publishers and its retail clients.

13. This lawsuit stems from AMS's announcement on January 14, 2004 that it would restate its previously filed financial statements for the prior five fiscal years. The planned restatement resulted from the Company's ongoing review of its cooperative advertising practices and related accounting, and relates primarily to the timing and quantification of recognition of revenue and reversal of accrued liabilities. Following the announcement of the restatement, the price of AMS's stock fell 15.2% from \$11.97 to \$10.15 per share.

14. Following the announcement of the restatement, AMS and certain of its officers and directors were named as defendants in three federal securities class actions in the United States District Court for the Southern District of California: *Eastside Investors, LLP v. Advanced Marketing Services, Inc., et al.*, Case No. 04-CV-00121 JM (AJB); *Bowen v. Advanced Marketing Services, Inc., et al.*, Case No. 04-CV-00139 H(JMA); and *Anderson v. Advanced Marketing Services, Inc., et al.*, Case No. 04-CV-00324 WQH (AJB). The lawsuits alleged that AMS and the Individual Defendants either knowingly or recklessly made misstatements concerning the Company's reported financial results to artificially inflate the price of AMS common stock. By Order dated February 24, 2004, the Court consolidated the federal securities actions into this action. On May 4, 2004, the Court appointed Detroit P&F, a public pension fund organized for the benefit of current and retired police and fire personnel from the City of Detroit, as Lead Plaintiff, and approved Detroit P&F's selection of Bernstein Litowitz as Lead Counsel.

15. In August 2005, the parties participated in a settlement mediation session with the assistance of retired California Court of Appeal Justice Charles S. Vogel. Following this mediation session, counsel for the parties continued to discuss settlement. In February 2006, the parties reached agreement on the terms of settlement and executed a Memorandum of Understanding ("MOU"). Before agreeing to the Settlement, Lead Counsel conducted an extensive investigation into the events and transactions underlying the claims alleged in this lawsuit. Lead Counsel analyzed potential claims and researched the applicable law with respect to the claims asserted, and Defendants' potential defenses thereto, and also consulted with expert financial consultants. A professional investigatory agency, acting under the direction of Lead Counsel, interviewed former AMS employees, as well as employees of AMS's customers and competitors, who were familiar with the subject matter of the claims. Lead Counsel reviewed and analyzed documents filed in related civil and criminal enforcement actions against former AMS executives. In addition, Lead Counsel reviewed and analyzed AMS's filings with the SEC, press releases, news accounts, and other publicly-disseminated statements.

HOW DO I KNOW IF I AM PART OF THE SETTLEMENT?

16. The Class covered by the Settlement consists of all persons who purchased and retained AMS common stock during the Class Period. Excluded from the Class are the following:

- (i) AMS;
- (ii) AMS's subsidiaries and affiliates;
- (iii) the Individual Defendants;
- (iv) members of the immediate families of the Individual Defendants;
- (v) any entity in which AMS or any Individual Defendant has a controlling interest;
- (vi) any person who was an officer or director of AMS during the Class Period;
- (vii) the legal representatives of any parent, subsidiary, affiliate, partner, officer, executive or director of AMS during the Class Period;
- (viii) any entity in which any such excluded person has a controlling interest; and
- (ix) the legal representatives, heirs, predecessors, successors or assigns of any of the foregoing excluded persons or entities.

Also excluded from the Class is any person or entity that files a Request for Exclusion in accordance with the requirements set forth in this Notice (see "What If I Do Not Want To Participate In The Settlement? How Do I Exclude Myself?," below).

RECEIPT OF THIS NOTICE DOES NOT NECESSARILY MEAN THAT YOU ARE A CLASS MEMBER OR ARE ENTITLED TO RECEIVE PROCEEDS FROM THE SETTLEMENT. IF YOU WISH TO PARTICIPATE IN THE SETTLEMENT, YOU MUST SUBMIT THE ENCLOSED PROOF OF CLAIM ONLINE AT WWW.AMSSETTLEMENT.COM BY DECEMBER 19, 2006, OR VIA MAIL POSTMARKED NO LATER THAN DECEMBER 19, 2006.

