

[NOT APPROVED BY THE BANKRUPTCY COURT]

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

IN RE:

ADVANCED MARKETING SERVICES, INC.,
ET AL.,¹

DEBTORS.

CHAPTER 11

CASE No. 06-11480 (CSS)

JOINTLY ADMINISTERED

**DISCLOSURE STATEMENT REGARDING JOINT CHAPTER 11 PLAN
OF LIQUIDATION OF THE DEBTORS AND
THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS**

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**PLEASE READ THIS DISCLOSURE STATEMENT CAREFULLY. THIS
DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY BEAR UPON
YOUR DECISION TO ACCEPT OR REJECT THE PLAN. THE DEBTORS AND
COMMITTEE BELIEVE THAT THE PLAN IS IN THE BEST INTERESTS OF
CREDITORS, AND IS FAIR AND EQUITABLE, AND URGE YOU TO VOTE TO
ACCEPT THE PLAN.**

¹ The Debtors are the following entities: Advanced Marketing Services, Inc., a Delaware corporation, Publishers Group Incorporated, a California corporation, and Publishers Group West Incorporated, a California corporation.

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INTRODUCTION

Advanced Marketing Services, Inc. (“AMS”), Publishers Group Incorporated (“PGI”) and Publishers Group West Incorporated (“PGW”), debtors and debtors-in-possession in the above-captioned chapter 11 cases (each individually a “Debtor,” and collectively, the “Debtors”), and the Official Committee of Unsecured Creditors of the Debtors (the “Committee,” and, together with the Debtors, the “Plan Proponents”), hereby submit the following Disclosure Statement pursuant to the provisions of chapter 11 of the Bankruptcy Code with respect to their Joint Chapter 11 Plan of Liquidation (the “Plan”).

Unless otherwise noted, all capitalized terms used herein shall have the meaning ascribed to them in the Plan.

This Disclosure Statement is intended to be used in connection with the solicitation of acceptances or rejections of the Plan filed with the United States Bankruptcy Court for the District of Delaware. A copy of the Plan is attached hereto as **Exhibit A**.

APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT DOES NOT MEAN THAT THE BANKRUPTCY COURT RECOMMENDS ACCEPTANCE OR REJECTION OF THE PLAN.

WHILE THIS DISCLOSURE STATEMENT DESCRIBES CERTAIN BACKGROUND MATTERS AND THE MATERIAL TERMS OF THE PLAN, IT IS INTENDED AS A SUMMARY DOCUMENT ONLY AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN AND THE EXHIBITS ATTACHED TO THE PLAN AND THIS DISCLOSURE STATEMENT. YOU SHOULD READ THE PLAN AND THE EXHIBITS TO OBTAIN A FULL UNDERSTANDING OF THEIR PROVISIONS.

ADDITIONAL COPIES OF THE DISCLOSURE STATEMENT AND THE EXHIBITS ATTACHED TO THIS DISCLOSURE STATEMENT CAN BE OBTAINED FROM EPIQ BANKRUPTCY SERVICES LLC, 757 THIRD AVENUE, THIRD FLOOR, NEW YORK, NEW YORK 10017. THE COST OF COPIES MUST BE PAID BY THE

PERSON ORDERING THEM. COPIES OF PAPERS FILED IN THESE CASES MAY BE INSPECTED DURING REGULAR COURT HOURS IN THE CLERK'S OFFICE, UNITED STATES BANKRUPTCY COURT, 824 NORTH MARKET STREET, WILMINGTON, DELAWARE.

THE STATEMENTS AND INFORMATION CONCERNING THE DEBTORS, THE COMMITTEE, AND REORGANIZED AMS SET FORTH IN THIS DISCLOSURE STATEMENT CONSTITUTE THE ONLY STATEMENTS OR INFORMATION CONCERNING SUCH MATTERS THAT HAVE BEEN APPROVED BY THE BANKRUPTCY COURT FOR THE PURPOSE OF SOLICITING ACCEPTANCES OR REJECTIONS OF THE PLAN.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN. NEITHER DELIVERY OF THIS DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE IN CONNECTION WITH THE PLAN WILL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH HEREIN SINCE THE DATE THIS DISCLOSURE STATEMENT AND THE MATERIALS RELIED UPON IN PREPARATION OF THIS DISCLOSURE STATEMENT WERE COMPILED. THE DEBTORS AND THE COMMITTEE ASSUME NO DUTY TO UPDATE OR SUPPLEMENT THE DISCLOSURES CONTAINED HEREIN AND DO NOT INTEND TO UPDATE OR SUPPLEMENT THE DISCLOSURES, EXCEPT TO THE EXTENT, IF ANY, NECESSARY AT THE HEARING ON CONFIRMATION OF THE PLAN.

THIS DISCLOSURE STATEMENT MAY NOT BE RELIED ON FOR ANY PURPOSE OTHER THAN TO DETERMINE WHETHER TO VOTE IN FAVOR OF OR AGAINST THE PLAN. CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BY ITS NATURE FORWARD-LOOKING AND CONTAINS ESTIMATES, ASSUMPTIONS AND PROJECTIONS THAT MAY BE

MATERIALLY DIFFERENT FROM ACTUAL FUTURE RESULTS. THERE CAN BE NO ASSURANCE THAT ANY FORECASTED OR PROJECTED RESULTS CONTAINED HEREIN WILL BE REALIZED, AND ACTUAL RESULTS MAY VARY FROM THOSE SHOWN, POSSIBLY BY MATERIAL AMOUNTS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION, NOR ANY STATE SECURITIES COMMISSION, HAS APPROVED OR DISAPPROVED THIS DISCLOSURE STATEMENT. PURSUANT TO THE PLAN, ANY SECURITIES OF THE DEBTORS ISSUED TO ANY PARTY UNDER, PURSUANT TO OR IN EFFECTUATING THE PLAN, AND THE OFFERING AND ISSUANCE THEREOF BY ANY PARTY, INCLUDING WITHOUT LIMITATION THE DEBTORS AND THE COMMITTEE, ARE EXEMPT FROM § 5 OF THE SECURITIES ACT OF 1933, IF APPLICABLE, AND FROM ANY STATE OR FEDERAL SECURITIES LAWS REQUIRING REGISTRATION FOR THE OFFER OR SALE OF A SECURITY OR REGISTRATION OR LICENSING OF AN ISSUER OF, UNDERWRITER OF, OR BROKER OR DEALER IN, A SECURITY, AND OTHERWISE ENJOY ALL EXEMPTIONS AVAILABLE FOR DISTRIBUTIONS OF SECURITIES UNDER A PLAN IN ACCORDANCE WITH ALL APPLICABLE LAW, INCLUDING WITHOUT LIMITATION § 1145 OF THE BANKRUPTCY CODE.

THE PLAN PROPONENTS RESERVE THE RIGHT TO FILE AN AMENDED DISCLOSURE STATEMENT AND PLAN. ALL CREDITORS ARE HEREBY ADVISED AND ENCOURAGED TO READ THE PLAN AND DISCLOSURE STATEMENT IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

A. SUMMARY OF THE PLAN

The following is a brief summary of the Plan, which is qualified in its entirety by reference to the Plan, attached as **Exhibit A** to this Disclosure Statement.

The Plan provides for distributions to creditors of the three companies that are debtors in possession in these Chapter 11 Cases: AMS, its wholly-owned subsidiary PGI, and PGI's wholly-owned subsidiary PGW.

Under the Plan, the Allowed Claims of the Debtors' Creditors will be paid as follows:

- The Secured Claims of Wells Fargo Foothill, Inc. ("Foothill") against each Debtor have already been paid in full.
- Each Holder (other than Foothill) of an Allowed Secured Claim against each Debtor will, at the option of the Plan Proponents, either (i) have its Claim reinstated and rendered unimpaired in accordance with Bankruptcy Code § 1124(2), notwithstanding any contractual provision or applicable non-bankruptcy law that entitles such Holder to demand or to receive payment of such Claim prior to the stated maturity of such Claim from and after the occurrence of a default, (ii) receive Cash in an amount equal to such Claim, in full and complete satisfaction of such Claim on the later of the initial distribution date under the Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable, or (iii) receive the collateral securing its Claim in full and complete satisfaction of such Claim on the later of the initial distribution date under the Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable. There are no known Secured Claims.
- Allowed Administrative Claims against each Debtor, including Professional Fee Claims, will be paid in full.
- Allowed 20 Day Administrative Claims against each Debtor will be paid in full.
- Allowed Reclamation Claims against each Debtor will be paid in full after deductions for returns of inventory as described in more detail in Article IV.B.4 hereof.
- Allowed Priority Tax Claims against each Debtor will be paid in full.
- Allowed Priority Claims against each Debtor will be paid in full.

- Allowed Unsecured Claims against PGI and PGW will be paid in full.
- After (i) payment of all Prior Claims and (ii) retention of amounts needed to pay or reserve for anticipated amounts of Post-Confirmation Expenses (including, but not limited to, any taxes imposed on Reorganized AMS or in respect of its Assets), Allowed Unsecured Claims against AMS will receive a Pro Rata share of all Distributable Cash. At this time, the Plan Proponents estimate that between approximately \$[_____] and \$[_____]² will be available for distribution in respect of Allowed Unsecured Claims against AMS from Reorganized AMS, yielding a net average recovery equal to between approximately [_____] % and [_____] % of Allowed Unsecured Claims against AMS.
- Holders of 510(b) Claims against AMS shall receive no distribution.
- Holders of the Interests in PGI and PGW shall receive distributions in respect of such Interests.
- Holders of Interests in AMS shall receive no dividend.

For detailed information, please refer to Plan, Article II (“Classification and Treatment of Claims”).

B. RECOMMENDATION

THE PLAN PROPONENTS BELIEVE THAT CONFIRMATION OF THE PLAN IS PREFERABLE TO ANY OTHER ALTERNATIVE AND THAT THE PLAN IS DESIGNED TO PROVIDE GREATER RECOVERIES THAN THOSE AVAILABLE IN ANY OTHER FORM OF LIQUIDATION. ANY OTHER ALTERNATIVE WOULD CAUSE SIGNIFICANT DELAY AND UNCERTAINTY, AS WELL AS ADDITIONAL ADMINISTRATIVE COSTS. THUS, THE PLAN PROPONENTS RECOMMEND THAT YOU VOTE TO “ACCEPT” THE PLAN.

² The Plan Proponents will file an amended Disclosure Statement including the financial information referenced herein not later than 5 days prior to the Disclosure Statement Hearing.

ARTICLE I

VOTING

A. ELIGIBILITY TO VOTE

The Plan divides creditors' Claims against and shareholders' Interests in the Debtors into various Classes and provides separate treatment for each Class.

As provided in Bankruptcy Code § 1123(a)(1), Administrative Claims and Priority Tax Claims will not be classified for the purposes of voting or receiving distributions under the Plan. Rather, all such Claims will be treated separately as unclassified Claims and will be paid in full. Other Priority Claims will also be paid in full to the extent such Claims become Allowed Claims. Creditors in these Classes are unimpaired, are conclusively presumed to have accepted the Plan and are not entitled to vote on the Plan. If and to the extent that any Class identified as being unimpaired is determined to be impaired, such Class shall be entitled to vote to accept or reject the Plan.

The following Classes of Claims and Interests under the Plan are Impaired: Class 3 (Unsecured Claims against AMS), Class 4 (510(b) Claims against AMS), Class 5 (Interests of AMS), Class 8 (Unsecured Claims against PGI), Class 9 (Interests of PGI), Class 12 (Unsecured Claims against PGW) and Class 13 (Interests of PGW). Holders of Claims or Interests in Classes 3, 8, 9, 12 and 13 are entitled to vote to accept or reject the Plan. Holders of Claims in Class 4 and Interests in Class 5 are conclusively presumed to have rejected the Plan and are not entitled to vote to accept or reject the Plan.

The record date for determining any Creditor's eligibility to vote on the Plan is [_____, 2007]. Only those Creditors entitled to vote on the Plan will receive a ballot with this Disclosure Statement.

CREDITORS WHOSE CLAIMS ARE BEING OBJECTED TO ARE NOT ELIGIBLE TO VOTE UNLESS SUCH OBJECTIONS ARE RESOLVED IN THEIR FAVOR OR, AFTER NOTICE AND A HEARING PURSUANT TO BANKRUPTCY RULE 3018(a), THE BANKRUPTCY COURT ALLOWS THE CLAIM TEMPORARILY

FOR THE PURPOSE OF VOTING TO ACCEPT OR REJECT THE PLAN. ANY CREDITOR THAT WANTS ITS CLAIM TO BE ALLOWED TEMPORARILY FOR THE PURPOSE OF VOTING MUST TAKE THE STEPS NECESSARY TO ARRANGE AN APPROPRIATE HEARING WITH THE BANKRUPTCY COURT UNDER BANKRUPTCY RULE 3018(a).

B. BALLOTS

In voting for or against the Plan, please use only the ballot or ballots sent to you with this Disclosure Statement. Votes cast to accept or reject the Plan will be counted by Class. Please read the voting instructions on the reverse side of the ballot for a thorough explanation of voting procedures.

IF YOU BELIEVE THAT YOU ARE A HOLDER OF A CLAIM IN A VOTING CLASS FOR WHICH YOU DID NOT RECEIVE A BALLOT, IF YOUR BALLOT IS DAMAGED OR LOST, OR IF YOU HAVE QUESTIONS CONCERNING VOTING PROCEDURES, PLEASE CONTACT DIANE STREANY AT EPIQ BANKRUPTCY SERVICES LLC, (646) 282-2546 OR dstreany@bsillc.com. EPIQ BANKRUPTCY SERVICES LLC CANNOT PROVIDE YOU WITH LEGAL ADVICE.

C. VOTING PROCEDURE

Unless otherwise directed in your solicitation package, mail your completed ballots to: Epiq Bankruptcy Solutions LLC, 757 Third Avenue, Third Floor, New York, New York 10017. **DO NOT RETURN BALLOTS TO THE BANKRUPTCY COURT.** A ballot that does not indicate an acceptance or rejection of the Plan will not be counted either as a vote to accept or a vote to reject the Plan. If you cast more than one ballot voting the same Claim before 5 p.m. prevailing Eastern time on the Voting Deadline, the last ballot received before the Voting Deadline will be deemed to reflect your intent and thus will supersede any prior ballots. Additionally, you may not split your Claims within a particular Class under the Plan either to accept or reject the Plan. Therefore, a ballot or a group of ballots within a Plan Class received from a single creditor that partially rejects and partially accepts the Plan will not be counted.

Unless the Bankruptcy Court permits you to do so after notice and a hearing to determine whether sufficient cause exists to permit the change, you may not change your vote after it is cast. **DO NOT RETURN ANY STOCK CERTIFICATES, DEBT INSTRUMENTS OR OTHER SECURITIES WITH YOUR BALLOT. FACSIMILE, EMAIL OR ELECTRONICALLY TRANSMITTED BALLOTS WILL NOT BE ACCEPTED.**

PLEASE PUT YOUR TAXPAYER IDENTIFICATION NUMBER ON YOUR BALLOT; THE DISBURSING AGENT MAY NOT BE ABLE TO MAKE DISTRIBUTIONS TO YOU WITHOUT IT.

D. VOTING DEADLINE

IN ORDER TO BE COUNTED, BALLOTS MUST BE RECEIVED BY 5:00 P.M., PREVAILING EASTERN TIME ON [_____, 2007].

E. IMPORTANCE OF YOUR VOTE

Your vote is important. The Bankruptcy Code defines acceptance by a Class of Claims as acceptance by Holders of at least two-thirds in amount and a majority in number of Allowed Claims in that Class that have voted. **ONLY THOSE CREDITORS WHO ACTUALLY VOTE ARE COUNTED FOR PURPOSES OF DETERMINING WHETHER A CLASS HAS VOTED TO ACCEPT THE PLAN. FAILURE TO VOTE WILL LEAVE TO OTHERS THE DECISION TO ACCEPT OR REJECT THE PLAN.**

ARTICLE II

BACKGROUND

AMS was a wholesaler, and PGW was a distributor, of general interest books and other media to membership warehouse clubs, certain e-commerce companies and other retailers. In addition, through its Advantage Publishers Group (“APG”) division, AMS repackaged and published various titles for redistribution and sale. The Debtors’ net sales, excluding intercompany sales, for the fiscal year ended March 31, 2005 were approximately \$822,987,153.

As discussed in more detail below, on January 14, 2004, AMS publicly announced that it intended to restate its financial statements for the five years ended March 31, 2003. Although the Debtors substantially addressed the numerous business and legal matters arising from the restatement, as of the Petition Date, the audit of the Debtors' financial statements for fiscal years 2002, 2003 and 2004 had not been completed. The failure to complete the audit and the restatement led to a default under the Debtors' prepetition asset-based financing facility, and the financial impact of the restatement and resulting litigation and investigations (described below) adversely affected their liquidity. No restatement was filed and no further audits of financial statements were completed.

In an effort to increase liquidity, the Debtors sought to recapitalize their businesses through a strategic transaction. Aided by their professional advisors, the Debtors sought sources of additional financing, infusions of debt and/or equity capital, or a sale of their businesses to a strategic or financial investor for approximately eighteen months prior to the Petition Date. The Debtors entered into confidentiality agreements with, and provided due diligence to, a number of potential investors.

Despite the Debtors' efforts to recapitalize their businesses, the Debtors were unable to complete a transaction in the timeframe available under the forbearance from their secured lender, Foothill, or to obtain further forbearances relating to their defaults under the Senior Facility (as defined below), and no other sources of financing were reasonably available. The Debtors believed that consummation of a strategic transaction or recapitalization through the chapter 11 process would provide certain advantages, particularly with respect to contingent liabilities and other matters related to the restatement. Accordingly, the Debtors intended to continue their sale and refinancing efforts under the protection of chapter 11.

A. THE DEBTORS

Incorporated in 1982, AMS had two primary lines of business. First, AMS was a wholesaler of general interest books to membership warehouse clubs – including Costco Wholesale Corporation, SAM's Club (a unit of Wal-Mart Stores, Inc.), and BJ's Wholesale Club

– as well as certain specialty retailers, e-commerce companies, traditional bookstores and bookstore chains. General interest books include bestsellers; basic reference books, including computer and health books; books regarding business and management; cookbooks; gift books, including art and coffee table books; calendars; travel books; regional books; mass market paperbacks; children's books; and Spanish-language books. AMS obtained most of the books it wholesaled directly from publishers, primarily on a fully returnable basis, and it also sold such books primarily on a fully returnable basis.

Second, through its wholly-owned subsidiary PGW, AMS provided a full range of book marketing and distribution services, primarily to smaller, independent publishers under exclusive contractual arrangements. PGW stored such books at its distribution centers and shipped them to customers based upon customer requirements, again primarily on a fully returnable basis. PGW also provided its publisher clients with a range of related services, including marketing and publicity; customer service; warehousing and distribution; billing and collections; and sales and inventory reporting. PGW charged publishers fees for these services. PGW marketed and distributed these books and related products to a wide variety of retail and wholesale trade accounts, including major national chains, wholesalers, local bookstores and certain gift, gourmet and special sales accounts.

In addition to these two primary lines of business, AMS's APG division repackaged and published various book titles. Many of the titles distributed by APG were initially published and distributed by a third-party publisher, and APG subsequently repackaged them for redistribution and exclusive sale by its warehouse club customers. APG created and/or published the rest of its titles through its own imprints, which included Thunder Bay, Laurel Glen, Silver Dolphin and Portable Press. The self-published titles were typically sold to both warehouse club customers and independent and chain bookstore customers.

As of the Petition Date, the Debtors served approximately 1,078 membership warehouse locations in the United States. AMS's headquarters were located in San Diego, California, and the Debtors also maintained offices in Berkeley, California, and commercial

space in Ashland, Oregon, Bentonville, Arkansas, and New York, New York. The Debtors operated three separate U.S. distribution centers located in Baltimore, Maryland, Woodland, California, and Indianapolis, Indiana, and a smaller facility in Dallas, Texas, that was closed prior to the Petition Date. As of the Petition Date, the Debtors' operations employed approximately 808 people, of whom approximately 50 were employed on a part-time basis. Like other book distributors and wholesalers, the Debtors' sales were subject to seasonal fluctuations – approximately 30% of the Debtors' annual sales occurred in the third fiscal quarter (October 1 through December 31). As a result of this seasonality, additional employees were typically added during the peak holiday season. The Debtors' corporate office staff consisted of approximately 165 employees who were responsible for executive and general operational, management, merchandising, advertising, finance, accounting, human resources, legal and administrative matters.

The Debtors leased all of the real property upon which they conducted their operations.

B. CORPORATE STRUCTURE

As of the Petition Date, the stock of AMS was held by approximately 400 beneficial shareholders, including institutional investors and certain of the Debtors' founders. Until June 14, 2006, AMS was required to file periodic reports with the Securities and Exchange Commission ("SEC") pursuant to § 13 of the Securities Exchange Act of 1934. PGI is wholly-owned by AMS, and PGW in turn is wholly-owned by PGI. PGI is a holding company that conducts no operations, but PGI and PGW are borrowers under the Senior Facility (as defined below).

In addition to its domestic operations, AMS conducted book wholesaling and distributing operations through wholly-owned subsidiaries in a number of foreign countries including Mexico, the United Kingdom, Australia and Singapore, and through an affiliate in Canada. While none of these subsidiaries or affiliates are guarantors under the Senior Facility,

AMS had pledged 66% of its ownership interest in each such subsidiary and the entirety of its 25% interest in such Canadian affiliate as collateral to Foothill.

C. PRINCIPAL INDEBTEDNESS

AMS, PGW and PGI, as borrowers, the lenders party thereto (the “Senior Lenders”) and Foothill, as agent, were parties to that certain Loan and Security Agreement, dated as of April 27, 2004 (as amended from time to time, the “Senior Facility”). As described in more detail below, the Debtors’ obligations under the Senior Facility were secured by a lien on substantially all of their assets. The Senior Facility was an asset-based lending agreement that provided for a revolving line of credit (the “Revolving Loans”) up to a maximum commitment level of \$90 million. Availability under the Senior Facility was determined by a borrowing base formula based upon the Debtors’ domestic accounts receivable and inventory, subject to adjustments and reserves established by the Senior Lenders. The Senior Lenders asserted that as of the Petition Date, the Debtors were obligated to the Senior Lenders for the principal amount drawn on the Revolving Loans plus accrued and unpaid interest and certain additional unpaid fees and expenses totaling \$41,514,347.58 (collectively, the “Senior Indebtedness”).