WHAT RECOVERY DOES THE SETTLEMENT PROVIDE?

17. The Settlement provides for a recovery of \$6,000,000 in cash plus interest. AMS has agreed to pay \$6,000,000, which was deposited into an interest-bearing escrow account on May 17, 2006. Attorneys' fees, litigation expenses, notification costs, and administration costs will be deducted from these settlement proceeds, and the balance will be distributed to the Class. The amount of any recovery will depend on a number of factors, including when and for what price Class Members purchased and/or sold their AMS common stock and the total number of shares for which timely and valid Proof of Claim forms are submitted by Class Members ("Authorized Claimants") (see "How Much Will My Payment Be?," below).

18. Lead Plaintiff's damages expert estimates that approximately 10.65 million shares of the Company's common stock were traded during the Class Period and may have been damaged as a result of Defendants' allegedly wrongful conduct. Thus, assuming that the owners of all affected shares elect to participate, the average per share recovery from the Settlement Fund would be approximately \$0.56 per damaged share.

WHY IS THERE A SETTLEMENT?

19. Under the proposed Settlement, the Court will not decide in favor of either Lead Plaintiff or the Defendants. By agreeing to the Settlement, both Lead Plaintiff and the Defendants avoid the costs and risk of a trial, and the Class Members are compensated.

20. In light of the amount of the Settlement and the immediacy of recovery to the Class, Lead Plaintiff and Lead Counsel believe that the proposed Settlement is fair, reasonable and adequate, and in the best interests of Class Members. Lead Plaintiff believes that the Settlement provides a substantial benefit, namely \$6,000,000 in cash plus interest, less the various deductions described in this Notice, as compared to the risk that all or some of the claims in the Action could have been dismissed in response to Defendants' anticipated motions to dismiss or for summary judgment, or the risk that a similar, smaller, or no recovery would be achieved after a trial and appeals, possibly years in the future, in which the Defendants would have the opportunity to assert substantial defenses to the claims asserted against them.

WHAT MIGHT HAPPEN IF THERE WAS NO SETTLEMENT?

21. If there was no Settlement and Lead Plaintiff failed to establish any essential legal or factual element of its claims, neither Lead Plaintiff nor the Class would recover anything from the Defendants. Also, if the Defendants were successful in proving any of their defenses, the Class likely would recover substantially less than the amount provided in the Settlement, or nothing at all.

WHAT PAYMENT ARE THE ATTORNEYS FOR THE CLASS SEEKING?

22. Lead Counsel has not received any payment for its services in pursuing claims against the Defendants on behalf of the Class, nor has it been reimbursed for its out-of-pocket expenses. Lead Counsel intend to apply to the Court for an award of attorneys' fees in the amount of 18% of the Settlement Fund. Lead Plaintiff has reviewed the fee application and has determined that it is fair and reasonable.

23. In addition, Lead Counsel intend to apply for reimbursement of litigation expenses in an amount not to exceed \$150,000. If the application for attorneys' fees and reimbursement of litigation expenses is approved by the Court, the average cost per damaged share would be approximately \$0.12. THE COURT HAS NOT EXPRESSED ANY OPINION ON THE APPLICATION FOR ATTORNEYS' FEES AND REIMBURSEMENT OF LITIGATION EXPENSES (see "How Will the Lawyers Be Paid?," below).

WHY HAVE THE DEFENDANTS AGREED TO THE SETTLEMENT?

24. The Settlement is not evidence of, an admission of, or a concession on the part of the Defendants of any fault or liability whatsoever on the part of any Defendant, or any infirmity in any defenses they have asserted or intended to assert in the Action. However, the Defendants consider it desirable, and in their best interests, that the claims against them be dismissed on the terms set forth in the Stipulation to avoid further expense and protracted litigation, taking into account the uncertainty and risks inherent in any litigation.

WHAT LED UP TO THE SETTLEMENT?

25. The Settlement resulted from over two years of litigation and extensive arm's-length negotiations among Lead Plaintiff, Lead Counsel and counsel for the Defendants. Several settlement discussions took place, including one formal mediation session conducted by a professional mediator, retired California Court of Appeal Justice Charles S. Vogel, which ultimately resulted in an agreement to settle the claims against the Defendants.

WHAT ARE THE REASONS FOR THE SETTLEMENT?

26. Lead Plaintiff and Lead Counsel believe that the claims asserted against the Defendants have merit. However, they recognize the expense and length of continued proceedings necessary to pursue their claims against the Defendants through trial and appeals. Lead Plaintiff and Lead Counsel have also taken into account the issues that would have to be decided by a jury, including whether the Defendants acted knowingly or recklessly, whether each of the alleged misrepresentations and omissions was material, and the amount of any damages caused by the alleged misrepresentations and omissions. Lead Plaintiff and Lead Counsel have also considered the uncertain outcome and trial risk in complex lawsuits like this one. Lead Plaintiff believes that a recovery now will provide an immediate benefit to Class Members, which is superior to the risk of proceeding with the Action. Considering these factors and balancing them against the certain and substantial benefits that the Class will receive as a result of the Settlement, Lead Plaintiff and Lead Counsel determined that the Settlement described herein is fair, reasonable and adequate, and that it is in the best interests of the Class to settle the claims against the Defendants on the terms set forth in the Stipulation and this Notice.

THE PROPOSED PLAN OF ALLOCATION: GENERAL PROVISIONS

27. The Settlement will provide for a Settlement Fund of at least \$6,000,000. AMS's insurers have paid \$6,000,000 in cash into an interest-bearing escrow account (the "Settlement Fund").

28. After approval of the Settlement by the Court and upon satisfaction of the other conditions to the Settlement, the Net Settlement Fund (less any taxes and administration costs) will be distributed to Authorized Claimants in accordance with the Plan of Allocation described below.

29. The Settlement Fund will be distributed as follows:

(i) First, to pay all federal, state and local taxes on any income earned by the Settlement Fund and to pay the reasonable costs incurred in connection with determining the amount of, and paying, taxes owed by the Settlement Fund (including reasonable expenses of tax attorneys and accountants);

(ii) To pay costs and expenses in connection with providing Notice to Class Members and administering the Settlement on behalf of Class Members;

(iii) To reimburse Plaintiffs' Counsel for, and to pay, costs and expenses incurred by Plaintiffs' Counsel in connection with, commencing and prosecuting the Action, with interest thereon, if and to the extent allowed by the Court;

(iv) To pay Plaintiffs' Counsel attorneys' fees, to the extent allowed by the Court; and

(v) Subject to the Order by the Court granting approval of the Settlement and the Plan of Allocation (or such other allocation plan as the Court may approve) becoming final (meaning that the time for appeal or appellate review of the Order granting final approval has expired, or if the Order is appealed, that appeal is either decided without causing a material change in the Order or upheld on appeal and no longer subject to appellate review by further appeal or writ of certiorari), the balance of the Settlement Fund (the "Net Settlement Fund") shall be distributed to Authorized Claimants in accordance with the Plan of Allocation.

30. There will be no distribution of the Net Settlement Fund until a Plan of Allocation is finally approved and affirmed on appeal or certiorari and the time for any petition for rehearing, appeal or review, whether by certiorari or otherwise, has expired.

31. The Defendants are not entitled to get back any of the settlement consideration once the Court's Order approving the Settlement becomes final. Moreover, the Defendants have no liability, obligation or responsibility for the administration of the Settlement or disbursement of the Net Settlement Fund.

32. Approval of the Settlement is independent from approval of the Plan of Allocation. Any determination with respect to the Plan of Allocation will not affect the Settlement, if approved.