The Senior Facility was secured by a first priority security interest on substantially all of the Debtors’ assets, including substantially all of the Debtors’ personal and real property, fixtures, accounts, general intangibles, goods, inventory, intellectual property, equipment, chattel paper, instruments, documents, deposit accounts, letters of credit, banker’s acceptances, commercial tort claims, receivables, books, records, all products and proceeds of the foregoing, and all cash proceeds and all other cash equivalents and cash collateral. AMS, PGW, PGI and certain of their subsidiaries (collectively, the “Obligors”) and Foothill, as agent, were parties to that certain Intercompany Subordination Agreement dated as of April 27, 2004 (the “Subordination Agreement”). The Subordination Agreement purported to subordinate the payment of all indebtedness, liabilities and other obligations of each Obligor owing to any other Obligor to the payment of the Senior Indebtedness.

The Senior Facility imposed numerous restrictions on the Debtors' ability to access their cash. Prior to the Petition Date, virtually all of the Debtors' cash from operations was swept daily into an account controlled by Foothill and applied to the loans outstanding, then re-advanced as loans in accordance with the borrowing base formula as established and adjusted by Foothill from time to time. As of the Petition Date, availability under the Senior Facility's borrowing base formula totaled \$64,764,447.31. In contrast, as of the Petition Date, the Debtors estimated that the Senior Lenders were secured by approximately \$147,500,000 in accounts receivable, approximately \$72,500,000 in inventory, and other valuable collateral including AMS's interests in foreign subsidiaries, fixed assets and intellectual property.

D. GOVERNMENT INVESTIGATIONS AND RESTATEMENT

On July 23, 2003, AMS was served with a grand jury document subpoena by the United States District Court for the Southern District of California and a related search warrant in connection with an investigation being conducted by the Office of the United States Attorney for the Southern District of California (the "U.S. Attorney's Investigation") related to AMS's cooperative advertising practices and AMS's financial reporting in connection with such practices. On September 29, 2003, AMS received a copy of an Order Directing Private Investigation that had been issued by the SEC on September 23, 2003, and thereafter it was served with subpoenas for documents and testimony. AMS believes the SEC's investigation (the "SEC Investigation") involved the same or related matters as those involved in the U.S. Attorney's Investigation and other matters.

As a result of internal reviews regarding cooperative advertising and related reporting, on January 14, 2004, AMS publicly announced that it intended to restate its financial statements for the five-fiscal year period ended March 31, 2003. Prepetition, AMS had been working with its independent auditors, Deloitte & Touche LLP. Deloitte & Touche LLP did not complete its audit of AMS's financial statements for the fiscal years ended March 31, 2002, 2003 and 2004, and AMS has not filed its annual reports on form 10-K or its quarterly reports for fiscal years ending March 31, 2004, March 31, 2005, March 31, 2006 or March 31, 2007.

Following AMS's announcement that it intended to restate its financial statements for fiscal years 2002 and 2003, a number of purported derivative actions and class actions were commenced against AMS and a number of its current and former officers and directors. Between May and November 2006, AMS entered into settlements of all of the actions and a separate action commenced by AMS against its former directors' and officers' liability insurance carriers. The settlements, to the extent necessary, have been approved by the various courts where such litigation was pending prior to the Petition Date.

AMS incurred significant legal costs in connection with the U.S. Attorney's Investigation and the SEC Investigation and the purported derivative and class actions described above and the incomplete audit described above. AMS also incurred significant legal and accounting costs in connection with the attempted restatement. For the fiscal year ended March 31, 2005, such legal and accounting expenses were approximately \$14,270,953, and for the fiscal year ended March 31, 2006, such expenses were approximately \$6,108,012.

E. EVENTS LEADING TO THE DEBTORS' CHAPTER 11 FILINGS

Although AMS had resolved its civil litigation and substantially reduced its expenses related to the government investigations, these matters imposed more than a direct monetary toll. The failure to complete its financial restatements for the fiscal years 2002 and 2003, to complete its audited financial statements for the fiscal years 2004 and 2005, and to file periodic reports with the SEC during fiscal years 2004, 2005 and 2006 constituted a default under the Senior Facility. While earlier amendments of the Senior Facility granted AMS an extension to complete its restatement and file its fiscal year 2004 periodic reports by July 31, 2006, AMS was unable to satisfy this covenant and Foothill declined to grant further extensions or waivers concerning the filing.

As a result of the ongoing default, the Debtors entered into a Forbearance Agreement with Foothill dated as of July 31, 2006 (the "Forbearance Agreement"). Pursuant to the Forbearance Agreement, in exchange for forbearance fees of approximately \$2,400,000, Foothill temporarily agreed to modify borrowing base requirements and agreed to forbear for 90

days from exercising remedies under the Senior Facility. The Debtors were unable to refinance the Senior Facility during that period. On October 31, 2006, the Debtors and Foothill entered into an amendment to the Forbearance Agreement (the “Forbearance Amendment”), pursuant to which the Debtors paid additional forbearance fees of approximately \$1,500,000 to extend the forbearance until December 27, 2006, which forbearance was extended for an additional day on December 27, 2006.

In an effort to address their lack of liquidity and other issues arising from the restatement effort, the Debtors, aided by their professional advisors, had been seeking to recapitalize their businesses through a strategic transaction. Since on or about July 13, 2006, the Debtors had been engaged in discussions with various parties with respect to recapitalization of their businesses, including through refinancing the Senior Facility, obtaining additional debt or equity financing, and/or selling their business or assets to a strategic or financial investor. The Debtors received substantial investor interest, with multiple third parties executing non-disclosure agreements and conducting diligence. Despite making progress toward recapitalizing their businesses, the Debtors were unable to obtain further forbearances relating to their defaults under the Senior Facility, and no other sources of financing were reasonably available.

The Debtors commenced these chapter 11 cases to pursue a recapitalization or strategic transaction while preserving the going-concern value of their estates with the continued access to capital available under the debtor in possession financing facility. The Debtors believed that consummation of a strategic transaction or recapitalization through the chapter 11 process would provide certain advantages, particularly with respect to contingent liabilities and other matters related to the restatement.

On December 29, 2006, each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court.

ARTICLE III

SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASES

This section of the Disclosure Statement describes important developments that occurred in the Debtors' Chapter 11 Cases.

A. POST-PETITION SECURED FINANCING

At the time of the filing of the Debtors' Chapter 11 Cases, the Debtors had significant cash needs in order to meet day-to-day operating costs associated with the Debtors' businesses and operations, including the purchasing of inventory and the payment of payroll, taxes, lease payments, operating expenses and other obligations. The absence of additional working capital would have immediately and irreparably harmed the Debtors, their estates and their creditors, and would have severely impaired the Debtors' continuation as going concerns. Thus, there was an immediate need for the Debtors to obtain financing in order to minimize the disruption of the Debtors as going concerns. Immediate access to acceptable levels of post-petition financing was at that time the life-blood upon which the Debtors' ability to survive as going concerns depended. Absent the availability of such financing, the Debtors would have been unable to acquire necessary inventory, receive trade vendor support, make rental payments on their leased locations, or pay for services/materials that were essential to the successful operation of their businesses.

On January 3, 2007, the Bankruptcy Court entered an interim order (A) authorizing the Debtors to incur post-petition indebtedness, (B) granting security interests and super-priority expense claims, (C) authorizing use of cash collateral, and (D) granting other relief (the "Interim Order"). Pursuant to the Interim Order, the Debtors were authorized to borrow up to \$75 million of post-petition financing (the "DIP Financing") from the Senior Lenders and to use their cash collateral, subject to a budget and borrowing base formula. The DIP Financing provided for a rollup of the pre-petition debt due to Foothill. A Final Order authorizing and approving the DIP Financing was entered by the Bankruptcy Court on February 14, 2007. The

DIP Financing was paid in full from the proceeds of the sale to Baker & Taylor, Inc. described in Article III.G hereof.

B. RETENTION OF PROFESSIONALS BY THE DEBTORS

The Debtors retained O'Melveny & Myers LLP and Richards, Layton & Finger, P.A. as their attorneys in connection with these Chapter 11 Cases. The Debtors also retained Capstone Advisory Group, LLC as financial advisor; Focus Management Group USA, Inc. to provide financial reporting, consulting and advisory services; and Houlihan Lokey Howard & Zukin Capital, Inc. as their investment banker.

C. FORMATION OF COMMITTEE AND RETENTION OF COMMITTEE PROFESSIONALS

The Office of the United States Trustee formed the Committee on January 12, 2007 in these Chapter 11 Cases. The Committee was originally comprised of the following members: (i) Random House, Inc.; (ii) Hachette Book Group USA, Inc.; (iii) Penguin Group; (iv) Grove/Atlantic, Inc.; and (v) Wisdom Publications. Subsequently, Grove/Atlantic and Wisdom Publications resigned and were replaced by Harper Collins Publishers and Workman Publishing Co. The Committee retained Lowenstein Sandler PC and Morris, Nichols, Arsht & Tunnell, LLP as its attorneys, and Traxi, LLC as financial advisor.

D. THE DEBTORS' SCHEDULES AND THE BAR DATE

The Debtors have filed their Schedules with the Bankruptcy Court. The Bar Date or last date for filing proofs of Claim was fixed as July 2, 2007, unless a different date was set for a particular Claim. Pursuant to the Plan, objections to Claims can be made for a period of 180 days after the Effective Date. This deadline may be further extended by order of the Bankruptcy Court upon the filing of a motion on notice to the Bankruptcy Rule 2002 service list.

As of August 24, 2007:

AMS's Schedules reflect the following:

Secured Claim of Foothill:	\$ 41,514,347.58
Priority Claims:	\$ 285,690.10
Unsecured Claims:	\$165,884,073.92

PGI's Schedules reflect the following:

Secured Claim of Foothill:	\$ 41,514,347.58
Priority Claims:	\$ 0.00
Unsecured Claims:	\$ 0.00

PGW's Schedules reflect the following:

Secured Claim of Foothill:	\$ 41,514,347.58
Priority Claims:	\$ 229,873.98
Unsecured Claims:	\$ 50,785,524.56 ³

The Secured Claim of Foothill has already been paid in full from the proceeds of the sale of the Debtors' Assets during these Chapter 11 Cases pursuant to orders entered by the Bankruptcy Court.

Objections to Claims may be filed both before and after the Confirmation Date. On and after the Effective Date, only the Reorganized AMS and the Plan Administrator shall have legal standing and the sole right to commence and pursue objections to Claims.

E. EMPLOYEE RETENTION OR BONUS PROGRAMS

The Debtors filed a motion seeking the entry of an order authorizing the implementation of a PGW employee retention program in connection with the proposed sale of PGW. By order dated February 28, 2007, the Bankruptcy Court authorized PGW to pay bonuses to certain key employees in the aggregate amount of \$750,850, subject to the proposed buyer of the PGW assets (described below) funding said payment in advance. The buyer did fund and pay the bonuses to the PGW employees provided for in such retention plan.

The Debtors also filed a motion seeking the entry of an order authorizing the payment of (i) sale-related incentive compensation to AMS senior management and (ii) retention compensation to certain AMS employees pursuant to Bankruptcy Code §§ 105(a) and 363. The

³ As a result of the sale of assets and assumption and assignment of certain contracts with PGW publishers to Perseus, many of the scheduled Unsecured Claims (amounting to approximately \$22,000,000) against PGW have been waived. The waiver of these claims resulted in Perseus (as such term is defined below) having an Administrative Claim of approximately \$[_____] as described below.

combined cost of the proposed management incentive program and the key employee retention program for AMS was \$1,680,000. The proposed program sought to pay seven (7) senior executives at AMS incentive compensation and to pay an additional 67 employees at AMS bonus payments to stay with the company. After negotiations among the Debtors, the Committee and the Office of the United States Trustee, the Bankruptcy Court entered an order on March 13, 2007 authorizing the Debtors to pay incentive compensation to the senior executives in the aggregate amount of \$635,000, and by separate order dated March 5, 2007, approved the AMS key employee retention plan in the aggregate amount of \$820,000 for eligible employees. Both the incentive and retention compensation plans were subject to certain reductions if the covered individuals obtained comparable employment with the buyer of AMS's assets.

As of the date hereof, the Debtors have paid the key employee retention payments of approximately \$577,882 and plan to make incentive payments totaling approximately \$445,000 on or about September 28, 2007.

F. SALE OF PGW

On January 23, 2007, the Debtors filed a motion seeking to sell portions of PGW's business through the assumption and assignment of various distribution and marketing agreements to Perseus Books, LLC ("Perseus Books") and its subsidiary Client Distribution Services, Inc. (collectively with Perseus Books, "Perseus"), pursuant to the Purchase Agreement dated as of January 18, 200, by and among AMS, PGW and Perseus (the "Purchase Agreement"). Perseus' offer contemplated Perseus Books entering into individual agreements with PGW's publisher clients, pursuant to which, amongst other things, the publishers would assign their pre-petition claims against PGW to Perseus Books in return for a payment from Perseus Books of a portion of their claims. In exchange, Perseus Books would release a portion of the assigned claim and retain the remainder as an administrative claim against the PGW Estate. Perseus' offer also required that the consenting publishers consent to the assumption and assignment of their marketing and distribution agreements to Perseus, subject to certain modifications to economic terms. Participation in the Perseus offer was not compulsory for

PGW's publishers. The Purchase Agreement also contemplated the transfer to Perseus of certain minor physical and intangible assets of PGW.

A condition of the Purchase Agreement was that Perseus obtain consents from publishers holding at least 65% of the "Maximum Pre-petition Claims" (defined as PGW's best good faith estimate of the maximum amount of the claims of all publishers). The Purchase Agreement contemplated that Perseus pay such publishers 70% of their claims, with the ability to pay some publishers a lower percentage of their claims with Perseus obtaining an incrementally larger administrative priority claim against PGW. Ultimately, 124 of PGW's publisher clients consented to Perseus' assumption of their publisher agreements, and almost all of such publishers were paid 70% of their Claims.

Pursuant to sale procedures proposed by the Debtors, National Book Network, Inc. ("NBN") presented a competing bid for the business of PGW, also through the assumption and assignment of publisher agreements. After following modified sale procedures to provide for a competitive auction-like process and after thorough economic evaluation of both offers, the Debtors, in consultation with the Committee and their respective professionals, determined that NBN's offer was not the highest and best offer for the assets of PGW and would not provide the PGW estate with the best recovery for its assets. Accordingly, after a properly noticed hearing (which had been continued to permit the Debtors and the Committee to fully and properly evaluate the NBN and Perseus offers), on February 17, 2007 the Bankruptcy Court entered an order authorizing the sale to Perseus of certain PGW assets and the assumption and assignment to Perseus of the distribution and marketing agreements of the consenting publishers. The sale of the PGW assets to Perseus closed on February 28, 2007, and after tallying the prepetition claims of consenting publishers, Perseus has been left with an administrative priority claim of approximately \$[_____].

The substantial benefit to the PGW Estate of the Perseus sale is that it enabled PGW to avoid substantial rejection damages. Additionally, the sale to Perseus permitted PGW to retain many valuable assets, including its accounts receivable. Further, pursuant to a transition

services agreement PGW entered into with Perseus to transition the PGW business to Perseus, which remains in effect through September 30, 2007, Perseus pays for expenses incurred by PGW in connection with the provision of such transition services. As a result, PGW has collected approximately \$39,900,000 in accounts receivable through July 31, 2007, without imposing significant additional costs on its bankruptcy estate. The Debtors are in talks with Perseus to assign most of PGW's remaining assets, including certain real property leases and other contracts, to Perseus to further facilitate the transition of the PGW business to Perseus. Finally, a significant number of PGW's former employees continue to be employed by Perseus pursuant to the transition services agreement.

It is anticipated that from the liquidation of the PGW Assets, PGW's remaining Unsecured Creditors holding Allowed Unsecured Claims will receive payment in full. After payment in full of all Allowed Claims against PGW other than AMS's, it is estimated that PGW will have approximately [\$_____] in Cash. This Cash will be used first to satisfy the inter-company receivable of approximately [\$_____] owing from PGW to AMS and thereafter will be distributed from PGW to PGI and then, after satisfaction of any Allowed Claims against PGI, to AMS, in each case on account of the recipient's 100% ownership interest, ultimately becoming Distributable Cash that will be used to satisfy Allowed Claims against AMS.

G. SALE OF AMS

AMS entered into a letter of intent with Baker & Taylor, Inc. ("B&T"), dated as of February 12, 2007, in which AMS and B&T agreed to certain general terms of the sale of certain AMS assets, AMS's assumption of certain contracts, and the assignment of such contracts to B&T. On January 8, 2007, the Debtors filed a Motion Pursuant to Sections 105(a), 363 and 364 of the Bankruptcy Code for an Order Approving Qualified Transaction Procedures (the "Transaction Procedures Motion"), and on February 13, 2007, the Debtors filed a notice designating B&T as a stalking horse bidder and modifying bid procedures under the Transaction Procedures Motion. On February 16, 2007, the Court approved the Transaction Procedures

Motion and, by separate order, designated B&T as a stalking horse bidder pursuant to the qualified transaction procedures and approved the bid procedures and stalking horse protections set forth in the February 12, 2007 letter of intent.

On February 16, 2007, the Debtors filed a motion for an order approving the sale of substantially all of the APG and wholesale distribution divisions of AMS to B&T pursuant to the terms of the Asset Purchase Agreement, dated as of February 16, 2007, by and among AMS and B&T (as amended by that certain Amendment No. 1 dated as of February 16, 2007 by and among AMS and B&T and by that certain Amendment No. 2 dated as of March 19, 2007 by and among AMS and B&T, the “APA”). The sale of assets to B&T included, but was not limited to, selected APG inventory; accounts receivable of AMS; all intellectual property of AMS; a substantial percentage of AMS’s executory contracts and unexpired leases; various furniture, fixtures, equipment and machinery; the Debtors’ stock in Advanced Marketing Services Investments, Inc. and Advanced Marketing S. de R.L. de C.V. consisting of AMS’s Mexican operations; and the stock of Advanced Marketing (Europe), Ltd. consisting of AMS’s wholesale operations in the United Kingdom. Further, B&T agreed to offer employment to certain employees and independent contractors of AMS. AMS’s returnable book inventory was expressly excluded from the sale.

The proposed sale of substantially all of the AMS assets (excluding book inventory) was approved by the Bankruptcy Court by order dated March 9, 2007, and closing occurred on March 19, 2007 (the “Closing Date”). The purchase price, subject to adjustment, was approximately \$64,095,134.77. The purchase price was to be paid in three installments: (i) on the Closing Date, \$20 million plus certain additional sums, including 33.3% of the “Combined APG/AR Price,” (ii) thirty days after the Closing Date, an additional 33.3% of the Combined APG/AR Price, and (iii) sixty days after the Closing Date, the final 33.3% of the Combined APG/AR Price, minus \$1 million (the “Final Payment”). In connection with the sale, AMS also entered into a transition services agreement with B&T (the “B&T TSA”), which remains in effect through September 19, 2007 to transition the acquired assets to B&T and

effectuate the return of books. A significant number of AMS's former employees now work as employees of B&T.

Pursuant to the terms of the APA, AMS believes that the amount of the Final Payment should have been \$10,350,632.17. However, on May 18, 2007, B&T paid only \$4,134,410.02, thereby leaving a shortfall of approximately \$6,216,222. After efforts to persuade B&T to pay the balance were unsuccessful, on July 18, 2007, AMS filed a Motion to Compel Performance Under Asset Purchase Agreement and to Enforce Sale Order (the "Motion to Compel"), which seeks an order compelling B&T to pay AMS \$6,216,222.15 plus interest. B&T objected to the Motion to Compel and filed a Cross Motion seeking payment of certain amounts under the TSA. The Motion to Compel and the Cross Motion were scheduled to be heard by the Court on August 24, 2007.

Several days before the hearing on the motions, AMS and B&T reached an agreement in principle to resolve their disputes under the APA and the B&T TSA. The terms of the agreement in principle are: (i) B&T agrees to settle all open APA disputes with a payment of \$6.05 million and identification of \$1.75 million of specific inventory to AMS; (ii) AMS agrees under the B&T TSA to pay B&T \$4.25 million, and AMS and B&T agree to extend the B&T TSA through October 31, 2007, and that no payments for any period under the B&T TSA will be made except for such one-time settlement, which nets all amounts due to either party in the amount of \$4.25 million payable from AMS to B&T; (iii) immediately following Bankruptcy Court approval of the settlement agreement, B&T will pay AMS \$1.8 million, which consists of the \$6.05 million APA settlement net of the \$4.25 million B&T TSA settlement amount; and (iv) all terms and conditions under the B&T TSA and APA will remain in effect, including access to information systems, electronic books and records of AMS and use of BTMS personnel to support the AMS estate. The agreement in principle is subject to negotiation of a mutually acceptable settlement agreement and Bankruptcy Court approval.

H. SALE OF FOREIGN SUBSIDIARIES

The Debtors also sought Bankruptcy Court approval on April 6, 2007 to sell the capital stock of their wholly-owned subsidiaries, Bookwise International Pty Ltd., an Australian company, and Bookwise Asia Pte Ltd., a Singapore company (collectively, “Bookwise”), to Brumby Books Holdings Pty Ltd. (“Brumby”), an Australian company. AMS agreed to transfer to Brumby all shares of stock in Bookwise and selected APG inventory. Total consideration paid by Brumby was approximately \$498,382, which represents the sum of (i) 200,000 Australian dollars in respect of the shares of Bookwise International Pty Ltd.⁴, (ii) \$100,000 in respect of the shares of Bookwise Asia Pte Ltd., (iii) \$24,273 in respect of certain APG inventory plus (iv) \$210,000 in satisfaction in full of all inter-company obligations. The sale agreement was approved by order of the Bankruptcy Court dated April 27, 2007, and the sale of the Australian and Singapore subsidiaries to Brumby was consummated on May 3, 2007, California time. All consideration with respect to such sale has been received by the Debtors.