33. Only those Class Members who purchased AMS's common stock during the Class Period, held such common stock through January 13, 2004, and were damaged will be eligible to share in the distribution of the Net Settlement Fund. Each person wishing to participate in the distribution must timely submit a valid Proof of Claim and all required documentation via the Internet or via mail postmarked no later than December 19, 2006 to the address set forth in the Proof of Claim that accompanies this Notice. The Proof of Claim includes a general release of each of the Defendants, as well as various other affiliated persons and entities. Unless otherwise ordered by the Court, any Class Member who fails to submit a Proof of Claim online or postmarked no later than December 19, 2006 shall be forever barred from receiving payments pursuant to the Settlement set forth in the Stipulation, but will in all other respects be subject to the provisions of the Stipulation, including the terms of any Judgment entered and releases given. This means that each Class Member releases the Released Claims, as that term is defined in the Stipulation entered into among the parties and on file with the Court, against the Defendants and is enjoined and prohibited from filing, prosecuting, or pursuing any of the Released Claims against any of the Defendants regardless of whether or not such Class Member submits a Proof of Claim.

34. The Court has reserved jurisdiction to allow, disallow, or adjust on equitable grounds the Claim of any Class Member. The Court also reserves the right to modify the Plan of Allocation without further notice to Class Members. Payment pursuant to the Plan of Allocation approved by the Court shall be conclusive against all Authorized Claimants. No person shall have any claim against Lead Plaintiff, Lead Counsel or the Claims Administrator or other agent designated by Lead Counsel based on the distributions made substantially in accordance with the Stipulation and the Settlement contained therein, the Plan of Allocation, or further orders of the Court.

THE PROPOSED PLAN OF ALLOCATION: CALCULATION OF LOSS AMOUNT

35. A "Loss Amount" will be calculated for each purchase or acquisition of the Company's common stock that is listed in the Proof of Claim, and for which adequate documentation is provided. The calculation of the Loss Amount will depend upon several factors, including when the shares were purchased, and whether the shares were held until the conclusion of the Class Period or sold during the Class Period, and if so, when they were sold.

36. **Information Required on the Proof of Claim:** Each Proof of Claim must indicate each Claimant's position in AMS common stock as of the close of trading on January 15, 1999, the day before the first day of the Class Period, and the closing position in AMS common stock as of the close of trading on January 13, 2004, the last day of the Class Period. Each Proof of Claim also must list *all* transactions in AMS common stock, including all purchases and sales, made during the Class Period.

BASIS FOR CALCULATION OF LOSS AMOUNT

37. Loss Amounts are based on the level of alleged artificial inflation in the price of AMS common stock, as determined by Lead Plaintiff's damages expert.

38. Lead Plaintiff's damages expert calculated the reasonable percentage of alleged artificial inflation in the daily closing market prices for AMS common stock for each day in the Class Period that, in its opinion, was attributable to the alleged wrongdoing. Lead Plaintiff's expert analyzed the market price reaction to the January 14, 2004 public disclosure that revealed or described the alleged misrepresentations or their effects. Further, Lead Plaintiff's expert measured the percentage price decline associated with each particular disclosure, adjusted that price reaction to eliminate the effects, if any, attributable to general market or industry conditions, and used standard statistical techniques to ensure that the price reaction was statistically significant (*i.e.*, greater than the normal variation in the price). Lead Plaintiff's expert thus isolated the price effect that it reasonably believed was caused by the alleged fraud. In addition, Lead Plaintiff's damages expert also analyzed the market price reaction to AMS's earnings announcements throughout the Class Period to determine if any were associated with statistically significant stock price increases. Lead Plaintiff's expert thus isolated the price effect that it reasonably believed was caused by inflationary statements that increased the alleged artificial inflation present in the market price of the Company's common stock.

39. By accumulating the total isolated market reaction attributable to the public disclosure of the alleged fraud, Lead Plaintiff's damages expert determined, in its expert opinion, the reasonable amount of total artificial inflation in the market price of AMS common stock, expressed as a percentage of closing market price, as of January 12, 2004, the day before the last day of the Class Period.

40. **General Provisions:**

The Net Settlement Fund will be allocated among all eligible Class Members.

The Loss Amount is calculated as follows:

- (i) for shares of AMS common stock that were purchased between January 16, 1999 through and including January 13, 2004, and sold prior to January 14, 2004, the Loss Amount is \$0.00 per share; and
- (ii) for shares of AMS common stock that were purchased between January 16, 1999 through and including January 13, 2004 and retained as of January 13, 2004, the Loss Amount per share is the **lesser** of
 - (a) \$1.92 per share; or
 - (b) the purchase price less \$10.15 per share.

For Class Members who conducted multiple transactions in AMS common stock during the Class Period, the earliest subsequent sale shall be matched first against those shares in the Claimant's opening position on the first day of the Class Period, and then matched chronologically thereafter against each purchase or acquisition made during the Class Period.

If the Authorized Claimant acquired AMS common stock during the Class Period by means of a gift, inheritance or operation of law, the Authorized Claimant's Loss Amount will be computed by using the price of such security on the original date of purchase, and not the date of transfer, unless the transfer resulted in a taxable event or

other change in the cost basis of the security. To the extent that shares of AMS common stock were originally purchased prior to commencement of the Class Period, and there was no such taxable event or change in cost basis at the time of transfer, the Authorized Claimant's Loss Amount for that acquisition shall be zero.

Each Authorized Claimant shall recover his or her Loss Amount. However, in the event that the sum total of Loss Amounts of all Authorized Claimants who are entitled to receive payment out of the Net Settlement Fund is greater than the Net Settlement Fund, each such Authorized Claimant shall receive his/her/its *pro rata* share of the Net Settlement Fund, which shall be his/her/its Loss Amount divided by the total of all Loss Amounts to be paid from the Net Settlement Fund, multiplied by the total amount in the Net Settlement Fund. The proration factor applied to the Authorized Claims of Class Members will be based on the amount in the Net Settlement Fund available to satisfy those claims, as set forth in paragraph 28, above.

If the Net Settlement Fund exceeds the sum total amount of the Loss Amounts of all Authorized Claimants entitled to receive payment out of the Net Settlement Fund, the excess amount in the Net Settlement Fund shall be distributed *pro rata* to all Authorized Claimants entitled to receive payment out of the Net Settlement Fund.

Each Authorized Claimant will be required to provide proof of his/her/its ownership position in AMS common stock as of the close of trading on January 12, 2004. Each Proof of Claim also must list *all* transactions in AMS common stock, including all purchases and sales, made during the Class Period (January 16, 1999 through and including January 13, 2004).

WHAT RIGHTS AM I GIVING UP BY AGREEING TO THE SETTLEMENT?

41. If the Settlement is approved, the Court will enter a Final Judgment (the "Judgment"). The Judgment will dismiss the claims against the Defendants with prejudice and provide that Lead Plaintiff and all other Class Members, except those who validly and timely request to be excluded from the Class, shall upon the Effective Date of the Judgment, be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever released, waived, discharged and dismissed any and all Released Claims against the Released Persons (as defined in the Stipulation).

42. "Released Claims" means, collectively: (i) all claims, rights, demands, obligations, controversies, debts, damages, losses, causes of action or liabilities of any kind or nature whatsoever in law or in equity, including both known and unknown claims, held at any point from the beginning of time to the date of the execution of the Stipulation, which claims arise out of or relate to the allegations of the Complaint or the acquisition or disposition of AMS common stock by Class Members during the Class Period; and (ii) any and all claims, rights, demands, obligations, controversies, debts, damages, losses, causes of action and liabilities of any kind or nature whatsoever in law or in equity, including both known and unknown claims, held at any point from the beginning of time to the date of the execution of the Stipulation, which claims have been or could have been asserted by the Defendants, or any of them, against Lead Plaintiff, including its attorneys, trustees, accountants, affiliates, subsidiaries, parents, predecessors, successors, or related companies and any of their respective present or former officers, directors and employees, and which arise out of or relate in any way to the institution, maintenance or settlement of the Action.