Also on April 6, 2007, the Debtors filed a motion seeking an order of the Bankruptcy Court approving of the sale of the capital stock of Publishers Group UK Limited and H.I. Marketing Limited, each a private limited company organized under the laws of England and Wales and the PGW subsidiaries that conducted the distribution business in the United Kingdom, to Mr. Medwyn Lloyd Hughes and Ms. Catherine Elizabeth Goodman. Total consideration for the transaction was approximately \$657,325, which represents the sum of (i) \$50,000 for the shares of Publishers Group UK Limited and H.I. Marketing Limited, (ii) \$66,325 for certain APG inventory plus (iii) \$541,000 in settlement of intercompany obligations. This transaction was approved by order of the Bankruptcy Court dated April 27, 2007. The sale of the PGW UK subsidiaries was consummated on April 30, 2007. All consideration with respect to such sale has been received by the Debtors.

⁴ On the closing date, \$164,109.30 was received in respect of the 200,000 Australian dollars relating to Brumby’s purchase of the shares of Bookwise International Pty Ltd.

I. REMAINING ASSETS TO BE LIQUIDATED

The remaining Assets of the Debtors to be sold or liquidated are as follows: the AMS's 25% equity interest in Raincoast Book Distribution, Limited, incorporated in British Columbia; the remaining book inventory not subject to the book return programs (discussed below); the termination of the Deferred Compensation Plan and payment by the Deferred Compensation Trust to Reorganized AMS of all Cash and any other Assets it may hold in respect of the Deferred Compensation Plan; and the remaining accounts receivable. In addition, the Debtors' Estates will examine and commence, if appropriate, Causes of Action and Avoidance Actions to recover additional funds for distribution to Creditors in accordance with the Plan.

J. AMS BOOK RETURN PROGRAMS

As is customary in the publishing industry, AMS historically purchased most of its inventory from publishers, and sold most of its inventory to its customers, on a fully returnable basis. As a result, on the Petition Date, AMS had a significant amount of inventory on hand which had been returned by its customers. In order to dispose of such inventory in a cost effective manner and reduce AMS's need for physical space, AMS sought the Bankruptcy Court's permission to initiate inventory return programs whereby AMS could return inventory to publishers (with publishers to bear the shipping costs for such returns) in exchange for a reduction of their Claims against the Estates. Additionally, the inventory return programs provided the Debtors with an opportunity to resolve disputes regarding the rights of the Debtors and publishers with respect to returnable inventory.

On February 28, 2007, the Bankruptcy Court approved an initial book return program that enabled AMS to return to vendors and publishers a limited amount of inventory returned by AMS's customers in return for credit against the vendors' pre-petition Claims in the amount (calculated as the invoice cost of the inventory returned) not to exceed (a) \$7,500,000 in the aggregate for all such returns, or (b) 30% of the invoice cost of goods delivered to AMS on or subsequent to the Petition Date by any participating vendor. As certain of the Debtors' publishers ceased shipping goods to the Debtors after the Petition Date, this initial limited return

program provided benefits to those publishers that assisted the Debtors' efforts to pursue a going-concern sale by continuing to ship inventory to the Debtors after the Petition Date.

The Debtors, with the support of the Committee, subsequently sought Bankruptcy Court approval of a master book return program to permit the return of far greater numbers of books to AMS publishers. The AMS master book return program was open to all AMS publishers who agreed to participate in the program. Each participating publisher's Unsecured Claim would be reduced by \$1.25 for each dollar of invoice value of inventory returned pursuant to the master book return program. If the books in question were shipped within the 45 day reclamation period prior to the Petition Date and were subject to a valid reclamation claim, such participating publisher's Unsecured Claims would be reduced dollar for dollar by the invoice value of the returns. The Bankruptcy Court approved and authorized the Debtors to implement the AMS master book return program by order dated April 14, 2007. AMS's initial and master book return programs resulted in the return of books with an invoice value of approximately \$[_____] and a reduction of Unsecured Claims of approximately \$[_____].

K. RECLAMATION CLAIMS

Shortly after the Petition Date, the Debtors began receiving demands from vendors asserting their rights pursuant to Bankruptcy Code § 546(c) and state law to reclaim certain goods delivered to the Debtors in the ordinary course of business (each, a "Reclamation Claim" and, collectively, the "Reclamation Claims"). On January 8, 2007, the Debtors filed their Amended Motion for an Order Establishing Procedures for Reconciliation of Reclamation Claims Pursuant to Sections 105(a) and 546(c) of the Bankruptcy Code (the "Reclamation Motion"). Pursuant to the Reclamation Motion, the Debtors sought to establish an orderly process for the determination of Reclamation Claims. By order dated January 24, 2007 (the "Reclamation Procedures Order"), the Court approved the relief requested in the Reclamation Motion. Pursuant to the Reclamation Procedures Order, the Debtors filed their reclamation report on April 9, 2007, which listed reclamation claims the Debtors deemed to be valid (the "Initial Report"). On July 6, 2007, the Debtors, with the support of the Committee, filed a

motion seeking allowance of the claims set forth in the Revised Report (the “Reclamation Claims Allowance Motion”) along with a revised reclamation claims report (the “Revised Report” and, together with the Initial Report, the “Reclamation Reports”).

The Reclamation Reports contain two broad categories of claims: administrative claims pursuant to Bankruptcy Code § 503(b)(9) relating to the value and amount of goods purchased and received by the Debtors during the 20-day period before the Petition Date (i.e., December 9, 2006 through and including December 28, 2006), and reclamation claims pursuant to Bankruptcy Code § 546(c) relating to the value and amount of goods received by the Debtors during the period from 21 to 45 days prior to the Petition Date (i.e., November 14, 2006 through and including December 8, 2006) and which were in the Debtors’ possession when the Debtors received such reclamation demands.

The Reclamation Claims Allowance Motion seeks to allow both the §§ 503(b)(9) and 546(c) administrative expense claims as set forth in the Revised Report, subject to reduction for the return of goods. If goods subject to a valid reclamation claim remain in the Debtors’ possession as of July 6, 2007, pursuant to the Reclamation Claims Allowance Motion, the Debtors propose to return such goods to the reclaiming creditor in exchange for a reduction of the allowed administrative expense claim against the Debtors on a dollar-for-dollar basis, regardless of whether such creditor executed a book return agreement.

Pursuant to the Reclamation Claims Allowance Motion and the Revised Report, the Debtors are seeking the allowance of (i) administrative claims against AMS pursuant to §§ 503(b)(9) and/or 546(c) totaling \$30,063,345.50, and (ii) no administrative claims against PGI and PGW pursuant to §§ 503(b)(9) and/or 546(c). On August 24, 2007, the Court entered an order granting the relief requested in the Reclamation Claims Allowance Motion and allowed approximately \$25.6 million of §§ 503(b)(9) and/or 546(c) claims as administrative expense claims.

L. PLAN EXCLUSIVITY

Pursuant to Bankruptcy Code § 1121, the Debtors are afforded periods of 120 and 180 days from the Petition Date during which period they have the exclusive rights, respectively, to file and to solicit acceptances of a plan or plans of reorganization. By order dated April 26, 2007, the Bankruptcy Court extended the Debtors' exclusive time to file a plan or plans and solicit acceptances thereof until August 10, 2007 and October 9, 2007, respectively. On August 10, 2007, the Debtors filed a motion to further extend the Debtors' exclusive time to file a plan or plans and to solicit acceptances thereof until August 24, 2007 and November 30, 2007, respectively, and such motion is currently pending before the Bankruptcy Court.

ARTICLE IV

CLASSIFICATION AND TREATMENT OF CLAIMS

A. CLASSIFICATION

The classification of Claims (except for Administrative Claims and Priority Tax Claims) and Interests listed below is for all purposes, including without limitation, voting, confirmation and distributions under the Plan and under Bankruptcy Code §§ 1122 and 1123(a)(1). A Claim shall be deemed classified in a particular Class only to the extent such Claim satisfies the definition of such Class and shall be deemed classified in a different Class to the extent any remainder or other portion of such Claim satisfies the definition of such different Class. A Claim is in a particular Class only to the extent such Claim is an Allowed Claim in such Class and has not been paid or otherwise settled before the Effective Date. **The Plan does not effect a substantive consolidation of the Debtors.**

The classification of Claims pursuant to the Plan is as follows:

<u>CLASS</u>	<u>STATUS</u>	<u>VOTING RIGHTS</u>
Class 1: Priority Claims Against AMS	Not Impaired	Not Entitled to Vote
Class 2: Secured Claims Against AMS	Not Impaired	Not Entitled to Vote
Class 3: Unsecured Claims Against AMS	Impaired	Entitled to Vote
Class 4: 510(b) Claims Against AMS	Impaired	Not Entitled to Vote

<u>CLASS</u>	<u>STATUS</u>	<u>VOTING RIGHTS</u>
Class 5: Interests of AMS	Impaired	Not Entitled to Vote
Class 6: Priority Claims Against PGI	Not Impaired	Not Entitled to Vote
Class 7: Secured Claims Against PGI	Not Impaired	Not Entitled to Vote
Class 8: Unsecured Claims Against PGI	Impaired	Entitled to Vote
Class 9: Interests of PGI	Impaired	Entitled to Vote
Class 10: Priority Claims Against PGW	Not Impaired	Not Entitled to Vote
Class 11: Secured Claims Against PGW	Not Impaired	Not Entitled to Vote
Class 12: Unsecured Claims Against PGW	Impaired	Entitled to Vote
Class 13: Interests of PGW	Impaired	Entitled to Vote

B. UNCLASSIFIED CLAIMS: ADMINISTRATIVE CLAIMS AND PRIORITY TAX CLAIMS

As provided in Bankruptcy Code § 1123(a)(1), Administrative Claims and Priority Tax Claims shall not be classified for the purposes of voting or receiving distributions under the Plan. Rather, all such Claims shall be treated separately as unclassified Claims on the terms set forth in Article II.B of the Plan.

1. Administrative Claims

a. Non-Professional Fee Claims

The Plan Administrator shall pay each Holder of an Allowed Administrative Claim (excluding Professional Fee Claims, Reclamation Claims and 20 Day Administrative Claims) the full amount of such Allowed Administrative Claim, without interest, in Cash, as soon as practicable after the Effective Date or within thirty (30) days after such Administrative Claim becomes an Allowed Claim. Notwithstanding anything in the Plan to the contrary, a Holder of an Allowed Administrative Claim may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator. Without limiting the foregoing, all outstanding fees payable to the Office of the United States Trustee under 28 U.S.C. § 1930 that have not been paid as of the Effective Date shall be paid by the Plan

Administrator no later than thirty (30) days after the Effective Date or when due in the ordinary course.

b. Professional Fee Claims

The Plan Administrator shall pay Professionals who are entitled to reimbursement or allowance of fees and expenses from the Debtors' Estates pursuant to Bankruptcy Code §§ 503(b)(2) - (b)(6), in Cash, in the amount awarded to such Professionals by Final Order of the Bankruptcy Court, as soon as practicable after the later of the Effective Date and the date upon which any order awarding fees and expenses becomes a Final Order, in accordance with the terms of any order entered by the Bankruptcy Court governing the payment of fees and expenses during the course of the Chapter 11 Cases, and after application of any retainer received by the Professionals.

Any final application for allowance of a Professional Fee Claim for services rendered and costs incurred through the Effective Date must be filed with the Bankruptcy Court and served on counsel for Reorganized AMS and the Plan Administrator at the addresses listed in Article IX.N of the Plan and on the Office of the United States Trustee so that it is received no later than forty-five (45) days after the Effective Date or such Professional Fee Claim shall be forever barred and shall not be enforceable against the Debtors, their Estates, Reorganized AMS, the Plan Administrator, and their successors, their assigns or their Assets. Allowed Professional Fee Claims must be paid in full or reserved for in Cash to pay Professional Fee Claims pending allowance by the Bankruptcy Court prior to any payment to Holders of Allowed Claims in Class 3 (Unsecured Claims against AMS).

c. 20 Day Administrative Claims Against PGW

The Plan Administrator shall pay each Holder of an Allowed 20 Day Administrative Claim against PGW the full amount of such Allowed 20 Day Administrative Claim, without interest, in Cash, as soon as practicable after the Effective Date or within thirty (30) days after such 20 Day Administrative Claim against PGW becomes an Allowed Claim.

Notwithstanding anything in the Plan to the contrary, a Holder of an Allowed 20 Day Administrative Claim against PGW may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator.

d. 20 Day Administrative Claims Against AMS

The Plan Administrator shall pay each Holder of an Allowed 20 Day Administrative Claim against AMS the full amount of such Allowed 20 Day Administrative Claim, without interest, in Cash, as soon as practicable after the Effective Date or within thirty (30) days after such 20 Day Administrative Claim against AMS becomes an Allowed Claim. Notwithstanding anything in the Plan to the contrary, a Holder of an Allowed 20 Day Administrative Claim against AMS may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator.

e. Administrative Claims and Second Administrative Expense Request Deadline.

Each Holder of an Administrative Claim must file an Administrative Expense Request requesting payment of such Administrative Claim with the Bankruptcy Court by no later than (i) July 2, 2007 for any Claims covered by the Bar Date Order, or (ii) the Second Administrative Expense Request Deadline for all other Administrative Claims that are not subject to the Bar Date Order; provided, however, that any such Administrative Expense Request need not be filed with a hearing date. Nothing in the Plan extends a Bar Date established in the Bar Date Order. The Plan Administrator shall pay each Holder of an Allowed Administrative Claim against any Debtor the full amount of such Allowed Administrative Claim, without interest, in Cash, as soon as practicable after the Effective Date or within thirty (30) days after such Administrative Claim becomes an Allowed Claim. Notwithstanding anything in the Plan to the contrary, a Holder of an Allowed Administrative Claim against any Debtor may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator.

2. Priority Tax Claims Against PGW

The Plan Administrator shall pay, at the Plan Administrator's discretion, each Holder of an Allowed Priority Tax Claim of PGW in full in Cash as soon as practicable after the Effective Date or within thirty (30) days after such Priority Tax Claim becomes an Allowed Claim. All Allowed Priority Tax Claims of PGW which are not due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof. The Plan Administrator can prepay any Allowed Priority Tax Claim of PGW at any time after the Effective Date without any penalty or charge.

Holders of Allowed Priority Tax Claims against PGW shall not be entitled to receive any payment on account of any penalty arising with respect to, or in connection with such Claims. Any such Claim, or demand for any such penalty, shall be deemed disallowed by confirmation of the Plan.

3. Priority Tax Claims Against AMS

The Plan Administrator shall pay, at the Plan Administrator's discretion, each Holder of an Allowed Priority Tax Claims against AMS either (i) in full in Cash as soon as practicable after the Effective Date or within thirty (30) days after such Priority Tax Claim becomes an Allowed Claim or (ii) over a period ending not later than five (5) years after the Petition Date, with deferred Cash payments on a quarterly basis in an aggregate amount equal to any such Allowed Priority Tax Claim against AMS, together with interest thereon (if and so required) at the legal rate required for such Claim in chapter 11 cases. All Allowed Priority Tax Claims against AMS which are not due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof. The Plan Administrator can prepay any Allowed Priority Tax Claim against AMS at any time after the Effective Date without any penalty or charge.

Holders of Allowed Priority Tax Claims against AMS will not be entitled to receive any payment on account of any penalty arising with respect to, or in connection with

such Claims. Any Claim for any such penalty, or demand for any such penalty, will be deemed disallowed by confirmation of the Plan.

4. Reclamation Claims Against PGW

The Plan Administrator shall pay each Holder of an Allowed Reclamation Claim against PGW in full, without interest, in Cash after deductions for returns of inventory, as soon as practicable after the Effective Date or within thirty (30) days after such Reclamation Claim becomes an Allowed Claim. Notwithstanding anything in the Plan to the contrary, a Holder of an Allowed Reclamation Claim against PGW may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator.

5. Reclamation Claims Against AMS

The Plan Administrator shall pay each Holder of an Allowed Reclamation Claim against AMS in full, without interest, in Cash after deductions for returns of inventory, as soon as practicable after the Effective Date or within thirty (30) days after such Reclamation Claim becomes an Allowed Claim. Notwithstanding anything in the Plan to the contrary, a Holder of an Allowed Reclamation Claim against AMS may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator.

C. CLASSES OF CLAIMS AND INTERESTS: CLASSIFICATION, TREATMENT AND VOTING RIGHTS

Holders of Claims and Interests are divided into Classes and treated as follows:

1. “Class 1” -- Priority Claims Against AMS – *Not Impaired*

a. Classification

Class 1 consists of all Allowed Priority Claims against AMS.

b. Treatment

The Plan Administrator shall pay each Holder of an Allowed Class 1 Claim, in relative order of priority pursuant to Bankruptcy Code § 507, in full, in Cash, without interest, on

the later of thirty (30) days after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Claim.

c. Voting

Class 1 is not Impaired. Holders of Claims in Class 1 are conclusively deemed to have accepted the Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 1 are not entitled to vote to accept or reject the Plan.

2. “Class 2” -- Secured Claims Against AMS – Not Impaired

a. Classification

Class 2 consists of all Secured Claims against AMS.

b. Treatment

Each Holder of an Allowed Class 2 Claim shall, at the option of the Plan Administrator, either (i) have such Claim reinstated and rendered unimpaired in accordance with Bankruptcy Code § 1124(2), notwithstanding any contractual provision or applicable nonbankruptcy law that entitles such Holder to demand or to receive payment of such Claim prior to the stated maturity of same from and after the occurrence of a default, (ii) receive Cash in an amount equal to such Claim, in full and complete satisfaction of such Claim, on the later of the initial distribution date under the Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable or (iii) receive the collateral securing its Claim in full and complete satisfaction of such Claim on the later of the initial distribution date under the Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable.

c. Voting

Class 2 is not Impaired. Holders of Allowed Class 2 Claims are conclusively deemed to have accepted the Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 2 are not entitled to vote to accept or reject the Plan.

3. “Class 3” – Unsecured Claims Against AMS -- Impaired

a. Classification

Class 3 consists of all Unsecured Claims against AMS.

b. Treatment

The Plan Administrator shall distribute to each Holder of an Allowed Class 3 Claim a Pro Rata share of Distributable Cash.

c. Voting

Class 3 is Impaired. Therefore, Holders of Allowed Class 3 Claims are entitled to vote to accept or reject the Plan.

4. “Class 4” - 510(b) Claims Against AMS – Impaired

a. Classification

Class 4 consists of all 510(b) Claims against AMS.

b. Treatment

Holders of Class 4 Claims shall receive no distribution on account of their Claims.

c. Voting

Class 4 is Impaired and will receive no distribution under the Plan. Holders of Class 4 Claims are conclusively deemed to have rejected the Plan pursuant to Bankruptcy Code § 1126(g). Therefore, Holders of Claims in Class 4 are not entitled to vote to accept or reject the Plan.

5. “Class 5” -- Interests of AMS -- Impaired

a. Classification

Class 5 consists of all Interests in AMS.

b. Treatment

Holders of Interests in Class 5 shall receive no distribution or dividend on account of such Interests. On the Effective Date, all Interests in Class 5 shall be deemed canceled, null and void, and of no force and effect.

c. Voting

Class 5 is Impaired and will receive no distribution under the Plan. Holders of Interests in Class 5 are conclusively deemed to have rejected the Plan pursuant to Bankruptcy

Code § 1126(g). Therefore, Holders of Interests in Class 5 are not entitled to vote to accept or reject the Plan.

6. “Class 6” -- Priority Claims Against PGI -- *Not Impaired*

a. Classification

Class 6 consists of all Allowed Priority Claims against PGI.

b. Treatment

The Plan Administrator shall pay each Holder of an Allowed Class 6 Claim, in relative order of priority pursuant to Bankruptcy Code § 507, in full, in Cash, without interest, on the later of thirty (30) days after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Claim.

c. Voting

Class 6 is not Impaired. Holders of Claims in Class 6 are conclusively deemed to have accepted the Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 6 are not entitled to vote to accept or reject the Plan.

7. “Class 7” -- Secured Claims Against PGI-- *Not Impaired*

a. Classification

Class 7 consists of all Secured Claims against PGI.

b. Treatment

Each Holder of an Allowed Class 7 Claim shall, at the option of the Plan Administrator, either (i) have such Claim reinstated and rendered unimpaired in accordance with Bankruptcy Code § 1124(2), notwithstanding any contractual provision or applicable non-bankruptcy law that entitles such Holder to demand or to receive payment of such Claim prior to its stated maturity from and after the occurrence of a default, (ii) receive Cash in an amount equal to such Claim, in full and complete satisfaction of such Claim, on the later of the initial distribution date under the Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable or (iii) receive the collateral securing its Claim in full and complete

satisfaction of such Claim on the later of the initial distribution date under the Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable.

c. Voting

Class 7 is not Impaired. Holders of Claims in Class 7 are conclusively deemed to have accepted the Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 7 are not entitled to vote to accept or reject the Plan.

8. “Class 8” -- Unsecured Claims Against PGI-- Impaired

a. Classification

Class 8 consists of all Allowed Unsecured Claims against PGI.

b. Treatment

The Plan Administrator shall pay each Holder of an Allowed Class 8 Claim in full, without interest, in Cash on the later of thirty (30) days after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Claim.

c. Voting

Class 8 is Impaired. Therefore, Holders of Allowed Class 8 Claims are entitled to vote to accept or reject the Plan.

9. “Class 9” -- Interests of PGI -- Impaired

a. Classification

Class 9 consists of all Interests in PGI.

b. Treatment

After paying Allowed Administrative Claims (including Professional Fee Claims), 20 Day Administrative Claims, Reclamation Claims, Secured Claims, Priority Tax Claims, Priority Claims and Unsecured Claims against PGI, Holders of Class 9 Interests (which is only AMS) shall receive all remaining Assets of PGI. On or after the Effective Date, after AMS has received its dividend on account of its equity Interests in PGI, PGI will be merged with and into AMS pursuant to the Merger.

c. Voting

Class 9 is Impaired. Therefore, Holders of Allowed Class 9 Interests are entitled to vote to accept or reject the Plan.

10. “Class 10” -- Priority Claims against PGW -- Not Impaired

a. Classification

Class 10 consists of all Allowed Priority Claims against PGW.

b. Treatment

The Plan Administrator shall pay each Holder of an Allowed Class 10 Claim, in relative order of priority pursuant to Bankruptcy Code § 507, in full, in Cash, without interest, on the later of thirty (30) days after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Claim.

c. Voting

Class 10 is not Impaired. Holders of Class 10 Claims are conclusively deemed to have accepted the Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 10 are not entitled to vote to accept or reject the Plan.