43. The Judgment also will provide that the Defendants and any of the other Released Persons shall each be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever released, waived, and discharged Lead Plaintiff and the Class and any and all claims which the Defendants or any of the other Released Persons ever had, now have or may ever have, whether known or unknown, accrued or not accrued, foreseen or unforeseen, matured or not matured, that could have been asserted by the Defendants or any of the other Released Persons against the Lead Plaintiff or any of its attorneys, which arise out of or relate in any way to the institution, prosecution, or settlement of the claims against the Defendants, except claims relating to the enforcement of the Settlement.

HOW WILL THE LAWYERS BE PAID?

44. At the Settlement Hearing described below, or at such other time as the Court may direct, Lead Counsel intend to apply to the Court for an award of attorneys' fees on behalf of all Plaintiffs' Counsel in the amount of 18% of the Settlement Fund. Lead Plaintiff has reviewed the fee application and has determined that it is fair and reasonable. In addition, Lead Counsel intend to apply for reimbursement of Litigation Expenses incurred in connection with the lawsuit, in an amount not to exceed \$150,000.

45. To date, neither Lead Counsel nor any of Plaintiffs' Counsel have received any payment for their services in prosecuting this Action on behalf of the Class, nor have Counsel been reimbursed for their out-of-pocket expenses. The fee requested by Lead Counsel would compensate Plaintiffs' Counsel for their efforts in achieving the Settlement for the benefit of the Class, and for their risk in undertaking this representation on a contingency basis. The fee requested is

within the range of fees awarded to Plaintiffs' Counsel under similar circumstances in litigation of this type. The Court will determine the amount of the award.

HOW DO I PARTICIPATE IN THE SETTLEMENT? WHAT DO I NEED TO DO?

46. The Court has certified this Action as a Class Action. If you purchased AMS common stock during the period from January 16, 1999 through and including January 13, 2004, and you are not excluded by the definition of the Class and do not elect to exclude yourself, then you are a Class Member, and you will be bound by the proposed Settlement provided for in the Stipulation, in the event it is approved by the Court, as well as by any judgment or determination of the Court affecting the Class. Unless otherwise provided by the Court, any Class Member who fails to submit a Proof of Claim online or via mail postmarked no later than December 19, 2006, shall be forever barred from receiving any payments, pursuant to the Settlement set forth in the Stipulation, but will in all other respects be subject to the provisions of the Stipulation, including the terms of any judgments entered and the releases given.

47. If you wish to remain a Class Member, you may be eligible to share in the proceeds of the Settlement, provided that you timely submit an acceptable Proof of Claim. The Proof of Claim must be supported by such documents as specified in the Proof of Claim. The Proof of Claim form is enclosed. Extra copies of the Proof of Claim may be obtained from the Claims Administrator at the website noted below or downloaded from Lead Counsel's websites at www.blbglaw.com or www.amssettlement.com.

48. The Court may disallow or adjust the Claim of any Class Member. The Court also may modify the Plan of Allocation without further notice to the Class. Payments pursuant to the Plan of Allocation, as approved by the Court, will be conclusive against all Authorized Claimants. No person shall have any claim against any Lead Plaintiff, Plaintiffs' Counsel or the Claims Administrator, or other agent designated by Lead Counsel, based on the distributions made substantially in accordance with the Stipulation and the Settlement, the Plan of Allocation or further orders of the Court. Each Claimant shall be deemed to have submitted to the jurisdiction of the United States District Court for the Southern District of California with respect to his, her or its Proof of Claim.

49. As a Class Member, you are represented by Lead Plaintiff and Lead Counsel, unless you enter an appearance through counsel of your own choice at your own expense. You are not required to retain your own counsel, but if you choose to do so, such counsel must file an appearance on your behalf and must serve copies of such appearance on the attorneys listed in the section entitled, "When and Where Will the Court Decide Whether to Approve the Settlement?," below.

50. If you do not wish to remain a Class Member, you may exclude yourself from the Class by following the instructions in the section entitled, "What If I Do Not Want To Be A Part Of The Settlement? How Do I Exclude Myself?," below.

51. If you object to the Settlement or any of its terms, the proposed Plan of Allocation, or Lead Counsel's application for attorneys' fees and reimbursement of litigation expenses, and if you do not exclude yourself from the Class, you may present your objections by following the instructions in the section entitled, "When and Where Will the Court Decide Whether to Approve the Settlement?," below.

WHAT IF I DO NOT WANT TO BE A PART OF THE SETTLEMENT? HOW DO I EXCLUDE MYSELF?

52. Each Class Member will be bound by all determinations and judgments in this lawsuit concerning the Settlement, whether favorable or unfavorable, unless such person mails, by first class mail, a written Request for Exclusion from the Class, addressed to Advanced Marketing Services, Inc. Securities Litigation, EXCLUSIONS, c/o The Garden City Group, Inc., Claims Administrator, P.O. Box 9000 #6443, Merrick, New York 11566-9000, postmarked no later than September 20, 2006. No person may exclude himself from the Class after that date. In order to be valid, each Request for Exclusion must set forth the name and address of the person or entity requesting exclusion; must state that such person or entity "requests exclusion from the Class in *In re Advanced Marketing Services, Inc. Securities Litigation*, Case No. 04-CV-00121"; must be signed by such person or entity; and must provide a telephone number, and the date(s), price(s), and number(s) of shares of all purchases and sales of AMS common stock during the Class Period. Requests for Exclusion will not be accepted if the requests do not include the required information and/or if the requests are not made within the time stated above, unless the Requests for Exclusion are otherwise accepted by the Court.

53. If a Class Member requests to be excluded from the Class, that Class Member will not receive any benefit provided for in the Stipulation.

**WHEN AND WHERE WILL THE COURT DECIDE WHETHER TO APPROVE THE SETTLEMENT?
DO I HAVE TO COME TO THE HEARING?
MAY I SPEAK AT THE HEARING IF I DON'T LIKE THE SETTLEMENT?**

If you do not wish to object to the proposed Settlement, the application for attorneys' fees and reimbursement of Litigation Expenses, and/or the proposed Plan of Allocation, you need not attend the Final Approval Hearing.

54. Any Class Member who does not request exclusion postmarked no later than September 20, 2006 may appear at the Final Approval Hearing and be heard on any of the matters to be considered at the hearing; provided, however, that no such person shall be heard unless his, her or its objection or opposition is made in writing and is filed, together with a notice of intention to appear and copies of all other papers (including proof of all purchases of AMS common stock during the Class Period) and briefs to be submitted to the Court at the Final Approval Hearing, with the Clerk's Office at the United States District Court for the Southern District of California, 880 Front Street, Suite 4290, San Diego, California 92101-8900, on or before September 20, 2006, and is served on the same day by hand or overnight delivery to each of the following:

Lead Counsel for the Class:

BERNSTEIN LITOWITZ
BERGER & GROSSMANN LLP
BLAIR A. NICHOLAS
BENJAMIN GALDSTON
12481 High Bluff Drive, Suite 300
San Diego, California 92130

Counsel for Advanced Marketing Services, Inc.:

O'MELVENY & MYERS LLP
SETH ARONSON
AMY LONGO
ALLAN JOHNSON
400 South Hope Street
Los Angeles, CA 90071-2899

55. The filing must demonstrate your membership in the Class, including the number of shares of AMS common stock purchased during the Class Period and price(s) paid. Only Class Members who have submitted their position in this manner will be entitled to be heard at the Final Approval Hearing, unless the Court orders otherwise. You may file an objection without having to appear at the Final Approval Hearing. Class Members who approve of the Settlement need not appear at the Final Approval Hearing.