11. “Class 11” -- Secured Claims against PGW-- Not Impaired

a. Classification

Class 11 consists of all Secured Claims against PGW.

b. Treatment

Each Holder of an Allowed Class 11 Claim shall, at the option of the Plan Administrator, either (i) have such Claim reinstated and rendered unimpaired in accordance with Bankruptcy Code § 1124(2), notwithstanding any contractual provision or applicable non-bankruptcy law that entitles the Holder of such Claim to demand or to receive payment of such Claim prior to the stated maturity of same from and after the occurrence of a default, (ii) receive Cash in an amount equal to such Claim, in full and complete satisfaction of such Claim, on the later of the initial distribution date under the Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable or (iii) receive the collateral securing its Claim in

full and complete satisfaction of such Claim on the later of the initial distribution date under the Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable.

c. Voting

Class 11 is not Impaired. Holders of Allowed Class 11 Claims are conclusively deemed to have accepted the Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 11 are not entitled to vote to accept or reject the Plan.

12. “Class 12” -- Unsecured Claims against PGW -- Impaired

a. Classification

Class 12 consists of all Allowed Unsecured Claims against PGW.

b. Treatment

The Plan Administrator shall pay each Holder of an Allowed Class 12 Claim in full, without interest, in Cash on the later of thirty (30) days after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Claim.

c. Voting

Class 12 is Impaired. Therefore, Holders of Allowed Class 12 Claims are entitled to vote to accept or reject the Plan.

13. “Class 13” -- Interests of PGW-- Impaired

a. Classification

Class 13 consists of all Interests in PGW.

b. Treatment

After paying any Allowed Administrative Claims (including Professional Fee Claims), 20 Day Administrative Claims, Reclamation Claims, Secured Claims, Priority Tax Claims, Priority Claims and Unsecured Claims against PGW, Disputed Claims and Post-Confirmation Expenses, Holders of Class 13 Interests (which is only PGI) shall receive all remaining Assets of PGW. On or after the Effective Date, after PGI has received its dividend on account of its equity Interests in PGW, PGW will be merged with and into AMS pursuant to the Merger.

c. Voting

Class 13 is Impaired. Therefore, Holders of Interests in Class 13 are entitled to vote to accept or reject the Plan.

ARTICLE V

IMPLEMENTATION OF THE PLAN

A. IMPLEMENTATION OF PLAN

The Plan Proponents propose to implement and consummate the Plan on and after the Effective Date.

B. FORMATION OF REORGANIZED AMS

Prior to the Effective Date, the Debtors shall continue to wind down their businesses subject to all applicable requirements of the Bankruptcy Code and the Bankruptcy Rules. Upon or immediately following the Effective Date, the Merger will be consummated. Upon the consummation of the Merger, title to all Causes of Action, Avoidance Actions, Assets and Cash of the Debtors and their Estates shall vest in Reorganized AMS free and clear of all Liens, Claims and Interests, except as expressly provided in the Plan.

Reorganized AMS will assume all obligations of the Estates to make distributions to Holders of Allowed Claims in accordance with the Plan, and, on and after the Effective Date, the Estates shall be liquidated in accordance with the Plan. As set forth in the Plan, the liquidation and winding up of Reorganized AMS shall become the responsibility of the Plan Administrator who shall thereafter have responsibility for the management, control and operation thereof, and who may use, acquire and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules, subject to any approvals of the Post-Confirmation Committee as set forth in Article IV.G of the Plan. Subject to further order of the Bankruptcy Court, the Plan Administrator shall act as liquidating agent of and for Reorganized AMS and the Estates from and after the Effective Date, subject to any approvals of the Post-Confirmation Committee as set forth in Article IV.G of the Plan.

C. APPOINTMENT AND TERM OF THE PLAN ADMINISTRATOR

The Plan Proponents shall appoint and designate the initial Plan Administrator at least ten (10) days prior to the Confirmation Hearing, and the Plan Proponents and the initial Plan Administrator shall have entered into a Plan Administrator Employment Agreement to be filed with the Bankruptcy Court at least ten (10) days prior to the Confirmation Hearing. The initial Plan Administrator, and each successor Plan Administrator, shall serve until the earlier of (i) the dissolution of Reorganized AMS or (ii) such Plan Administrator's resignation, death, incapacity, removal or termination. The Post-Confirmation Committee shall have the right to terminate the Plan Administrator with or without cause and to then appoint a successor Plan Administrator; provided, that the Post-Confirmation Committee shall file the employment agreement between Reorganized AMS and such successor Plan Administrator with the Bankruptcy Court. The Plan Administrator may also be removed by the Bankruptcy Court upon motion for good cause shown by any Creditor.

Upon consummation of the Merger, the Plan Administrator shall be the chief executive officer and sole director of Reorganized AMS and of any subsidiaries of Reorganized AMS for all purposes and in all respects, with all necessary and appropriate power to act for, on behalf of and in the name of Reorganized AMS and any such subsidiaries, with the same power and effect as if each of his or her actions in furtherance of his or her duties as a responsible person and as a board-appointed officer and shareholder-appointed director of Reorganized AMS and of any subsidiaries of Reorganized AMS were explicitly authorized by the appropriate board of directors or shareholders.

D. DUTIES OF THE PLAN ADMINISTRATOR

In addition to the duties as set forth elsewhere in the Plan and his or her duties as the sole officer and director of Reorganized AMS, the Plan Administrator, subject to the provisions of Article IV.G of the Plan, shall have the following duties:

1. to pursue the sale, liquidation and/or recovery of any and all Assets of the Estates and of Reorganized AMS;

2. to manage, control and operate Reorganized AMS;
3. to investigate and, if necessary and appropriate, to prosecute, bring, enforce (or to not pursue, bring or enforce), or to compromise, release, or settle any Causes of Action on behalf of the Estates and Reorganized AMS;
4. to invest the Cash and other Assets of Reorganized AMS and the Estates;
5. to file any and all reports, requests for relief or oppositions thereto;
6. to make any and all distributions required or permitted to be made under the Plan;
7. to pay out of Reorganized AMS any and all claims, liabilities, losses, damages, costs and expenses incurred in connection therewith or as a result thereof, including all Post-Confirmation Expenses accruing from and after the Effective Date, in accordance with the Administrative Budget;
8. to employ, supervise and compensate any employees of Reorganized AMS;
9. to make and file tax returns for any of the Debtors and Reorganized AMS;
10. to commence and pursue dissolution or winding up proceedings for Reorganized AMS;
11. subject to the approval of the Post-Confirmation Committee, to commence and pursue dissolution or winding up proceedings for any subsidiaries of Reorganized AMS or to terminate any joint ventures of Reorganized AMS, to the extent necessary or appropriate, and to take any and all actions and execute all documents and instruments as may be necessary or appropriate in connection with the dissolution, winding up, bankruptcy or insolvency proceedings of any such subsidiary or joint venture;
12. to request the entry of a Final Decree; and
13. to take any and all other actions necessary or appropriate to implement the Plan and the liquidation and winding up of the Estates and Reorganized AMS in accordance with applicable law; provided, that nothing in the Plan shall permit the Plan Administrator to

terminate or cancel the Debtors' director and officer liability insurance coverage relating to the period following the Petition Date; provided further that, the Plan Administrator shall not renew or extend such insurance coverage without the approval of the Post-Confirmation Committee.

In connection with the execution of his or her duties under the Plan, the Plan Administrator, subject to the provisions of Article IV.G of the Plan, shall be authorized:

a. to execute such documents and to take such other actions as are necessary to effectuate the Plan and perform his or her duties as liquidating agent of and for the Estates and Reorganized AMS, including to execute such documents and take such other action on behalf of Reorganized AMS;

b. to open, close and manage bank accounts, and to enter into business transactions within or without the ordinary course of business;

c. to authorize and benefit from any insurance policies and rights of indemnification;

d. to retain professionals (including any of the Debtors' or the Committee's Professionals) or other Persons to assist the Plan Administrator in the liquidation of the Debtors' Assets, without prior Bankruptcy Court approval, and to designate another Person to be the Disbursing Agent;

e. to incur any reasonable and necessary expenses (up to the amounts set forth in the Administrative Budget) in the performance of his or her duties as liquidating agent of and for the Estates and Reorganized AMS;

f. to prepare and deliver to the Post-Confirmation Committee the Administrative Budget of Reorganized AMS with respect to each 6-month period following the Effective Date and any amendments or modifications thereto;

g. to seek an order of the Bankruptcy Court approving the compromise, release or settlement of any Cause of Action or the sale or disposition of any Asset, provided that nothing in the Plan shall require the Plan Administrator to seek any such order; and

h. to employ such other procedures, not inconsistent with the Plan, necessary

for the Plan Administrator to perform his or her duties under the Plan.

The Plan Administrator shall further have all powers of a chief executive officer and sole director of Reorganized AMS, subject to the supervision of the Post-Confirmation Committee as set forth in Article IV.G of the Plan. In discharging the foregoing responsibilities, the Plan Administrator shall be entitled to exercise and rely upon his or her business judgment. The Plan Administrator shall not be obligated to take any action or to pursue any Causes of Action unless justified in his or her reasonable determination by fact and law, nor shall the Plan Administrator be obligated to take any action that could reasonably cause him or her personal liability. Without limiting the generality of the foregoing, the Plan Administrator may consider the interests of Holders of Allowed Claims in receiving prompt distributions and such other factors as may be reasonable in the exercise of his or her business judgment. Such authorization and benefits shall also extend to any, each and every successor Plan Administrator, without reservation or limitation.

The reasonable and necessary fees and actual and necessary expenses of the Plan Administrator and the professionals retained by the Plan Administrator shall be paid by the Plan Administrator in accordance with the following procedures: upon the submission of a fee statement to the Plan Administrator and the Post-Confirmation Committee, the Plan Administrator and the Post-Confirmation Committee shall have ten (10) days from the delivery of a fee statement to give notice of an objection to the fee statement to the professional or Person seeking compensation or reimbursement. For an objection to be valid, it shall be in writing and set forth in detail the specific fees objected to and the basis for the objection. Any objection that remains unresolved fifteen (15) days after it is made shall be submitted to the Bankruptcy Court for resolution. The uncontested portion of each invoice shall be paid within thirty (30) days after its delivery to the Plan Administrator and the Post-Confirmation Committee.

E. LIABILITY, INDEMNIFICATION.

No Protected Party shall be liable for the act or omission of any other Protected Party, nor shall the Plan Administrator or any member of the Post-Confirmation Committee be

liable for any act or omission taken or omitted to be taken in his or her capacity as Plan Administrator (including in his or her capacity as a board-appointed officer or manager of Reorganized AMS or any of its subsidiaries) or as a member of the Post-Confirmation Committee, as the case may be, other than acts or omissions resulting from the Plan Administrator's or Post-Confirmation Committee member's willful misconduct, gross negligence or fraud. The Plan Administrator and the Post-Confirmation Committee may, in connection with the performance of their functions, and in their sole and absolute discretion, consult with their respective attorneys, accountants, financial advisors and agents, and the Plan Administrator and the Post-Confirmation Committee shall not be liable for any act taken, omitted to be taken, or suffered to be done in accordance with advice or opinions rendered by such Persons. Notwithstanding such authority, the Plan Administrator and the Post-Confirmation Committee shall not be under any obligation to consult with their respective attorneys, accountants, financial advisors or agents, and any determination not to do so shall not result in the imposition of liability on the Plan Administrator or the Post-Confirmation Committee, as the case may be, and their respective designees, unless such determination is based on willful misconduct, gross negligence or fraud. Reorganized AMS and the Estates shall indemnify and hold harmless the Plan Administrator, the Post-Confirmation Committee and their respective designees and professionals, and all duly designated agents and representatives thereof (in their capacity as such), from and against and in respect of all liabilities, losses, damages, claims, costs and expenses (including but not limited to attorneys' fees and costs) arising out of or due to such actions or omissions, or consequences of their actions or omissions with respect or related to the performance of the duties of the Plan Administrator or the Post-Confirmation Committee, as the case may be, or the implementation or administration of the Plan; provided, however, that no such indemnification will be available to such Persons for such actions or omissions if a court of competent jurisdiction has determined by final order that the challenged conduct occurred as a result of willful misconduct, gross negligence or fraud.

F. DISSOLUTION OF THE COMMITTEE

Upon the Effective Date, the Committee shall dissolve automatically, whereupon its members, Professionals and agents shall be released from any further duties and responsibilities in the Chapter 11 Cases and under the Bankruptcy Code, except with respect to: (i) obligations arising under confidentiality agreements, joint interest agreements, and protective orders entered during the Chapter 11 Cases which shall remain in full force and effect according to their terms; (ii) applications for Professional Fee Claims; (iii) requests for compensation and reimbursement of expenses pursuant to Bankruptcy Code § 503(b) for making a substantial contribution in any of the Chapter 11 Cases; and (iv) any motions or other actions seeking enforcement or implementation of the provisions of the Plan or the Confirmation Order. The Professionals retained by the Committee and the respective members thereof shall not be entitled to compensation and reimbursement of expenses for services rendered after the Effective Date, except for services rendered in connection with applications for allowance of compensation and reimbursement of expenses pending on the Effective Date or filed after the Effective Date.

G. POST-CONFIRMATION COMMITTEE

On the Effective Date, the Committee shall be reconstituted as the Post-Confirmation Committee, with the following members: Random House, Inc., Hachette Book Group USA, Inc., Harper Collins Publishers, Penguin Group, and Workman Publishing Co. The bylaws previously adopted by the Committee shall continue to govern the actions of the Post-Confirmation Committee, and the fiduciary duties that applied to the Committee prior to the Effective Date shall apply to the Post-Confirmation Committee. The Post-Confirmation Committee shall have the duties set forth in the Plan to execute the Plan and to maximize distributions to Holders of Claims. The bylaws previously adopted by the Committee shall continue to govern the actions of the Post-Confirmation Committee, and the fiduciary duties that applied to the Committee prior to the Effective Date, including those set forth in Bankruptcy Code §§ 1102 and 1103, shall apply to the Post-Confirmation Committee. The bylaws may be amended from time to time by the Post-Confirmation Committee in its discretion; provided that

the bylaws shall at all times provide that each member of the Post-Confirmation Committee shall recuse itself from participation in meetings regarding, or voting on, any matter related to its individual interests, as a creditor or otherwise.

The Post-Confirmation Committee shall have the duty to take actions in accordance with the provisions of the Plan and in furtherance of the execution of the Plan. Additionally, the Post-Confirmation Committee shall have the following rights and duties:

1. as set forth in Article IV.C of the Plan, (i) to terminate the Plan Administrator with or without cause and (ii) upon such termination or upon the resignation, death, incapacity or removal of the Plan Administrator, to appoint a successor Plan Administrator; provided, that the Post-Confirmation Committee shall file the employment agreement between Reorganized AMS and such successor Plan Administrator with the Bankruptcy Court;

2. to approve any release or indemnity in favor of any third party granted or agreed to by the Plan Administrator;

3. to authorize the Plan Administrator to commence any Cause of Action or Avoidance Action;

4. to approve the settlement of any Cause of Action or Avoidance Action if the amount sought to be recovered by the Plan Administrator in the complaint or other document initiating such Cause of Action or Avoidance Action exceeds \$150,000 and to approve any application by the Plan Administrator for an order in connection with any such settlement;

5. to approve the allowance of any Disputed Claim if the final allowed amount of such Claim exceeds \$150,000;

6. to approve the sale of any Assets by the Plan Administrator if the consideration to be received in respect of such Assets exceeds \$250,000 and to approve any application by the Plan Administrator for an order in connection with any such sale of Assets;

7. to approve with respect to each 6-month period of Reorganized AMS the Administrative Budget prepared by the Plan Administrator and any amendments or modifications thereto;

8. to approve in advance the Plan Administrator's retention of any professionals (other than the Debtors' or the Committee's Professionals) or a Disbursing Agent other than the Plan Administrator in accordance with the Administrative Budget;

9. to review all financial information relating to Reorganized AMS and the Estates, which shall be promptly provided by the Plan Administrator upon request by the Post-Confirmation Committee;

10. to approve of the Plan Administrator's making of any interim distributions to Holders of Allowed Class 3 Claims (Unsecured Claims against AMS) if the Post-Confirmation Committee determines such interim distributions are warranted and economical;

11. to approve of any investment of Cash or other Assets of the Estates or Reorganized AMS pending distributions to Holders of Allowed Claims or Interests; and

11. to approve of any distributions to Holders of Allowed Claims or Allowed Interests to be made pursuant to the Plan.

The duties and powers of the Post-Confirmation Committee shall terminate upon the entry of the Final Decree.

The Post-Confirmation Committee shall have the right to retain counsel of its choice in the event of a dispute or conflict with Reorganized AMS and/or Plan Administrator, and the reasonable fees of such counsel shall be paid by the Plan Administrator in accordance with the following procedures: upon the submission of a fee statement to the Post-Confirmation Committee and the Plan Administrator, the Post-Confirmation Committee and the Plan Administrator shall have ten (10) days from the delivery of a fee statement to give notice of an objection to the fee statement to the professional seeking compensation or reimbursement. For an objection to be valid, it shall be in writing and set forth in detail the specific fees objected to and the basis for the objection. Any objection that remains unresolved fifteen (15) days after it is

made shall be submitted to the Bankruptcy Court for resolution. The uncontested portion of each invoice shall be paid within thirty (30) days after its delivery to the Post-Confirmation Committee and the Plan Administrator.

H. CORPORATE ACTION

On the Effective Date, the matters under the Plan involving or requiring corporate action of the Debtors, including but not limited to actions requiring a vote or other approval of the board of directors or shareholders and execution of all documentation incident to the Plan, shall be deemed to have been authorized by the Confirmation Order and to have occurred and be in effect from and after the Effective Date without any further action by the Bankruptcy Court or the officers, directors or shareholders of the Debtors.

I. CONTINUED CORPORATE EXISTENCE; DISSOLUTION OF REORGANIZED AMS.

The board of directors of AMS shall be reconstituted upon consummation of the Merger and, as provided in Article IV.C of the Plan, shall consist solely of the Plan Administrator. From and after the Effective Date, Reorganized AMS shall remain in existence for the purpose of liquidating and winding up the Estates. After the liquidation and the winding up of the various Estates, the completion of distributions under the Plan and the entry of the Final Decree, the Plan Administrator shall file a certificate of dissolution in the applicable state of incorporation for Reorganized AMS, and Reorganized AMS shall dissolve and cease to exist.

J. PRESERVATION OF ALL AVOIDANCE ACTIONS AND CAUSES OF ACTION

From and after the Effective Date, Reorganized AMS and the Plan Administrator, subject to any approval of the Post-Confirmation Committee as set forth in Article IV.G of the Plan, may litigate or settle any avoidance, recovery or subordination actions under Bankruptcy Code §§ 502, 510, 522(f), 522(h), 542, 543, 544, 545, 547, 548, 549, 550, 551, 553 or 724 or any other Causes of Action or rights to payments or claims that belong to the Debtors that may be pending on the Effective Date or instituted by the Plan Administrator after the Effective Date,

except as otherwise expressly provided in the Plan. Pursuant to Bankruptcy Code § 1123(b)(3)(B), no other Person may pursue any such Causes of Action.

ARTICLE VI

TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

A. ASSUMPTION OF CERTAIN CONTRACTS AND LEASES AND CURE PAYMENTS.

Fifteen (15) days prior to the Confirmation Hearing, the Plan Proponents shall file the Assumption Schedule, which shall be attached to the Plan as Exhibit A thereto. Objections to any proposed cure payment must be filed and served no later than the Assumption Objection Deadline and shall be adjudicated, if necessary, at the Confirmation Hearing. Any non-debtor party or Person to an Executory Contract that has not filed an appropriate pleading with the Bankruptcy Court on or before the applicable Assumption Objection Deadline shall be deemed to have waived its right to dispute the cure amount. All unpaid cure payments under any Executory Contracts that are assumed or assumed and assigned under the Plan shall be made by the Plan Administrator as soon as practicable after the Effective Date but not later than thirty (30) days after the Effective Date, provided, that, in the event there is a dispute regarding the amount of any cure payments, the Plan Administrator shall make such cure payments as may be required by Bankruptcy Code § 365(b)(1) within ten (10) days following the entry of a Final Order resolving such dispute.

The Plan Proponents reserve the right to remove any Executory Contract from the Assumption Schedule at any time prior to the Confirmation Hearing.

B. REJECTION OF REMAINING EXECUTORY CONTRACTS AND UNEXPIRED LEASES.

On the Confirmation Date, except for (i) any Executory Contract that was previously assumed or rejected by an order of the Bankruptcy Court pursuant to Bankruptcy Code § 365 and (ii) any Executory Contract identified on the Assumption Schedule, each Executory Contract entered into by the Debtors prior to the Petition Date that has not previously

expired or terminated pursuant to its own terms, shall be deemed rejected pursuant to Bankruptcy Code §§ 365 and 1123, effective as of the Confirmation Date. The Confirmation Order shall constitute an order of the Bankruptcy Court approving such rejection pursuant to Bankruptcy Code §§ 365 and 1123 as of the Confirmation Date.

C. REJECTION DAMAGES BAR DATE.

Except to the extent another Bar Date applies pursuant to an order of the Bankruptcy Court, all Proofs of Claim with respect to Claims arising from the rejection of Executory Contracts under the Plan must be filed with the Advanced Marketing Claims Agent, c/o Epiq Bankruptcy Solutions LLC, 757 Third Avenue, 3rd Floor, New York, New York 10017, and a copy served on counsel for the Debtors and the Plan Administrator, within thirty (30) days from the entry of the Confirmation Order, or such Claim shall be forever barred and shall not be entitled to a distribution or be enforceable against the Debtors, their Estates, Reorganized AMS, the Plan Administrator, their successors, their assigns or their Assets. Any Claim arising from the rejection of an Executory Contract shall be treated as a Claim in Class 3 (Unsecured Claims against AMS), Class 8 (Unsecured Claims against PGI) or Class 12 (Unsecured Claims against PGW), depending on which Debtor the Claim is asserted against. Nothing in the Plan extends or modifies any previously applicable Bar Date.

D. INSURANCE POLICIES

To the extent any or all of the insurance policies set forth on Exhibit B to the Plan are considered to be Executory Contracts, then notwithstanding anything contained in the Plan to the contrary, the Plan shall constitute a motion to assume the insurance policies set forth on Exhibit B to the Plan. Subject to the occurrence of the Effective Date, the entry of the Confirmation Order shall constitute approval of such assumption pursuant to Bankruptcy Code § 365(a) and a finding by the Bankruptcy Court that each such assumption is in the best interest of the Debtors, the Estates and all parties in interest in these Chapter 11 Cases. Unless otherwise determined by the Bankruptcy Court pursuant to a Final Order or agreed to by the parties thereto prior to the Effective Date, no payments are required to cure any defaults of the Debtors existing

as of the Confirmation Date with respect to each such insurance policy set forth on Exhibit B to the Plan. To the extent the Bankruptcy Court determines otherwise with respect to any insurance policy, the Plan Proponents reserve the right to seek rejection of such insurance policy or other available relief. The Plan shall not affect contracts that have been assumed and assigned by order of the Bankruptcy Court prior to the Confirmation Date. For the avoidance of doubt, all insurance policies (including any insurance policies that are not executory contracts, insurance policies that may have expired prior to the Petition Date, insurance policies in existence on the Petition Date and insurance policies entered into by the Debtors after the Petition Date) of the Debtors and all rights thereunder and rights under any other insurance policies under which the Debtors may be beneficiaries (including the rights to make, amend, prosecute and benefit from claims) are retained and will be transferred to Reorganized AMS pursuant to the Plan. As set forth in Article IV.D of the Plan, the Plan Administrator shall not be permitted to terminate or cancel the Debtors' director and officer liability insurance coverage relating to the period following the Petition Date; provided that, the Plan Administrator shall not renew or extend such insurance coverage without the approval of the Post-Confirmation Committee.

E. TERMINATION OF AMS'S DEFERRED COMPENSATION PLAN

Upon the Effective Date, the Deferred Compensation Plan shall terminate without further corporate action. Pursuant to the Plan, the Deferred Compensation Trust shall pay all Cash and any other Assets it may hold in respect of the Deferred Compensation Plan to Reorganized AMS. **UPON ENTRY OF THE CONFIRMATION ORDER, THE CASH AND ASSETS OF THE DEFERRED COMPENSATION TRUST WILL BE TRANSFERRED TO REORGANIZED AMS AND WILL BECOME PROPERTY OF AMS'S ESTATE AND AVAILABLE FOR DISTRIBUTION TO HOLDERS OF ALLOWED UNSECURED CLAIMS AGAINST AMS. INDIVIDUALS WHO CONTRIBUTED TO THE DEFERRED COMPENSATION PLAN WILL BE TREATED AS HOLDERS OF UNSECURED CLAIMS AGAINST AMS.**

ARTICLE VII

PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS

A. DISBURSING AGENT

1. Plan Administrator as Disbursing Agent

The Plan Administrator shall be the Disbursing Agent and the Disbursing Agent shall make all distributions under the Plan. The Plan Administrator, subject to any approval of the Post-Confirmation Committee as set forth in Article IV.G of the Plan, can designate another Person to be the Disbursing Agent under the Plan. The Plan Administrator shall maintain separate bank accounts for PGW and AMS until such time as all Allowed Claims against PGW have been paid in accordance with the Plan.

2. Alternative Disbursing Agent Qualification

No Person other than the Plan Administrator shall be authorized by the Bankruptcy Court to serve as Disbursing Agent unless and until the Plan Administrator and the Post-Confirmation Committee consent in writing to that Person serving as Disbursing Agent and that Person (i) executes and files a statement with the Bankruptcy Court agreeing to perform all of the duties of the Disbursing Agent under the Plan, and (ii) consents to the jurisdiction of the Bankruptcy Court in respect to all matters relating to the performance of its duties as the Disbursing Agent under the Plan.

B. TIME AND MANNER OF DISTRIBUTIONS

Subject to any approval of the Post-Confirmation Committee as set forth in Article IV.G of the Plan, the Plan Administrator shall have the right to make interim distributions to Holders of Allowed Unsecured Claims against AMS if the Plan Administrator determines that such interim distributions are warranted and economical. If the Plan Administrator determines to make interim distributions to Holders of Allowed Unsecured Claims against AMS, the Plan Administrator will determine the amount to be distributed on an interim basis by taking into account such factors as ongoing expenses and costs, taxes and reserves necessary to provide for

the resolution of Disputed Claims. Amounts withheld will be placed in an interest-bearing account which shall fund ongoing expenses and costs relating to such reserves, including, without limitation, taxes in respect of Disputed Claims, if any.

At the option of the Plan Administrator, any distributions under the Plan may be made either in Cash, by check drawn on a domestic bank, by wire transfer or by ACH. Notwithstanding any other provisions of the Plan to the contrary, no payment of fractional cents will be made under the Plan. Cash will be issued to Holders entitled to receive a Distribution of Cash in whole cents (rounded to the nearest whole cent when and as necessary). Any distribution of less than \$10.00 will be considered de minimus, and Holders of Allowed Claims that are entitled to any distribution of less than \$10.00 will not receive any distribution. Such funds shall remain with and vest in Reorganized AMS for distribution to other Holders of Allowed Claims.

C. DELIVERY OF DISTRIBUTIONS

Except as otherwise provided in the Plan, distributions to Holders of Allowed Claims shall be made by the Disbursing Agent (i) at the addresses set forth on the Proofs of Claim filed by such Holder (or at the last known addresses of such Holder if no motion requesting payment or Proof of Claim is filed or the Debtors or Reorganized AMS have been notified in writing of a change of address), (ii) at the addresses set forth in any written notices of address changes delivered to the Plan Administrator after the date of any related Proof of Claim, or (iii) at the addresses reflected in the Schedules if no Proof of Claim has been filed and the Plan Administrator has not received a written notice of a change of address.

D. UNDELIVERABLE DISTRIBUTIONS

If a distribution to a Holder of a Claim is returned as undeliverable, no further distributions to such Holder of a Claim shall be made unless and until the Plan Administrator or Disbursing Agent is notified of the then-current address of such Holder, at which time (subject to the terms of the last sentence of Article VI.D of the Plan) all missed distributions shall be made to such Holder without interest. Amounts in respect of undeliverable distributions shall be

returned to the Plan Administrator until such distributions are claimed. All funds or other undeliverable distributions returned to the Plan Administrator in respect of any Claim and not claimed within four (4) months of return shall be forfeited and remain with and vest in Reorganized AMS for distribution to other Holders of Allowed Claims. Any unclaimed funds held by Reorganized AMS at the time the Final Decree is entered may be donated to a charity selected by the Plan Administrator and the Post-Confirmation Committee.

E. CLAIMS ADMINISTRATION RESPONSIBILITY

1. Reservation of Rights to Object to Claims.

Unless a Claim is expressly described as an Allowed Claim pursuant to or under the Plan, or otherwise becomes an Allowed Claim prior to or after the Effective Date, Reorganized AMS and the Plan Administrator (on behalf of the Estates) reserve any and all objections to any and all Claims and motions or requests for the payment of Claims, whether administrative expense, priority, secured or unsecured, including without limitation any and all objections to the validity or amount of any and all alleged Administrative Claims, Priority Tax Claims, Priority Claims, Secured Claims, Unsecured Claims, Interests, Liens and security interests, whether under the Bankruptcy Code, other applicable law or contract. Reorganized AMS's and/or the Plan Administrator's failure to object to any Claim in the Chapter 11 Cases shall be without prejudice to Reorganized AMS's and the Plan Administrator's rights to contest or otherwise defend against such Claim in the Bankruptcy Court when and if such Claim is sought to be enforced by the Holder of such Claim.

2. Objections to Claims.

Prior to the Effective Date, the Debtors shall be responsible for pursuing any objection to the allowance of any Claim. From and after the Effective Date, the Plan Administrator will retain responsibility for administering, disputing, objecting to, compromising or otherwise resolving and making distributions, if any, with respect to all Claims, subject to any approvals of the Post-Confirmation Committee as set forth in Article IV.G of the Plan. Unless

otherwise provided in the Plan or by order of the Bankruptcy Court, any objections to Claims by the Plan Administrator will be filed and served not later than 180 days after the Effective Date, provided that Reorganized AMS or the Plan Administrator may request (and the Bankruptcy Court may grant) an extension of such deadline by filing a motion with the Bankruptcy Court, based upon a reasonable exercise of his or her business judgment. A motion seeking to extend the deadline to object to any Claim shall not be deemed an amendment to the Plan.

3. Filing of Objections.

An objection to a Claim shall be deemed properly served on the Holder of such Claim if Reorganized AMS or the Plan Administrator effect service by any of the following methods: (i) in accordance with Rule 4 of the Federal Rule of Civil Procedure, as modified and made applicable by Bankruptcy Rule 7004; (ii) to the extent counsel for such Holder is unknown, by first class mail, postage prepaid, on the signatory on the Proof of Claim or Interest or other representative identified on the Proof of Claim or Interest or any attachment thereto; or (iii) by first class mail, postage prepaid, on any counsel that has appeared on the behalf of such Holder in the Chapter 11 Cases.

4. Determination of Claims.

Except as otherwise agreed by Reorganized AMS or the Plan Administrator, any Claim as to which a Proof of Claim or motion or request for payment was timely filed in the Chapter 11 Cases may be determined and (so long as such determination has not been stayed, reversed or amended and as to which determination (or any revision, modification or amendment thereof) the time to appeal or seek review or rehearing has expired and as to which no appeal or petition for review or rehearing was filed or, if filed, remains pending) liquidated pursuant to (i) an order of the Bankruptcy Court, (ii) applicable bankruptcy law, (iii) agreement of the parties, (iv) applicable non-bankruptcy law or (v) the lack of (a) an objection to such Claim, (b) an application to equitably subordinate such Claim and (c) an application to otherwise limit recovery with respect to such Claim, filed by the Debtors, Reorganized AMS or the Plan

Administrator on or prior to any applicable deadline for filing such objection or application with respect to such Claim. Any such Claim so determined and liquidated shall be deemed to be an Allowed Claim for such liquidated amount and shall be satisfied in accordance with the Plan. Nothing contained in Article VII.E of the Plan shall constitute or be deemed a waiver of any claim, right, or Causes of Action that the Debtors or the Plan Administrator may have against any Person in connection with or arising out of any Claim or Claims, including without limitation any rights under 28 U.S.C. § 157.

F. PROCEDURES FOR TREATING AND RESOLVING DISPUTED AND CONTINGENT CLAIMS

1. No Distributions Pending Allowance.

No payments or distributions will be made with respect to all or any portion of a Disputed Claim unless and until all objections to such Disputed Claim have been settled or withdrawn or have been determined by a Final Order, and the Disputed Claim has become an Allowed Claim; provided, however, that in the event that only a portion of such Claim is an Allowed Claim, the Plan Administrator may make, in his or her discretion, a distribution pursuant to the Plan on account of the portion of such Claim that becomes an Allowed Claim.

2. Claim Estimation.

The Debtors or the Plan Administrator may request estimation or liquidation of any Disputed Claim that is contingent or unliquidated pursuant to Bankruptcy Code § 502(c); provided, however, that the Bankruptcy Court shall determine (i) whether such Disputed Claims are subject to estimation pursuant to Bankruptcy Code § 502(c) and (ii) the timing and procedures for such estimation proceedings, if any.

G. SETOFFS AND RECOUPMENT

Reorganized AMS and/or Plan Administrator (as the case may be) may, pursuant to Bankruptcy Code §§ 553 and 558 or applicable non-bankruptcy law, but shall not be required to, setoff against or recoup from any Claim on which payments are to be made pursuant to the

Plan, any claims or Causes of Action of any nature whatsoever the Debtors may have against the Holder of such Claim; provided, however, that neither the failure to effect such offset or recoupment nor the allowance of any Claim shall constitute a waiver or release by the Debtors of any setoff or recoupment the Debtors may have against the Holder of such Claim, nor of any other claim or Cause of Action.

H. ALLOWANCE OF CLAIMS SUBJECT TO BANKRUPTCY CODE § 502(D)

Allowance and disallowance of Claims shall be in all respects subject to the provisions of Bankruptcy Code § 502, including without limitation subsections (b), (d), (e), (g), (h) and (i) thereof.

I. CANCELLATION OF INSTRUMENTS AND AGREEMENTS

Upon the occurrence of the Effective Date, except as otherwise provided in the Plan, all promissory notes, shares, certificates, instruments, indentures, or stock, or agreements evidencing, giving rise to, or governing any Claim or Interest shall be deemed canceled and annulled without further act or action under any applicable agreement, law, regulation, order, or rule and the obligations of the Debtors under such promissory notes, share certificates, instruments, indentures, or agreements shall be discharged, and the Holders thereof shall have no rights against the Debtors, the Plan Administrator, the Estates or Reorganized AMS, and such instruments shall evidence no such rights, except the right to receive the distributions provided for in the Plan.

The amended certificate of incorporation of Reorganized AMS will further provide for the issuance of one share of stock. This share will be issued to the Plan Administrator, who will hold such share in trust for the benefit of the Holders of Allowed Claims. The Plan Administrator shall have the ability to vote the interests of Reorganized AMS through his or her possession and voting control of the post-Effective Date stock of Reorganized AMS. Under Bankruptcy Code § 1145, the issuance of the sole share of Reorganized AMS to the Plan Administrator under the Plan shall be exempt from registration under the Securities Act of 1933, as amended, and all applicable state and local laws requiring registration of securities.

J. NO INTEREST ON CLAIMS.

Unless otherwise specifically provided for in the Plan, the Confirmation Order or a postpetition agreement in writing between the Debtors and a Holder of a Claim and approved by an order of the Bankruptcy Court, postpetition interest shall not accrue or be paid on any Claim, and no Holder of a Claim shall be entitled to interest accruing on or after the Petition Date on any Claim. In addition, and without limiting the foregoing, interest shall not accrue on or be paid on any Disputed Claim in respect of the period from the Effective Date to the date a final distribution is made when and if such Disputed Claim becomes an Allowed Claim.

K. WITHHOLDING TAXES

The Plan Administrator shall be entitled to deduct any federal, state or local withholding taxes from any payments under the Plan. As a condition to making any distribution under the Plan, the Plan Administrator may require that the Holder of an Allowed Claim provide such Holder's taxpayer identification number and such other information and certification as the Plan Administrator may deem necessary to comply with applicable tax reporting and withholding laws.

L. REPORTS

From the Effective Date, until a Final Decree is entered, the Plan Administrator shall submit quarterly reports to the United States Trustee setting forth all receipts and disbursements of Reorganized AMS as required by the United States Trustee guidelines.

ARTICLE VIII

CONDITIONS PRECEDENT

A. CONDITION PRECEDENT TO EFFECTIVE DATE

The Plan shall not become effective unless and until each of the following conditions shall have been satisfied in full in accordance with the provisions specified below:

1. The Bankruptcy Court shall have approved a disclosure statement with respect to the Plan in form and substance acceptable to the Plan Proponents in their sole and absolute discretion;

2. The Confirmation Order shall be in form and substance acceptable to the Plan Proponents in their sole and absolute discretion;

3. The Confirmation Order shall have been entered by the Bankruptcy Court and shall not be subject to any stay of effectiveness, the Confirmation Date shall have occurred and no request for revocation of the Confirmation Order under Bankruptcy Code § 1144 shall have been made, or, if made, shall remain pending; and

4. The appointment of the Plan Administrator shall have been confirmed by order of the Bankruptcy Court.

B. REVOCATION, WITHDRAWAL OR NON-CONSUMMATION OF PLAN.

If, after the Confirmation Order is entered, each of the conditions precedent to the Effective Date have not been satisfied or duly waived on or by ninety (90) days after the Confirmation Date, then upon motion by the Plan Proponents, the Confirmation Order may be vacated by the Bankruptcy Court; provided, however, that notwithstanding the filing of such a motion, the Confirmation Order shall not be vacated if each of the conditions precedent to the Effective Date is either satisfied or duly waived before the Bankruptcy Court enters an order granting the relief requested in such motion. A condition precedent to the Effective Date may only be waived by a writing executed by the Plan Proponents. If the Confirmation Order is vacated pursuant to Article VIII.B of the Plan, the Plan shall be null and void in all respects, and nothing contained in the Plan shall (i) constitute a waiver or release of any Claims against or Interests in the Debtors, (ii) prejudice in any manner the rights of the Holder of any Claim against or Interest in the Debtors or (iii) prejudice in any manner the rights of the Plan Proponents in the Chapter 11 Cases.

ARTICLE IX
FINANCIAL INFORMATION

A. STATUS OF ASSET DISPOSITION PROCESS; CURRENT CASH POSITION

<i>Description of Assets</i>	<i>Date Sold</i>	<i>Proceeds</i>	<i>Funds Received by Estate</i>
<u>AMS ASSETS</u>			
Selected assets of the US Wholesale Business and the stock of the UK and Mexico Wholesale businesses	3/19/07	\$64,095,134	\$57,878,912
Stock of Australia and Singapore Distribution businesses together with certain consigned inventory	5/3/07	\$498,382 ⁵	\$500,000
Stock of UK Distribution business together with certain consigned inventory	4/30/07	\$657,325 ⁶	\$651,000
<u>PGI ASSETS</u>			
None.			
<u>PGW ASSETS</u>			
Assignment of various publishing contracts	2/28/07	N/A ⁷	N/A
<u>Total Proceeds</u>		\$65,246,134	
<u>Proceeds Collected as of August 24, 2007</u>			\$59,029,912

⁵ Approximately \$210,000 of the sale proceeds received in connection with this transaction relate to the payment of intercompany obligations owing to AMS.

⁶ Approximately \$541,000 of the sale proceeds received in connection with this transaction relate to the payment of intercompany obligations owing to AMS.

⁷ Because of the structure of this transaction, whereby Perseus assumed a number of publisher marketing and distribution agreements, PGW did not receive funds or proceeds directly from Perseus, although the transaction did permit PGW to retain and collect approximately \$39.9 million in accounts receivable at minimal cost to the Estates. For a more complete description of this transaction and its benefits to the Estates, please see Article III.F hereof.

<i>Description of Payment</i>	<i>Date Paid</i>	<i>Payment Amount (millions)</i>
<u>AMS Payments</u>		
<u>PGI Payments</u>		
<u>PGW Payments</u>		
<u>Total Payments</u>		

AMS's unrestricted Cash as of [DATE] was [\$_____]. PGI's unrestricted Cash as of [DATE] was [\$_____]. PGW's unrestricted Cash as of [DATE] was [\$_____]. The Debtors' cash flow statements for the period ended from the Petition Date through [DATE] are attached hereto as **Exhibit B**.

B. PROJECTED DISTRIBUTABLE CASH

According to an analysis prepared by the Plan Proponents' financial advisors, the Estates' total Cash is projected to be approximately [\$_____], and the analysis projects that approximately [\$_____] will be expended to pay costs and expenses associated with winding down the Debtors' Estates. Thus, the projections prepared by the Plan Proponents' financial advisors estimate that total Cash available for distributions to the Debtors' Creditors will be approximately [\$_____], and Distributable Cash in respect of Allowed Claims in Class 3 (Unsecured Claims against AMS) is projected to be approximately [\$_____].

C. DESCRIPTIONS OF ASSETS AND LITIGATION

1. AMS's 2005 Deferred Compensation Plan

The Deferred Compensation Trust currently holds approximately \$1.7 million in Cash and other investments contributed to such Deferred Compensation Trust in respect of the

Deferred Compensation Plan, and the Deferred Compensation Trust shall pay such Cash and other amounts to Reorganized AMS.

2. Raincoast Book Distribution Ltd.

AMS owns a 25% equity interest in Raincoast Book Distribution Ltd., a corporation incorporated under the laws of British Columbia (“Raincoast”) in the business of distributing books. Since the Petition Date, the Debtors have solicited bids from potential purchasers of AMS’s equity interest in Raincoast and will continue to do so until the Effective Date, and thereafter, the Plan Administrator shall continue to market Reorganized AMS’s interest in Raincoast.

3. Remaining Inventory

The Debtors have inventory valued at a cost of approximately \$15 million to \$20 million on hand, which the Debtors intend to liquidate for the highest possible return.

4. Estate Litigation

Except as otherwise provided in the Plan, any and all rights or Causes of Action and Avoidance Actions under any theory of law or fact, including without limitation under the Bankruptcy Code, accruing to or assertable by the Debtors shall remain Assets of the Estates and on the Effective Date shall be transferred to and revested in Reorganized AMS with the Plan Administrator as the duly appointed representative of the Estates. Pursuant to Bankruptcy Code § 1123(b)(3)(B), only Reorganized AMS and the Plan Administrator, subject to any approval of the Post-Confirmation Committee as set forth in Article IV.G of the Plan, shall have the right to pursue or not to pursue, or, subject to the terms of the Plan, compromise or settle any Causes of Action and Avoidance Actions owned or held by the Debtors or their Estates as of the Effective Date.

From and after the Effective Date, Reorganized AMS and Plan Administrator, subject to approval by the Post-Confirmation Committee, may litigate or settle any avoidance, recovery or subordination actions under Bankruptcy Code §§ 510, 543, 544, 545, 547, 548, 549,

550, 551, 553 or 724(a) or any other Causes of Action or rights to payments or claims that belong to the Debtors that may be pending on the Effective Date or instituted by Reorganized AMS and Plan Administrator after the Effective Date, except as otherwise expressly provided in the Plan. The Plan Administrator may settle without need of Bankruptcy Court approval any Avoidance Actions and may seek an order of the Bankruptcy Court approving the compromise, release or settlement of any such Avoidance Action, subject to any approval of the Post-Confirmation Committee as set forth in Article IV.G of the Plan. The Bankruptcy Court shall retain jurisdiction to adjudicate any and all Causes of Action and Avoidance Actions and approve of any such settlement, whether commenced prior to or after confirmation of the Plan. The Plan Administrator shall have no obligation to obtain the approval or authorization of the Bankruptcy Court or file a report to the Bankruptcy Court concerning the sale, transfer, assignment or disposition of Assets; provided, that the Plan Administrator, subject to any approval of the Post-Confirmation Committee as set forth in Article IV.G of the Plan, may seek an order of the Bankruptcy Court approving any sale or disposition of Assets by the Plan Administrator to facilitate such transactions.