56. Attendance at the hearing is not necessary; however, persons wishing to be heard orally in opposition to the approval of the Settlement, the proposed Plan of Allocation and/or the request for attorneys' fees and reimbursement of Litigation Expenses are required to indicate in their written objections their intention to appear at the hearing. Persons who intend to object to the Settlement, the proposed Plan of Allocation and/or Lead Counsel's application for an award of attorneys' fees and reimbursement of Litigation Expenses and desire to present evidence at the Final Approval Hearing must include in their written objections the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the Final Approval Hearing.

57. The Final Approval Hearing may be delayed from time to time by the Court without further written notice to the Class. If you intend to attend the Final Approval Hearing, you should confirm the date and time with Lead Counsel.

Unless otherwise ordered by the Court, any Class Member who does not object in the manner described herein will be deemed to have waived any objection and shall be forever foreclosed from making any objection to the proposed Settlement, the application for attorneys' fees and reimbursement of litigation expenses and/or the proposed Plan of Allocation. Class Members do not need to appear at the hearing or take any other action to indicate their approval.

WHAT IF I BOUGHT SHARES ON SOMEONE ELSE'S BEHALF?

58. If you purchased AMS common stock during the Class Period for the beneficial interest of a person or organization other than yourself, you are directed to send a copy of this Notice and the Proof of Claim, to the beneficial owner of the shares postmarked no later than fourteen (14) days from the date of this Notice, or to provide the names and addresses of such persons no later than fourteen (14) days from the date of this Notice, to Advanced Marketing Services, Inc. Securities Litigation, c/o The Garden City Group, Inc., Claims Administrator, P.O. Box 9000 #6443, Merrick, New York 11566-9000, in which case the beneficial owner will be sent a copy of the Notice. Upon full compliance with these directions, such nominees may seek reimbursement of their reasonable expenses actually incurred in complying herewith by providing the Claims Administrator with proper documentation supporting the expenses for which reimbursement is sought. Copies of this Notice and the Proof of Claim may also be obtained from the Claims Administrator's website at www.amsettlement.com or by calling toll-free 1(866) 590-0973, or may be downloaded from Lead Counsel's websites at www.blbglaw.com.

**CAN I SEE THE COURT FILE?
WHOM SHOULD I CONTACT IF I HAVE QUESTIONS?**

59. This Notice contains only a summary of the terms of the proposed Settlement. For a more detailed statement of the matters involved in the Action, you are referred to the papers on file in the Action, including the Stipulation, which may be inspected during regular office hours at the Office of the Clerk, United States District Court for the Southern District of California, 880 Front Street, Suite 4290, San Diego, California, 92101-8900.

60. All inquiries concerning this Notice or the Proof of Claim should be directed to: Advanced Marketing Services, Inc. Securities Litigation c/o The Garden City Group, Inc., Claims Administrator, P.O. Box 9000 #6443, Merrick, New York 11566-9000, 1(866) 590-0973; **OR**

Lead Counsel for the Class:

BERNSTEIN LITOWITZ
BERGER & GROSSMANN LLP
BLAIR A. NICHOLAS
BENJAMIN GALDSTON
12481 High Bluff Drive, Suite 300
San Diego, California 92130
1 (888) 924-1888

Counsel for Advanced Marketing Services, Inc.:

O'MELVENY & MYERS LLP
SETH ARONSON
AMY LONGO
ALLAN JOHNSON
400 South Hope Street
Los Angeles, CA 90071-2899
1 (213) 430-6000

DO NOT CALL OR WRITE THE COURT OR THE OFFICE OF THE CLERK OF THE COURT REGARDING THIS NOTICE.

Dated: July 31, 2006

BY ORDER OF THE COURT
UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

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