Except as otherwise provided in the Plan, from and after the Effective Date, Reorganized AMS and Plan Administrator shall, subject to any approval of the Post-Confirmation Committee as set forth in Article IV.G of the Plan, have sole authority to commence, litigate or settle any Avoidance Actions and/or Causes of Action. The Bankruptcy Court shall retain jurisdiction to adjudicate any and all Avoidance Actions and Causes of Action and approve of any such settlement (if required), whether commenced prior to or after confirmation of the Plan.

The Plan Proponents are in the process of analyzing the Avoidance Actions and/or Causes of Action. The Plan Proponents notify the categories of parties listed on **Exhibit C** attached hereto that Avoidance Actions and/or other Causes of Action may be prosecuted by the Plan Administrator for the benefit of Creditors. All Creditors who received payments from the Debtors within 90 days of the Petition Date (or 1 year if the Creditor was an “Insider”, as such

term is defined in Bankruptcy Code § 101(31)), are subject to being sued for recovery of preferences under Bankruptcy Code § 547.

D. RISKS ASSOCIATED WITH REALIZING ON LITIGATION

A portion of the property to be distributed to the creditors pursuant to the Plan includes litigation claims. In addition to the risks described above, in general, the outcome of such litigation is impossible to predict. It is possible that the Estates may recover nothing at all on account of such litigation. The risks in such litigation include, but are not limited to, those associated with defenses and counter-claims of opposing parties to the litigation; the delay and expense associated with discovery and trial of factually intensive and complex disputes; the additional delay and expense inherent in appellate review; difficulties in pursuing claims pertaining to AMS, PGI and/or PGW because they are no longer an operating entities; the diminishing availability of former AMS or PGW employees to serve as witnesses because they have moved from the geographic area or have otherwise become unavailable; the impossibility of predicting judicial outcomes; and the difficulty collecting favorable judgments.

THE PLAN PROPONENTS MAKE NO REPRESENTATION CONCERNING THE ACCURACY OF THE PROJECTED FINANCIAL INFORMATION OR THE ABILITY TO ACHIEVE THE PROJECTED RESULTS. MANY OF THE ASSUMPTIONS ON WHICH THESE PROJECTIONS ARE BASED ARE SUBJECT TO SIGNIFICANT ECONOMIC UNCERTAINTIES. IT IS LIKELY THAT SOME ASSUMPTIONS WILL NOT MATERIALIZE BECAUSE OF UNANTICIPATED EVENTS AND CIRCUMSTANCES. ACCORDINGLY, THE ACTUAL RESULTS ACHIEVED THROUGHOUT THE PROJECTION PERIOD ARE LIKELY TO VARY FROM THE PROJECTED RESULTS. THE VARIATIONS MAY BE MATERIAL AND ADVERSE OR POSITIVE.

THE PLAN PROPONENTS DO NOT ANTICIPATE AT THIS TIME THAT THEY WILL UPDATE THESE PROJECTIONS AT THE HEARING ON CONFIRMATION OF THE PLAN, FURNISH UPDATED PROJECTIONS IN

DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION OR OTHERWISE MAKE SUCH PROJECTIONS PUBLIC.

ARTICLE X

CERTAIN FACTORS TO BE CONSIDERED REGARDING THE PLAN

Holders of Claims against the Debtors should read and consider carefully the factors set forth below, as well as the other information set forth in this Disclosure Statement (and the documents delivered together herewith and/or incorporated by reference), prior to voting to accept or reject the Plan. These risk factors should not, however, be regarded as constituting the only risks involved in connection with the Plan and its implementation.

A. BANKRUPTCY CONSIDERATIONS

An objection to confirmation of the Plan could prevent confirmation or delay confirmation for a significant period of time. In such case, the Effective Date may not occur and payments to creditors may not commence for several months. In addition, if the Plan is not confirmed, the case may be converted to a case under chapter 7, in which event the Debtors believe that creditor recoveries will be substantially diminished.

THE PLAN PROPONENTS BELIEVE THAT THE EFFECTIVE DATE WILL OCCUR THE FIRST BUSINESS DAY AFTER THE CONFIRMATION ORDER BECOMES FINAL, ALTHOUGH THERE CAN BE NO ASSURANCE THAT EACH OF THE CONDITIONS TO THE EFFECTIVE DATE WILL BE SATISFIED BY SUCH DATE.

B. OVERALL RISKS TO RECOVERY BY HOLDERS OF CLAIMS

In addition to the risks described in Article IX.D hereof, the ultimate recovery under the Plan to Holders of Allowed Unsecured Claims against AMS depends upon the ability of the Plan Administrator to realize the maximum value of the Assets of AMS and to realize a favorable litigation outcome or settlement of the Causes of Action. It is extremely difficult to value litigation and, as discussed above, litigation outcomes cannot be predicted. Also, as

discussed above, the Assets of the Debtors remaining to be sold may be subject to sale contingencies and other restrictions.

C. RISKS REGARDING THE AMOUNT OF PRIOR CLAIMS; ADMINISTRATIVE EXPENSES

The Debtors' projections assume that unpaid Administrative Claims and Priority Claims against the Debtors will be approximately [\$_____]. This amount is only an estimate. The initial Bar Date for filing Administrative Claims through April 30, 2007 was July 2, 2007, and the Second Administrative Expense Request Deadline will not occur until 30 days after entry of the Confirmation Order. It is anticipated that additional Administrative Claims will be filed against the Debtors.

D. RISKS REGARDING AMOUNT OF UNSECURED CLAIMS

As of [_____, 2007], there are approximately [\$_____] of Claims scheduled and filed against AMS, [\$_____] of Claims scheduled and filed against PGI, and [\$_____] of Claims scheduled and filed against PGW. The aggregate amount of filed Unsecured Claims against AMS is approximately [\$_____], of filed Unsecured Claims against PGI is approximately [\$_____], and of filed Unsecured Claims against PGW is approximately [\$_____]. The Claim estimates do not include contract rejection claims for which the time to file a Claim has not expired or Claims listed without dollar amounts. It is also possible that the dollar amount of Unsecured Claims could increase if the Bankruptcy Court determines that any claimant did not receive adequate notice of the Bar Date and, therefore, allows such claimant's late-filed Claim.

Many of these Claims are subject to objection, defenses or counterclaims, and the Estates intend to vigorously contest such Claims as appropriate. Accordingly, the Pro Rata recoveries for the Holders of Unsecured Claims against AMS are uncertain.

ARTICLE XI
POST-CONFIRMATION ISSUES

A. CONVERSION OR DISMISSAL

The Plan provides that if the Confirmation Order is vacated, the Plan will be null and void in all respects and nothing contained therein will (i) constitute a waiver of any Claims against or Interests in any of the Debtors, (ii) prejudice in any manner the rights of the Holder of any Claim against or Interests in any of the Debtors, or (iii) prejudice in any manner the rights of any of the Debtors in the chapter 11 cases.

B. PAYMENT OF STATUTORY FEES

All fees payable pursuant to 28 U.S.C. § 1930 through the Effective Date will be paid by the Debtors on the Effective Date. All such fees payable after the Effective Date will be paid by the Plan Administrator.

C. AUTHORITY TO EFFECTUATE PLAN

Upon the Confirmation Order becoming a Final Order, all matters provided under the Plan shall be deemed to be authorized and approved without the requirement of further approval from the Bankruptcy Court or the Debtors.

D. BINDING EFFECT

Except as otherwise expressly provided in the Plan, on and after the Effective Date, the Plan shall bind all Holders of Claims and Interests, whether or not such Holders voted to accept or reject the Plan. Except as expressly set forth in the Plan, on and after the Confirmation Date, subject to the occurrence of the Effective Date, every Holder of a Claim or Interest shall be precluded and permanently enjoined from asserting against the Debtors, the Debtors' Estates, Reorganized AMS, the Plan Administrator and their respective Assets and properties and the Committee and its members (solely in their capacity as members of the Committee) and their respective advisors and attorneys, any claim based on any document, instrument, judgment, award, order, act, omission, transaction or other activity of any kind or nature that occurred before the Petition Date or between the Petition Date and the Effective Date,

in connection with, related to, effecting, or arising out of the Debtors, the Debtors' operations, the bankruptcy filing, the Chapter 11 Cases, the negotiation, approval, implementation and administration of the Plan, any sale or liquidation of the Debtors' Assets, or the property to be distributed under the Plan by the Plan Administrator, except by reason of their gross negligence or willful misconduct, and in all respects, each shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

E. EXCULPATION

None of the Protected Parties shall have or incur any liability for, and each Protected Party is hereby released from, any claim, cause of action or liability to any other Protected Party, to any Holder of a Claim or an Interest, or to any other party in interest, for any act or omission taken in connection with, arising from or relating to the Chapter 11 Cases, the formulation, negotiation, and/or pursuit of confirmation of the Plan, the consummation of the Plan, and/or the administration of the Plan and/or the property to be distributed under the Plan, except for claims, causes of action or liabilities arising from the gross negligence, willful misconduct or fraud of any Protected Party, in each case subject to determination of such by final order of a court of competent jurisdiction and provided that any Protected Party shall be entitled to reasonably rely upon the advice of counsel with respect to its duties and responsibilities (if any) under the Plan and such reasonable reliance shall form an absolute defense to any such claim, cause of action or liability. Without limiting the generality of the foregoing, each Protected Party shall be entitled to and granted the protections and benefits of Bankruptcy Code § 1125(e).

The above provision shall not be deemed or act to release any claims, Causes of Action or liabilities that Reorganized AMS or the Debtors' Estates may have against any Person or entity for any act, omission, failure to act that occurred prior to the Petition Date and shall not be deemed or act to release any Avoidance Actions and/or Causes of Action.

F. INJUNCTIONS

Except as otherwise expressly provided in the Plan or in the Confirmation Order, and except in connection with the enforcement of the terms of the Plan or any documents provided for or contemplated in the Plan, all entities who have held, hold or may hold Claims against or Interests in the Debtors or the Estates that arose prior to the Effective Date are permanently enjoined from: (a) commencing or continuing in any manner, directly or indirectly, any action or other proceeding of any kind against any Protected Party or any property of any Protected Party with respect to any such Claim or Interest; (b) the enforcement, attachment, collection or recovery by any manner or means, directly or indirectly, of any judgment, award, decree, or order against any Protected Party or any property of any Protected Party with respect to any such Claim or Interest; (c) creating, perfecting or enforcing, directly or indirectly, any lien or encumbrance of any kind against any Protected Party or any property of any Protected Party with respect to any such Claim or Interest; (d) effecting, directly or indirectly, any setoff or recoupment of any kind against any obligation due to any Protected Party or any property of any Protected Party with respect to any such Claim or Interest, unless approved by the Bankruptcy Court; and (e) any act, in any manner, in any place whatsoever, that does not conform to or comply with the provisions of the Plan with respect to such Claim or Interest. Nothing contained in Article VII.A of the Plan shall prohibit the Holder of a Claim or Interest with respect to which a Proof of Claim was timely filed from litigating its right to seek to have such Claim or Interest declared an Allowed Claim or Interest and paid in accordance with the distribution provisions of the Plan, or enjoin or prohibit the interpretation or enforcement by the Holder of such Claim or Interest of any of the obligations of the Debtors, the Plan Administrator or Reorganized AMS under the Plan. The Confirmation Order shall also constitute an injunction enjoining any Person from enforcing or attempting to enforce any Causes of Action against any Protected Party or any property of any Protected Party based on, arising from or related to any failure to pay, or

make provision for payment of, any amount payable with respect to any Priority Tax Claim on which the payments due under Article VI.K of the Plan have been made or are not yet due under Article VI.K of the Plan.

G. CANCELLATION OF INSTRUMENTS AND AGREEMENTS

Upon the occurrence of the Effective Date, except as otherwise provided in the Plan, all promissory notes, shares, certificates, instruments, indentures, or stock, or agreements evidencing, giving rise to, or governing any Claim or Interest shall be deemed canceled and annulled without further act or action under any applicable agreement, law, regulation, order, or rule and the obligations of the Debtors under such promissory notes, share certificates, instruments, indentures, or agreements shall be discharged.

H. SECURITIES LAW

Under Bankruptcy Code § 1145, the issuance of the equity interest in Reorganized AMS to the Plan Administrator under the Plan shall be exempt from registration under the Securities Act of 1933, as amended, and all applicable state and local laws requiring registration of securities.

ARTICLE XII

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

Circular 230 Disclaimer: To ensure compliance with requirements imposed by the Internal Revenue Service (the “IRS”), we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax related penalties under the Internal Revenue Code of 1986, as amended (the “IRC”), or (ii) promoting, marketing or recommending to another party any transaction or tax matter(s) addressed herein.

The following discussion summarizes certain federal income tax consequences of the Plan to the Debtors, and to Holders of Unsecured Claims and Interests. This summary does not address the federal income tax consequences to Holders whose Claims are paid in full, in

Cash, or which are otherwise not Impaired under the Plan (i.e., Allowed Administrative Claims, Priority Claims, Priority Tax Claims, and Secured Claims).

This summary is based on the IRC, the Treasury Regulations promulgated and proposed thereunder (the “Regulations”), judicial decisions, and published administrative rulings and pronouncements of the IRS currently in effect. These authorities are all subject to change, possibly with retroactive effect, and any such change could alter or modify the federal income tax consequences described below.

This summary does not address foreign, state or local income tax consequences, or any estate or gift tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as foreign companies, nonresident alien individuals, S corporations, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, investors in pass-through entities, broker-dealers and tax-exempt organizations). Accordingly, this summary should not be relied upon for purposes of determining the specific tax consequences of the Plan with respect to a particular Holder of a Claim or Interest.

Due to the possibility of changes in law, differences in the nature of various Claims, differences in individual Claim or Interest Holders’ methods of accounting, and the potential for disputes as to legal and factual matters, the federal income tax consequences described herein are subject to significant uncertainties. No ruling has been applied for or obtained from the IRS, and no opinion of counsel has been requested or obtained by the Debtors with respect to any of the tax aspects of the Plan.

THE TAX CONSEQUENCES TO HOLDERS OF CLAIMS OR INTERESTS MAY VARY BASED UPON THE INDIVIDUAL CIRCUMSTANCES OF EACH SUCH HOLDER. THIS DISCUSSION DOES NOT CONSTITUTE TAX ADVICE OR A TAX OPINION CONCERNING THE MATTERS DESCRIBED. THERE CAN BE NO ASSURANCE THAT THE INTERNAL REVENUE SERVICE WILL NOT CHALLENGE ANY OR ALL OF THE TAX CONSEQUENCES DESCRIBED HEREIN,

OR THAT SUCH A CHALLENGE, IF ASSERTED, WOULD NOT BE SUSTAINED. ACCORDINGLY, EACH HOLDER OF A CLAIM OR INTEREST IS STRONGLY URGED TO CONSULT WITH HIS, HER OR ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, FOREIGN OR OTHER TAX CONSEQUENCES OF THE PLAN.

A. FEDERAL INCOME TAX CONSEQUENCES TO THE DEBTORS

1. Overview of Current Year Tax Position

In general, the Debtors expect to have substantial current year losses and net operating loss carryforwards (“NOLs”) and, thus, do not expect to incur any substantial tax liability as a result of implementation of the Plan.

2. Cancellation of Indebtedness.

The IRC provides that a debtor in a chapter 11 bankruptcy case must reduce certain of its tax attributes by the amount of any COD income that is realized as a result of the bankruptcy plan, instead of recognizing the income. COD income is the excess of the amount of a taxpayer’s indebtedness that is discharged over the amount or value of the consideration exchanged therefor.

Tax attributes that are subject to reduction include net operating losses, capital losses, loss carryovers, certain tax credits and, subject to certain limitations, the tax basis of property. The reduction of tax attributes occurs after the determination of the Debtors’ tax for the taxable year in which the COD income is realized. It is expected that the Debtors’ NOLs will absorb all or substantially all of the COD income realized as a result of the implementation of the Plan.

3. Alternative Minimum Tax.

The Debtors believe that current year losses will be sufficient to eliminate all or substantially all alternative minimum taxable income of the Debtors. As a result, the Debtors do

not anticipate having any alternative minimum tax liability for 2007 as a result of the transactions that occur upon confirmation of the Plan.

4. Effect of the Merger.

The Merger, together with the distributions in respect of PGW and PGI Interests that occur immediately preceding the Merger, should be treated for federal income tax purposes as a complete liquidation of PGW, a wholly-owned subsidiary of PGI, followed immediately by a complete liquidation of PGI, a wholly-owned subsidiary of AMS. Accordingly, upon consummation of the Merger, (i) PGW should not recognize gain or loss on the liquidating distribution of its property to PGI, (ii) PGI should not recognize gain or loss on its receipt of property distributed by PGW in complete cancellation of all of PGW's stock, (iii) PGI should not recognize gain or loss on the liquidating distribution of its property to AMS and (iv) AMS should not recognize gain or loss on its receipt of property distributed by PGI in complete cancellation of all of PGI's stock.

B. Federal Income Tax Consequences to Holders of Unsecured Claims

In accordance with the Plan, each Holder of an Allowed Unsecured Claim against AMS (such Holders are referred to in this section as "Unsecured Creditors") shall be entitled to receive his, her or its Pro Rata share of the proceeds of the Debtors' Assets. Each Holder of an Unsecured Claim will recognize gain or loss upon receipt of such Pro Rata share equal to the difference between the "amount realized" by such Creditor and such Creditor's adjusted tax basis in his, her or its Claim. The amount realized is equal to the value of such Creditor's Pro Rata share of the proceeds of the Debtors' Assets. Any gain or loss realized by an Unsecured Creditor should constitute ordinary income or loss to such creditor unless such Claim is a capital asset. If a Claim is a capital asset, and it has been held for more than one year, such creditor will realize long term capital gain or loss.

The tax consequences to Unsecured Creditors will differ and will depend on factors specific to each such Creditor, including but not limited to: (i) whether the Unsecured

Creditor's Claim (or a portion thereof) constitutes a Claim for principal or interest, (ii) the origin of the Unsecured Creditor's Claim, (iii) the type of consideration received by the Unsecured Creditor in exchange for the Claim, (iv) whether the Unsecured Creditor is a United States person or a foreign person for tax purposes, (v) whether the Unsecured Creditor reports income on the accrual or cash basis method, and (vi) whether the Unsecured Creditor has taken a bad debt deduction or otherwise recognized a loss with respect to the Claim.

THERE ARE MANY FACTORS THAT WILL DETERMINE THE TAX CONSEQUENCE TO EACH UNSECURED CREDITOR. FURTHERMORE, THE TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. THEREFORE IT IS IMPORTANT THAT EACH CREDITOR OBTAIN HIS, HER OR ITS OWN PROFESSIONAL TAX ADVICE REGARDING THE TAX CONSEQUENCES TO SUCH CREDITOR AS A RESULT OF THE PLAN.

C. Federal Income Tax Treatment of Interests

In accordance with the Plan, Holders of Interests of AMS will not receive anything on account of such Interest and will recognize loss in an amount equal to such Holder's adjusted tax basis in the Interest of AMS. The character of any recognized loss will depend upon several factors including, but not limited to, the status of the Holder, the nature of the Interest of AMS in the Holder's hands, the purpose and circumstances of its acquisition, the Holder's holding period, and the extent to which the Holder had previously claimed a deduction for the worthlessness of all or a portion of the Interest.

THERE ARE MANY FACTORS THAT WILL DETERMINE THE TAX CONSEQUENCE TO EACH HOLDER OF AN INTEREST OF AMS. FURTHERMORE, THE TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. THEREFORE IT IS IMPORTANT THAT EACH HOLDER OF AN INTEREST OF AMS OBTAIN HIS, HER OR ITS OWN PROFESSIONAL TAX ADVICE

REGARDING THE TAX CONSEQUENCES TO SUCH HOLDER OF AN INTEREST OF AMS AS A RESULT OF THE PLAN.

D. Withholding and Reporting

Payments of interest, dividends, and certain other payments are generally subject to backup withholding at the rate of 28% unless the payee of such payment furnishes such payee's correct taxpayer identification number (social security number or employer identification number) to the payor. The Plan Administrator may be required to withhold the applicable percentage of any payments made to a Holder who does not provide his, her or its taxpayer identification number. Backup withholding is not an additional tax, but an advance payment that may be refunded to the extent it results in an overpayment of tax.

THE FOREGOING IS INTENDED TO BE ONLY A SUMMARY OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN, AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE FEDERAL, STATE AND LOCAL INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. SUCH CONSEQUENCES MAY ALSO VARY BASED ON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM OR INTEREST. ACCORDINGLY, EACH HOLDER OF A CLAIM OR INTEREST IS STRONGLY URGED TO CONSULT WITH HIS, HER OR ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE AND LOCAL INCOME AND OTHER TAX CONSEQUENCES UNDER THE PLAN.

ARTICLE XIII

ALTERNATIVES TO CONFIRMATION OF THE PLAN

The Plan Proponents believe that the Plan provides a recovery to creditors that is greater than or equal to the probable recoveries by creditors if the Debtors were liquidated under chapter 7 of the Bankruptcy Code.

A. ACCEPTANCE AND CONFIRMATION OF THE PLAN

The Plan Proponents believe that the Plan satisfies all the requirements for confirmation.

B. GENERAL CONFIRMATION REQUIREMENTS

Bankruptcy Code § 1129(a) contains several requirements for confirmation of a plan. Among those requirements are that a plan be proposed in good faith, that certain information be disclosed regarding payments made or promised to be made to insiders and that the plan comply with the applicable provisions of chapter 11. The Plan Proponents believe that the Plan complies with these requirements, including those requirements discussed below.

C. BEST INTEREST TEST

Each Holder of a Claim or Interest in an Impaired Class must either (i) accept the Plan or (ii) receive or retain under the Plan Cash or property of a value, as of the Effective Date of the Plan, that is not less than the value such Holder would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. The Bankruptcy Court will determine whether the Cash and property issued under the Plan to each class equals or exceeds the value that would be allocated to the Holders in a liquidation under chapter 7 of the Bankruptcy Code (the “Best Interest Test”). The Plan Proponents believe the Holders of Claims against and Interests in the Debtors will have an equal or greater recovery as a result the sale of the Debtors’ Assets as discussed herein and under the Plan than could be realized in a chapter 7 liquidation for the following reasons.

Reorganized AMS is liquidating and therefore is not seeking to require Creditors to accept non-cash consideration so that the Estates could pursue going concern value. Accordingly, the only question is whether the creditors will have recovered more (or at least as much) under the Plan than they would recover through an asset liquidation by a chapter 7 trustee.

To determine the value that a Holder of a Claim or Interest in an Impaired Class would receive if the Debtors were liquidated under chapter 7, the Bankruptcy Court must determine the aggregate dollar amount that would be generated from the liquidation of the

Debtors' Assets if the Debtors' Chapter 11 Cases had been converted to a chapter 7 liquidation case and the Debtors' Assets were liquidated by a chapter 7 trustee (the "Liquidation Value"). The Liquidation Value would consist of the net proceeds from the disposition of the Debtors' Assets, augmented by Cash held by the Debtors and reduced by certain increased costs and Claims that arise in a chapter 7 liquidation case that do not arise in a chapter 11 reorganization case.

As explained below, the Liquidation Value available for satisfaction of Claims and Interests in the Debtors would be reduced by: (a) the costs, fees and expenses of the liquidation under chapter 7, which would include disposition expenses and the compensation of a trustee and his or her counsel and other professionals retained, (b) the fees of the chapter 7 trustee and (c) certain other costs arising from conversion of the Chapter 11 Cases to chapter 7.

The Debtors believe that Creditors have and will continue to clearly benefit from the liquidation by the Debtors. Had the Assets been liquidated by a chapter 7 trustee, the Plan Proponents project that the maximum recovery would have been substantially less. The Debtors have realized a greater return than a chapter 7 trustee would have obtained on the sale of their Assets, specifically due to the Debtors' familiarity with the Assets and their ability to negotiate the highest and best price for the sale thereof. The Debtors have already reduced the significant majority of their Assets to Cash through auction or private sales approved by the Bankruptcy Court. Therefore, the Debtors have already established systems and protocols for the efficient disposition of the Assets of the Estates and are in the process of liquidating their limited remaining Assets.

In addition, converting the Chapter 11 Cases to a chapter 7 liquidation at this stage of the winddown would result in an immense waste of the Debtors' resources that were already expended in connection with the sale of the Assets and would delay converting the remaining Assets to Cash. It would also result in substantial additional claims against the Estates.

Moreover, under the Plan the Debtors will avoid the increased costs and expenses of a chapter 7 liquidation, including the fees payable to a chapter 7 trustee and his or her professionals. Although the Debtors have already incurred many of the expenses associated with generating the proceeds, the Cash to be distributed to Creditors would be reduced by the chapter 7 trustee's statutory fee, which is calculated on a sliding scale from which the maximum compensation is determined based on the total amount of moneys disbursed or turned over by the chapter 7 trustee. Bankruptcy Code § 326(a) permits reasonable compensation not to exceed 3% of the proceeds in excess of \$1 million distributable to creditors.⁸ The chapter 7 trustee's professionals, including legal counsel and accountants, would add substantial administrative expenses that would be entitled to be paid ahead of Allowed Claims against the Debtors. Moreover, these chapter 7 trustee fees would reduce the Assets available for distribution to the Estates' Creditors from additional recoveries such as preferential payments, expunged administrative claims and the proceeds of successful Estate litigation or settlement.

In contrast, the Plan Administrator will be highly familiar with the Debtors' operations and the issues pertaining thereto and, therefore, the Estates will avoid the significant administrative burden associated with the familiarization process of a chapter 7 trustee and his or her legal and accounting professionals. Further, under the Plan, all Causes of Action will be pursued by the Plan Administrator, subject to any approval of the Post-Confirmation Committee as set forth in Article IV.G of the Plan. The Plan Administrator is extensively familiar with the facts and legal theories pertaining to the Debtors' Causes of Action. Conversely, a chapter 7 trustee would have no initial familiarity with the Estates' litigation or claims and have less capability to maximize the value of such Causes of Action.

⁸ Bankruptcy Code § 326(a) permits a chapter 7 trustee to receive 25% of the first \$5,000 distributed to creditors, 10% of additional amounts up to \$50,000, 5% of additional distributions up to \$1 million and reasonable compensation up to 3% of distributions in excess of \$1 million. For example, the tiered fee structure could result in fees (excluding the expenses of the chapter 7 trustee and his or her professionals) of \$1,013,250, or 3.166%, on a hypothetical distribution of \$33 million.

It is also anticipated that a chapter 7 liquidation would result in a significant delay in payments being made to creditors. Bankruptcy Rule 3002(c) provides that conversion of chapter 11 cases to chapter 7 will trigger a new bar date for filing claims against the Estates, and that the new bar date will be more than 90 days after the chapter 11 cases convert. Not only would a chapter 7 liquidation delay distribution to creditors, but it is possible that additional claims that were not asserted in the Chapter 11 Cases, or were late-filed, could be filed against the Estates. The Debtors have received and are analyzing late-filed claims and may file claims objections in the near future. Reopening the bar date in connection with conversion to chapter 7 would provide these and other claimants an additional opportunity to timely file claims against the Estates. Moreover, the Debtors would lose the benefit of having an established Second Administrative Expense Request Deadline.

For the reasons set forth above, the Debtors believe that the Plan provides a superior recovery for Holders of Claims, and the Plan meets the requirements of the Best Interest Test.

D. FINANCIAL FEASIBILITY TEST

Even if the Plan is accepted by each Class of Claims voting on the Plan, and even if the Bankruptcy Court determines that the Plan satisfies the Best Interest Test, the Bankruptcy Code requires that, in order for the Plan to be confirmed by the Bankruptcy Court, it must be demonstrated that consummation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors.

The Plan Proponents forecast that the Cash payments to be made pursuant to the Plan will be funded through the amounts obtained from the sale of the substantially all their Assets and from the further liquidation of their limited remaining Assets. Since a form of liquidation is proposed in the Plan and no further financial reorganization of the Debtors is contemplated, the Plan Proponents believe that the plan meets the feasibility requirement.

E. ACCEPTANCE BY IMPAIRED CLASSES

Bankruptcy Code § 1129(b) provides that a plan can be confirmed even if it has not been accepted by all impaired classes as long as at least one impaired class of claims has accepted it. The process by which non-accepting classes are forced to be bound by the terms of the plan is commonly referred to as “cramdown.” The Bankruptcy Court may confirm the Plan at the request of the Plan Proponents notwithstanding the Plan's rejection (or deemed rejection) by impaired classes as long as the Plan “does not discriminate unfairly” and is “fair and equitable” as to each impaired Class that has not accepted it. A plan does not discriminate unfairly within the meaning of the Bankruptcy Code if a dissenting class is treated equally with respect to other classes of equal rank.

A class of claims under a plan accepts the plan if the plan is accepted by creditors that hold at least two-thirds in amount and more than one-half in number of the allowed claims in the class that actually vote on the plan. A class of interests accepts the plan if the plan is accepted by holders of interests that hold at least two-thirds in amount of the allowed interests in the class that actually vote on a plan.

A class that is not “impaired” under a plan is conclusively presumed to have accepted the plan. Solicitation of acceptances from such a class is not required. A class is “impaired” unless (i) the legal, equitable and contractual rights to which a claim or interest in the class entitles the holder are not modified or (ii) the effect of any default is cured and the original terms of the obligation are reinstated.

A plan is fair and equitable as to a class of secured claims that rejects the plan if the plan provides (1)(a) that the holders of claims included in the rejecting class retain the liens securing those claims, whether the property subject to those liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims and (b) that each holder of a claim of such class receives on account of that claim deferred cash payments totaling at least the allowed amount of that claim, of a value, as of the effective date of the plan, at least equal to the value of the holder's interest in the estate's interest in such property; (2) for the sale,

subject to Bankruptcy Code § 363(k), of any property that is subject to the liens securing the claims included in the rejecting class, free and clear of the liens, with the liens to attach to the proceeds of the sale, and the treatment of the liens on proceeds under clause (1) or (2) of this paragraph or (3) for the realization of the indubitable equivalent of such claims.

A plan is fair and equitable as to a class of unsecured claims that rejects the plan if the plan provides (1) for each holder of a claim included in the rejecting class to receive or retain on account of that claim property that has a value, as of the effective date of the plan, equal to the allowed amount of such claim or (2) that the holder of any claim or interest that is junior to the claims of such rejecting class will not receive or retain on account of such junior claim or interest any property at all.

A plan is fair and equitable as to a class of equity interests that rejects a plan if the plan provides (1) that each holder of an interest included in the rejecting class receive or retain on account of that interest property that has a value, as of the effective date of the plan, equal to the greater of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest or (2) that the holder of any interest that is junior to the interest of such rejecting class will not receive or retain under the plan on account of such junior interest any property at all.

Class 3 (Unsecured Claims against AMS), Class 8 (Unsecured Claims against PGI), Class 9 (Interests of PGI), Class 12 (Unsecured Claims against PGW) and Class 13 (Interests of PGW) are Impaired and shall be entitled to vote to accept or reject the Plan. If and to the extent that any Class identified as being not Impaired is Impaired (whether as a result of the terms of the Plan or any modification or amendment thereto), such Class shall be entitled to vote to accept or reject the Plan.

Class 1 (Priority Claims against AMS), Class 2 (Secured Claims against AMS), Class 6 (Priority Claims against PGI), Class 7 (Secured Claims against PGI), Class 10 (Priority Claims against PGW), and Class 11 (Secured Claims against PGW) are not Impaired by the Plan. Pursuant to Bankruptcy Code § 1126(f), Classes 1, 2, 6, 7, 10, and 11 are conclusively presumed

to have accepted the Plan, and the votes of Holders of Claims in Classes 1, 2, 6, 7, 10, and 11 will therefore not be solicited.

The votes of Classes 4 (510(b) Claims against AMS) and 5 (Interests of AMS) are not being solicited because such Holders are not entitled to receive or retain under the Plan any interest in property on account of such Claims and Interests. Classes 4 and 5 are therefore deemed to have rejected the Plan pursuant to Bankruptcy Code § 1126(g). The Plan provides fair and equitable treatment to these Holders because there are no Classes junior to this class and no Class senior to this Class is being paid more than in full on its Allowed Claims.

If any impaired Class fails to accept the Plan, the Debtors intend to request that the Bankruptcy Court confirm the Plan pursuant to Bankruptcy Code § 1129(b) with respect to those Classes.

SIGNATURES

Dated: August 24, 2007

Respectfully submitted,

Advanced Marketing Services, Inc.

By: /s/ Curtis R. Smith
Name: Curtis R. Smith
Title: Chief Executive Officer

Publishers Group Incorporated

By: /s/ Curtis R. Smith
Name: Curtis R. Smith
Title: Sole Director

Publishers Group West Incorporated

By: /s/ Curtis R. Smith
Name: Curtis R. Smith
Title: Sole Director

Official Committee of Unsecured Creditors

By: /s/ William C. Sinnott
Name: William C. Sinnott of Random
House, Inc.
Title: Chairman of the Committee

Exhibit A
**Joint Chapter 11 Plan of Liquidation of the Debtors and the Official Committee of
Unsecured Creditors**

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

ADVANCED MARKETING SERVICES, INC.,
ET AL.,¹

DEBTORS.

CHAPTER 11

CASE No. 06-11480 (CSS)

JOINTLY ADMINISTERED

**JOINT CHAPTER 11 PLAN OF LIQUIDATION OF THE DEBTORS
AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS**

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of Unsecured Creditors

¹ The Debtors are the following entities: Advanced Marketing Services, Inc., a Delaware corporation; Publishers Group Incorporated, a California corporation; and Publishers Group West Incorporated, a California corporation.

INTRODUCTION

Advanced Marketing Services, Inc., Publishers Group Incorporated and Publishers Group West Incorporated, debtors and debtors-in-possession in the above-captioned chapter 11 cases (each individually a “Debtor,” and collectively, the “Debtors”), and the Official Committee of Unsecured Creditors of the Debtors (the “Committee” and, together with the Debtors, the “Plan Proponents”) propose this Joint Chapter 11 Plan of Liquidation (the “Plan”) pursuant to the provisions of the Bankruptcy Code.

ARTICLE I

DEFINITIONS

A. Defined Terms

Unless otherwise provided in this Plan, all terms used herein shall have the meanings assigned to such terms in the Bankruptcy Code or the Federal Rules of Bankruptcy Procedure. For the purposes of this Plan, the following terms (which appear in this Plan in capitalized forms) shall have the meanings set forth below, and such meanings shall be equally applicable to the singular and to the plural form of the terms defined, unless the context otherwise requires.

“20 Day Administrative Bar Date” shall be the last date for Creditors to file 20 Day Administrative Claims. The 20 Day Administrative Bar Date was July 2, 2007.

“20 Day Administrative Claim” shall mean a Claim arising under Bankruptcy Code § 503(b)(9) on account of any Debtor’s receipt of goods in the ordinary course of business within the 20 days preceding the Petition Date and with respect to which a Proof of Claim was filed on or prior to the 20 Day Administrative Bar Date.

“510(b) Claim” shall mean any Claim (i) arising from rescission of a purchase or sale of a security of any Debtor or any affiliate of a Debtor, for damages arising from the purchase or sale of such a security, or for reimbursement or contribution allowed under Bankruptcy Code § 502 on account of such Claims and (ii) which, if asserted against AMS,

would be of the same priority as Interests of AMS in Class 5 pursuant to Bankruptcy Code § 510(b).

“ACH” shall mean an automated clearing house transfer from a domestic bank.

“Administrative Budget” shall mean (i) the initial budget for the 6-month period following the Effective Date, setting forth in reasonable detail the anticipated Post-Confirmation Expenses of Reorganized AMS, together any amendments or modifications thereto, as prepared by the Plan Administrator and approved by the Post-Confirmation Committee pursuant to Article IV.G of this Plan, and (ii) any subsequent budget for a 6-month period, setting forth in reasonable detail the anticipated Post-Confirmation Expenses of Reorganized AMS, together any amendments or modifications thereto, as prepared by the Plan Administrator and approved by the Post-Confirmation Committee pursuant to Article IV.G of this Plan.

“Administrative Claim” shall mean any Claim for costs and expenses of administration of these cases with priority under Bankruptcy Code § 507(a)(1), including, without limitation, costs and expenses allowed under Bankruptcy Code § 503(b), the actual and necessary costs and expenses of preserving the Estates of the Debtors, any Professional Fee Claims and any fees or charges assessed against the Estates of the Debtors under 28 U.S.C. § 1930.

“Administrative Expense Request” shall mean a request for payment of an Administrative Claim that is to be filed with the Bankruptcy Court and served on counsel for the Debtors, if before the Effective Date, or for the Plan Administrator, if after the Effective Date, and in any event by no later than the Second Administrative Expense Request Deadline.

“Allowed Claim” or **“Allowed Interest”** shall mean, respectively, a Claim or Interest: (i) that has been Scheduled and (a) is not Scheduled as disputed, contingent or unliquidated and (b) as to which no Proof of Claim has been filed; (ii) as to which a timely Proof of Claim has been filed as of the relevant Bar Date and no objection thereto, or application to equitably subordinate or otherwise limit recovery, has been made; or (iii) that has been allowed by a Final Order. An Allowed Claim shall not include interest on the amount of any Claim

except with respect to an Allowed Secured Claim as permitted by Bankruptcy Code § 506(b) and as specifically provided in this Plan or by Final Order of the Bankruptcy Court. In accordance with Bankruptcy Code § 502(d), a Claim held by any Person from which property is recoverable and that is subject to any Cause of Action shall not be an Allowed Claim until such time as the avoidable transfer is returned, a Final Order has been entered that no avoidable transfer exists, or an agreement or settlement is reached.

“Allowed [Class Designation, Administrative, Priority Tax, Reclamation, Priority, Secured, Unsecured or 510(b)] Claim” or **“Allowed [Class Designation] Interest”** shall mean an Allowed Claim or Allowed Interest, as the case may be, of the specified Class or an Allowed Claim that is an Administrative Claim, Priority Tax Claim, Reclamation Claim, Priority Claim, Secured Claim, Unsecured Claim or 510(b) Claim, as the case may be.

“AMS” shall mean Debtor Advanced Marketing Services, Inc., a Delaware corporation.

“Assets” shall mean all assets of each of the Debtors, of any nature whatsoever, including, without limitation, all property of the Estates under and pursuant to Bankruptcy Code § 541, Cash, Causes of Action, including Avoidance Actions, rights, interests and property, real and personal, tangible and intangible.

“Assumption Objection Deadline” shall mean the date four (4) days prior to the Confirmation Hearing.

“Assumption Schedule” shall mean the schedule of Executory Contracts (not previously assumed in the Chapter 11 Cases) to be assumed by the Debtors as of the Effective Date pursuant to this Plan, together with the amount of cure payments, if any, to be paid by the Plan Administrator in accordance with Bankruptcy Code § 365(b)(1).

“Avoidance Action(s)” shall mean all claims and Causes of Action arising under chapter 5 of the Bankruptcy Code.

“Bankruptcy Code” shall mean the Bankruptcy Reform Act of 1978, as amended and codified in Title 11 of the United States Code, as in effect on the Petition Date.

“Bankruptcy Court” shall mean the United States District Court for the District of Delaware with jurisdiction over the Chapter 11 Cases and, to the extent of any reference made pursuant to 28 U.S.C. § 157, the United States Bankruptcy Court for the District of Delaware, or any court having competent jurisdiction to enter the Confirmation Order.

“Bankruptcy Rules” shall mean the Federal Rules of Bankruptcy Procedure effective in accordance with the provisions of 28 U.S.C. § 2075, as the same shall from time to time be amended.

“Bar Date” shall mean July 2, 2007, and such other date(s) fixed by order(s) of the Bankruptcy Court, by which all Persons, including governmental units, asserting a Claim must have filed a Proof of Claim or be forever barred from asserting such Claim.

“Bar Date Order” shall mean that certain order of the Bankruptcy Court dated as of April 26, 2007, establishing the July 2, 2007 Bar Date for filing Proofs of Claim, with only those exceptions permitted thereby.

“Business Day” shall mean a day (i) other than Saturday, Sunday, a legal holiday or other day on which commercial banks in the State of Delaware are authorized or required by law to close and (ii) as further defined in Bankruptcy Rule 9006(a).

“Cash” shall mean cash and cash equivalents in certified or immediately available funds, including but not limited to bank deposits, checks and similar items.

“Causes of Action” shall mean all claims, causes of action, third-party claims, counterclaims and crossclaims (including but not limited to any Causes of Action described in the Disclosure Statement) of the Debtors and/or their Estates that may be pending on the Effective Date or instituted after the Effective Date against any entity based in law or equity, including, without limitation, under the Bankruptcy Code, whether direct, indirect, derivative or otherwise, and whether asserted or unasserted as of the date of entry of the Confirmation Order, including Avoidance Actions.

“Chapter 11 Cases” shall mean the above-captioned chapter 11 cases of the Debtors pending in the Bankruptcy Court and jointly administered with one another under Case No. 06-11480 (CSS).

“Claims” shall mean any claim(s) against the Debtors as such term is defined in Bankruptcy Code § 101(5), including without limitation (i) any right to payment from the Debtors whether or not such right is reduced to a judgment, liquidated, unliquidated, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured, and (ii) any right to an equitable remedy for breach of performance if such performance gives rise to a right of payment from the Debtors whether or not such right to an equitable remedy is reduced to a judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured, arising before, on or after the Petition Date through the Effective Date.

“Class” shall mean each class of Holders of Claims or Interests specified in Article II.A of this Plan.

“Committee” shall mean the Official Committee of Unsecured Creditors of the Debtors appointed by the United States Trustee in the Chapter 11 Cases.

“Confirmation Date” shall mean the date on which the Confirmation Order is entered on the docket in the Chapter 11 Cases by the Bankruptcy Court.

“Confirmation Hearing” shall mean the hearing at which the Bankruptcy Court considers confirmation of this Plan.

“Confirmation Order” shall mean the order of the Bankruptcy Court confirming this Plan, pursuant to Bankruptcy Code § 1129, and approving the transactions contemplated herein.

“Creditor” shall mean any Person that is a Holder of a Claim against any Debtor that arose, or is deemed to have arisen, on or before the Petition Date, including, without limitation, Claims of the kind specified in Bankruptcy Code §§ 502(b), 502(h) or 502(i).

“Debtors” shall mean, collectively, AMS, PGI and PGW.

“Deferred Compensation Plan” shall mean AMS’s 2005 Deferred Compensation Plan.

“Deferred Compensation Trust” shall mean the Grantor Trust established pursuant to that certain Trust Agreement dated as of July 8, 2003, by and among AMS, PGW and Union Bank of California, N.A., as trustee.

“Disallowed Claim” shall mean a Claim or any portion thereof that (i) has been disallowed by a Final Order, (ii) is Scheduled as zero or as contingent, disputed or unliquidated and as to which no Proof of Claim or Administrative Expense Request has been timely filed or deemed timely filed with the Bankruptcy Court pursuant to either the Bankruptcy Code or any Final Order of the Bankruptcy Court or otherwise deemed timely filed under applicable law or this Plan, (iii) is not Scheduled and as to which no Proof of Claim or Administrative Expense Request has been timely filed or deemed timely filed with the Bankruptcy Court pursuant to either the Bankruptcy Code or any order of the Bankruptcy Court or otherwise deemed timely filed under applicable law or this Plan, (iv) has been withdrawn by agreement of the Debtors and the Holder thereof or (v) has been withdrawn by the Holder thereof.

“Disbursing Agent” shall mean the Plan Administrator, unless another Person is designated to be the Disbursing Agent by the Plan Administrator.

“Disclosure Statement” shall mean the Disclosure Statement dated August 24, 2007 related to this Plan, and all exhibits thereto, filed pursuant to Bankruptcy Code § 1125 and approved by the Bankruptcy Court.

“Disputed Claim” shall mean a Claim or any portion thereof, that is neither an Allowed Claim nor a Disallowed Claim, including without limitation all Claims that (i) have not been Scheduled by the Debtors or have been Scheduled as unknown, contingent, unliquidated, disputed or at zero, whether or not such Claims are the subject of a Proof of Claim in the Bankruptcy Court, (ii) are the subject of a Proof of Claim that differs in nature, amount or priority from the Schedules or (iii) are the subject of an objection filed with the Bankruptcy Court, which has not been withdrawn or overruled by a Final Order of the Bankruptcy Court;

provided however, that a Claim shall not be a Disputed Claim to the extent it becomes an Allowed Claim or a Disallowed Claim.

“Distributable Cash” shall mean all remaining available Cash after (i) payment of the Prior Claims and (ii) retention of amounts needed to pay or reserve for anticipated amounts of Post-Confirmation Expenses and Disputed Claims.

“Effective Date” shall mean the day after the Confirmation Order has become a Final Order.

“Estates” shall mean the estates of the Debtors created by Bankruptcy Code § 541.

“Executory Contract” shall mean any executory contract or unexpired lease subject to Bankruptcy Code § 365, between any Debtor and any other Person.

“Face Amount” shall mean when used in reference (i) to a Disputed or Disallowed Claim, the full stated liquidated amount claimed by the Holder of such Claim in any Proof of Claim timely filed with the Bankruptcy Court or otherwise deemed timely filed by any Final Order of the Bankruptcy Court or other applicable bankruptcy law and (ii) to an Allowed Claim, the allowed amount of such Claim.

“Final Decree” shall mean the decree contemplated under Bankruptcy Rule 3022.

“Final Order” shall mean an order or judgment of the Bankruptcy Court as entered on the docket of the Chapter 11 Cases that has not been reversed, stayed, modified or amended and as to which the time to appeal, petition for certiorari, or seek reargument or rehearing has run or as to which any right to appeal, reargue, petition for certiorari or seek rehearing has been waived in writing or, if an appeal, reargument, petition for certiorari, or rehearing thereof has been pursued or granted then such an appeal, reargument, petition for certiorari, or rehearing has been denied, and the time to take any further appeal or to seek certiorari or further reargument or rehearing has expired. Notwithstanding, and in lieu of the

foregoing, insofar as the Confirmation Order confirming this Plan is concerned, Final Order means such order or judgment with respect to which no stay is in effect.

“Holder” shall mean the owner or holder of any Claim or Interest.

“Impaired” shall have the meaning set forth in Bankruptcy Code § 1124.

“Interest” shall mean, with respect to any Debtor, any “equity interest”, as such term is defined in Bankruptcy Code § 101(16). Interests shall also include, without limitation, all stock, partnership, membership interest, warrants, options, or other rights to purchase or acquire any shares of stock in the Debtors.

“Lien” shall mean any lien, mortgage, charge, security interest, pledge or other encumbrance against or interest in property to secure payment or performance of a claim, debt, or litigation.

“Merger” shall mean the merger of PGI and PGW with and into AMS and the amendment of AMS’s certificate of incorporation to change its name to Reorganized AMS.

“Person” shall mean any individual, corporation, limited liability company, general partnership, limited partnership, limited liability partnership, association, joint stock company, joint venture, estate, trust, unincorporated organization, government or any political subdivision thereof or other entity.

“Petition Date” shall mean December 29, 2006, the date the Debtors commenced the Chapter 11 Cases.

“PGI” shall mean Debtor Publishers Group Incorporated, a California corporation.

“PGW” shall mean Debtor Publishers Group West Incorporated, a California corporation.

“Plan” shall mean this Joint Chapter 11 Plan of Liquidation (as the same may be modified or amended by the Plan Proponents in accordance with the Bankruptcy Code, the Bankruptcy Rules and this Plan) and any exhibits hereto and any documents incorporated herein by reference.

“Plan Administrator” shall mean that individual, appointed by the Plan Proponents pursuant to Article IV.C of this Plan, in his or her capacity as the chief executive officer and sole director of Reorganized AMS or any of his or her successors.

“Plan Proponents” shall mean, collectively, the Debtors and the Committee.

“Post-Confirmation Committee” shall mean the post-confirmation committee formed on the Effective Date upon the dissolution of the Committee and composed of the following members: Random House, Inc., Hachette Book Group USA, Inc., Harper Collins Publishers, Penguin Group, and Workman Publishing Co.

“Post-Confirmation Expense” shall mean any fees, costs and expenses (including attorneys’ fees, the fees of other professionals and any taxes imposed on Reorganized AMS or in respect of its Assets) necessary to complete the liquidation and winding up of the Debtors, their Estates and Reorganized AMS after the Effective Date.

“Prior Claims” shall mean, collectively, (i) Allowed Administrative Claims, Allowed Priority Tax Claims, Allowed Priority Claims and Allowed Secured Claims against all Debtors and (ii) Allowed Unsecured Claims against PGI and PGW.

“Priority Claim” shall mean a Claim entitled to priority pursuant to Bankruptcy Code § 507 that is not an Administrative Claim or a Priority Tax Claim.

“Priority Tax Claim” shall mean a Claim of the kind specified in Bankruptcy Code § 507(a)(8).

“Professional” shall mean a Person (i) employed by the Debtors and/or the Committee pursuant to a Final Order in accordance with Bankruptcy Code §§ 327 and 1103 and to be compensated for services rendered prior to the Effective Date pursuant to Bankruptcy Code §§ 327, 328, 329, 330, and 331, or (ii) for which compensation and reimbursement has been Allowed by the Bankruptcy Court pursuant to Bankruptcy Code § 503(b)(4) by a Final Order. This definition excludes professionals that may be selected and employed by the Plan Administrator, Reorganized AMS or the Post-Confirmation Committee on and after the Effective Date.

“Professional Fee Claim” shall mean all fees and expenses claimed by Professionals retained by the Debtors and/or the Committee which remain unpaid as of the Effective Date. This term excludes professional fees and expenses incurred by any professionals that may be selected and employed by the Plan Administrator, Reorganized AMS or the Post-Confirmation Committee on and after the Effective Date.

“Proof of Claim” shall mean a proof of claim filed in the Chapter 11 Cases pursuant to Bankruptcy Code § 501 and/or any order of the Bankruptcy Court, together with supporting documents.

“Pro Rata” shall mean the proportion that the Face Amount of a Claim in a particular Class or Classes bears to the aggregate Face Amount of all Claims (including Disputed Claims, but excluding Disallowed Claims) in such Class or Classes, unless this Plan provides otherwise.

“Protected Party” shall mean any of the Debtors, the Plan Administrator, the Estates, Reorganized AMS, the Committee, the Post-Confirmation Committee and their respective officers, directors, employees, members, shareholders, advisors, attorneys, representatives, professionals and other agents.

“Reclamation Claim” shall mean a Claim related to the right of a Creditor to reclaim goods sold to, and received by, any Debtor in the ordinary course of business as set forth in Bankruptcy Code § 546(c) and excluding any 20 Day Administrative Claim.

“Reorganized AMS” shall mean the Delaware corporation that is the surviving entity following consummation of the Merger.

“Scheduled”, with respect to any Claim, shall mean listed on the Schedules.

“Schedules” shall mean the Statements of Financial Affairs and Schedules of Assets and Liabilities filed by the Debtors with the Bankruptcy Court in the Chapter 11 Cases under Bankruptcy Rule 1007, as such Statements of Financial Affairs and Schedules of Assets and Liabilities have been or may be amended or supplemented from time to time.

“Second Administrative Expense Request Deadline” shall mean the date set as the deadline for filing Administrative Expense Requests for Administrative Claims (excluding Professional Fee Claims) that are not subject to the Bar Date Order, which shall be thirty (30) days after the Effective Date unless otherwise ordered by the Bankruptcy Court.

“Secured Claim” shall mean, pursuant to Bankruptcy Code § 506, that portion of a Claim that is (i) secured by a valid, perfected and enforceable security interest, Lien, mortgage or other encumbrance, which is not subject to avoidance under applicable bankruptcy or non-bankruptcy law, in or upon any right, title or interest of the Debtor(s) in and to property of the Estates, to the extent of the value of the Holder’s interest in such property as of the relevant determination date; or (ii) Allowed as such pursuant to the terms of this Plan. The defined term “Secured Claim” includes any Claim that is (i) subject to an offset right under applicable law and (ii) any secured claim against the Debtors pursuant to Bankruptcy Code §§ 506(a) and 553.

“Unsecured Claim” shall mean any claim that is not an Administrative Claim, Secured Claim, Priority Claim, Priority Tax Claim or 510(b) Claim.

B. Other Terms

The words “herein,” “hereof,” “hereto,” “hereunder” and others of similar import refer to this Plan as a whole and not to any particular article, section or clause contained in this Plan. A reference to an “Article” refers to an Article, or referenced portion thereof, of this Plan. A term used herein that is not defined herein shall have the meaning ascribed to that term, if any, in or by the Bankruptcy Code. The rules of construction set forth in Bankruptcy Code § 102 shall apply in constructing this Plan.

C. Exhibits

All Exhibits to this Plan are incorporated by reference into and are made a part of this Plan as if set forth in full herein.

ARTICLE II

CLASSIFICATION AND TREATMENT OF CLAIMS

A. Classification

The classification of Claims (except for Administrative Claims and Priority Tax Claims) and Interests listed below is for all purposes, including without limitation voting, confirmation and distributions under this Plan and under Bankruptcy Code §§ 1122 and 1123(a)(1). A Claim shall be deemed classified in a particular Class only to the extent such Claim satisfies the definition of such Class and shall be deemed classified in a different Class to the extent any remainder or other portion of such Claim satisfies the definition of such different Class. A Claim is in a particular Class only to the extent such Claim is an Allowed Claim in such Class and has not been paid or otherwise settled before the Effective Date. **This Plan does not effect a substantive consolidation of the Debtors.**

The classification of Claims pursuant to this Plan is as follows:

<u>CLASS</u>	<u>STATUS</u>	<u>VOTING RIGHTS</u>
Class 1: Priority Claims Against AMS	Not Impaired	Not Entitled to Vote
Class 2: Secured Claims Against AMS	Not Impaired	Not Entitled to Vote
Class 3: Unsecured Claims Against AMS	Impaired	Entitled to Vote
Class 4: 510(b) Claims Against AMS	Impaired	Not Entitled to Vote
Class 5: Interests of AMS	Impaired	Not Entitled to Vote
Class 6: Priority Claims Against PGI	Not Impaired	Not Entitled to Vote
Class 7: Secured Claims Against PGI	Not Impaired	Not Entitled to Vote
Class 8: Unsecured Claims Against PGI	Impaired	Entitled to Vote
Class 9: Interests of PGI	Impaired	Entitled to Vote
Class 10: Priority Claims Against PGW	Not Impaired	Not Entitled to Vote
Class 11: Secured Claims Against PGW	Not Impaired	Not Entitled to Vote
Class 12: Unsecured Claims Against PGW	Impaired	Entitled to Vote

<u>CLASS</u>	<u>STATUS</u>	<u>VOTING RIGHTS</u>
Class 13: Interests of PGW	Impaired	Entitled to Vote

B. Unclassified Claims: Administrative Claims and Priority Tax Claims

As provided in Bankruptcy Code § 1123(a)(1), Administrative Claims and Priority Tax Claims shall not be classified for the purposes of voting or receiving distributions under this Plan. Rather, all such Claims shall be treated separately as unclassified Claims on the terms set forth in this Article II.B.

1. Administrative Claims

a. Non-Professional Fee Claims

The Plan Administrator shall pay each Holder of an Allowed Administrative Claim (excluding Professional Fee Claims, Reclamation Claims and 20 Day Administrative Claims) the full amount of such Allowed Administrative Claim, without interest, in Cash, as soon as practicable after the Effective Date or within thirty (30) days after such Administrative Claim becomes an Allowed Claim. Notwithstanding anything herein to the contrary, a Holder of an Allowed Administrative Claim may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator. Without limiting the foregoing, all outstanding fees payable to the Office of the United States Trustee under 28 U.S.C. § 1930 that have not been paid as of the Effective Date shall be paid by the Plan Administrator no later than thirty (30) days after the Effective Date or when due in the ordinary course.

b. Professional Fee Claims

The Plan Administrator shall pay Professionals who are entitled to reimbursement or allowance of fees and expenses from the Debtors' Estates pursuant to Bankruptcy Code §§ 503(b)(2) – (b)(6), in Cash, in the amount awarded to such Professionals by Final Order of the Bankruptcy Court, as soon as practicable after the later of the Effective Date and the date upon which any order awarding fees and expenses becomes a Final Order, in accordance with the terms of any order entered by the Bankruptcy Court governing the payment of fees and expenses

during the course of the Chapter 11 Cases, and after application of any retainer received by the Professionals.

Any final application for allowance of a Professional Fee Claim for services rendered and costs incurred through the Effective Date must be filed with the Bankruptcy Court and served on counsel for Reorganized AMS and the Plan Administrator at the addresses listed in Article IX.N of this Plan and on the Office of the United States Trustee so that it is received no later than forty-five (45) days after the Effective Date or such Professional Fee Claim shall be forever barred and shall not be enforceable against the Debtors, their Estates, Reorganized AMS, the Plan Administrator, and their successors, their assigns or their Assets. Allowed Professional Fee Claims must be paid in full or reserved for in Cash to pay Professional Fee Claims pending allowance by the Bankruptcy Court prior to any payment to Holders of Allowed Claims in Class 3 (Unsecured Claims against AMS).

c. 20 Day Administrative Claims Against PGW

The Plan Administrator shall pay each Holder of an Allowed 20 Day Administrative Claim against PGW the full amount of such Allowed 20 Day Administrative Claim, without interest, in Cash, as soon as practicable after the Effective Date or within thirty (30) days after such 20 Day Administrative Claim against PGW becomes an Allowed Claim. Notwithstanding anything herein to the contrary, a Holder of an Allowed 20 Day Administrative Claim against PGW may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator.

d. 20 Day Administrative Claims Against AMS

The Plan Administrator shall pay each Holder of an Allowed 20 Day Administrative Claim against AMS the full amount of such Allowed 20 Day Administrative Claim, without interest, in Cash, as soon as practicable after the Effective Date or within thirty (30) days after such 20 Day Administrative Claim against AMS becomes an Allowed Claim. Notwithstanding anything herein to the contrary, a Holder of an Allowed 20 Day Administrative

Claim against AMS may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator.

e. Administrative Claims and Second Administrative Expense Request Deadline

Each Holder of an Administrative Claim must file an Administrative Expense Request requesting payment of such Administrative Claim with the Bankruptcy Court by no later than (i) July 2, 2007 for any Claims covered by the Bar Date Order or (ii) the Second Administrative Expense Request Deadline for all other Administrative Claims that are not subject to the Bar Date Order; provided, however, that any such Administrative Expense Request need not be filed with a hearing date. Nothing herein extends a Bar Date established in the Bar Date Order. The Plan Administrator shall pay each Holder of an Allowed Administrative Claim against any Debtor the full amount of such Allowed Administrative Claim, without interest, in Cash, as soon as practicable after the Effective Date or within thirty (30) days after such Administrative Claim becomes an Allowed Claim. Notwithstanding anything herein to the contrary, a Holder of an Allowed Administrative Claim against any Debtor may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator.

2. Priority Tax Claims Against PGW

The Plan Administrator shall pay, at the Plan Administrator's discretion, each Holder of an Allowed Priority Tax Claim of PGW in full in Cash as soon as practicable after the Effective Date or within thirty (30) days after such Priority Tax Claim becomes an Allowed Claim. All Allowed Priority Tax Claims of PGW which are not due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof. The Plan Administrator can prepay any Allowed Priority Tax Claim of PGW at any time after the Effective Date without any penalty or charge.

Holders of Allowed Priority Tax Claims against PGW shall not be entitled to receive any payment on account of any penalty arising with respect to, or in connection with

such Claims. Any such Claim, or demand for any such penalty, shall be deemed disallowed by confirmation of this Plan.

3. Priority Tax Claims Against AMS

The Plan Administrator shall pay, at the Plan Administrator's discretion, each Holder of an Allowed Priority Tax Claims against AMS either (i) in full in Cash as soon as practicable after the Effective Date or within thirty (30) days after such Priority Tax Claim becomes an Allowed Claim or (ii) over a period ending not later than five (5) years after the Petition Date, with deferred Cash payments on a quarterly basis in an aggregate amount equal to any such Allowed Priority Tax Claim against AMS, together with interest thereon (if and so required) at the legal rate required for such Claim in chapter 11 cases. All Allowed Priority Tax Claims against AMS which are not due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof. The Plan Administrator can prepay any Allowed Priority Tax Claim against AMS at any time after the Effective Date without any penalty or charge.

Holders of Allowed Priority Tax Claims against AMS will not be entitled to receive any payment on account of any penalty arising with respect to, or in connection with such Claims. Any Claim for any such penalty, or demand for any such penalty, will be deemed disallowed by confirmation of this Plan.

4. Reclamation Claims Against PGW

The Plan Administrator shall pay each Holder of an Allowed Reclamation Claim against PGW in full, without interest, in Cash after deductions for returns of inventory, as soon as practicable after the Effective Date or within thirty (30) days after such Reclamation Claim becomes an Allowed Claim. Notwithstanding anything herein to the contrary, a Holder of an Allowed Reclamation Claim against PGW may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator.

5. Reclamation Claims Against AMS

The Plan Administrator shall pay each Holder of an Allowed Reclamation Claim against AMS in full, without interest, in Cash after deductions for returns of inventory, as soon as practicable after the Effective Date or within thirty (30) days after such Reclamation Claim becomes an Allowed Claim. Notwithstanding anything herein to the contrary, a Holder of an Allowed Reclamation Claim against AMS may be paid on such other date or dates and upon such other terms as may be agreed upon by such Holder and the Plan Administrator.

C. Classes of Claims and Interests: Classification, Treatment and Voting Rights

Holders of Claims and Interests are divided into Classes and treated as follows:

1. “Class 1” – Priority Claims Against AMS – *Not Impaired*

a. Classification

Class 1 consists of all Allowed Priority Claims against AMS.

b. Treatment

The Plan Administrator shall pay each Holder of an Allowed Class 1 Claim, in relative order of priority pursuant to Bankruptcy Code § 507, in full, in Cash, without interest, on the later of thirty (30) days after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Claim.

c. Voting

Class 1 is not Impaired. Holders of Claims in Class 1 are conclusively deemed to have accepted this Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 1 are not entitled to vote to accept or reject this Plan.

2. “Class 2” – Secured Claims Against AMS – *Not Impaired*

a. Classification

Class 2 consists of all Secured Claims against AMS.

b. Treatment

Each Holder of an Allowed Class 2 Claim shall, at the option of the Plan Administrator, either (i) have such Claim reinstated and rendered unimpaired in accordance with

Bankruptcy Code § 1124(2), notwithstanding any contractual provision or applicable nonbankruptcy law that entitles such Holder to demand or to receive payment of such Claim prior to the stated maturity of same from and after the occurrence of a default, (ii) receive Cash in an amount equal to such Claim, in full and complete satisfaction of such Claim, on the later of the initial distribution date under this Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable or (iii) receive the collateral securing its Claim in full and complete satisfaction of such Claim on the later of the initial distribution date under this Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable.

c. Voting

Class 2 is not Impaired. Holders of Allowed Class 2 Claims are conclusively deemed to have accepted this Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 2 are not entitled to vote to accept or reject this Plan.

3. “Class 3” – Unsecured Claims Against AMS – Impaired

a. Classification

Class 3 consists of all Unsecured Claims against AMS.

b. Treatment

The Plan Administrator shall distribute to each Holder of an Allowed Class 3 Claim a Pro Rata share of Distributable Cash.

c. Voting

Class 3 is Impaired. Therefore, Holders of Allowed Class 3 Claims are entitled to vote to accept or reject this Plan.

4. “Class 4” – 510(b) Claims Against AMS – Impaired

a. Classification

Class 4 consists of all 510(b) Claims against AMS.

b. Treatment

Holders of Class 4 Claims shall receive no distribution on account of their Claims.

c. Voting

Class 4 is Impaired and will receive no distribution under this Plan. Holders of Class 4 Claims are conclusively deemed to have rejected this Plan pursuant to Bankruptcy Code § 1126(g). Therefore, Holders of Claims in Class 4 are not entitled to vote to accept or reject this Plan.

5. “Class 5” – Interests of AMS – Impaired

a. Classification

Class 5 consists of all Interests in AMS.

b. Treatment

Holders of Interests in Class 5 shall receive no distribution or dividend on account of such Interests. On the Effective Date, all Interests in Class 5 shall be deemed canceled, null and void, and of no force and effect.

c. Voting

Class 5 is Impaired and will receive no distribution under this Plan. Holders of Interests in Class 5 are conclusively deemed to have rejected this Plan pursuant to Bankruptcy Code § 1126(g). Therefore, Holders of Interests in Class 5 are not entitled to vote to accept or reject this Plan.

6. “Class 6” – Priority Claims Against PGI – Not Impaired

a. Classification

Class 6 consists of all Allowed Priority Claims against PGI.

b. Treatment

The Plan Administrator shall pay each Holder of an Allowed Class 6 Claim, in relative order of priority pursuant to Bankruptcy Code § 507, in full, in Cash, without interest, on the later of thirty (30) days after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Claim.

c. Voting

Class 6 is not Impaired. Holders of Claims in Class 6 are conclusively deemed to have accepted this Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 6 are not entitled to vote to accept or reject this Plan.

7. “Class 7” – Secured Claims Against PGI – Not Impaired

a. Classification

Class 7 consists of all Secured Claims against PGI.

b. Treatment

Each Holder of an Allowed Class 7 Claim shall, at the option of the Plan Administrator, either (i) have such Claim reinstated and rendered unimpaired in accordance with Bankruptcy Code § 1124(2), notwithstanding any contractual provision or applicable non-bankruptcy law that entitles such Holder to demand or to receive payment of such Claim prior to its stated maturity from and after the occurrence of a default, (ii) receive Cash in an amount equal to such Claim, in full and complete satisfaction of such Claim, on the later of the initial distribution date under this Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable or (iii) receive the collateral securing its Claim in full and complete satisfaction of such Claim on the later of the initial distribution date under this Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable.

c. Voting

Class 7 is not Impaired. Holders of Claims in Class 7 are conclusively deemed to have accepted this Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 7 are not entitled to vote to accept or reject this Plan.

8. “Class 8” – Unsecured Claims Against PGI – Impaired

a. Classification

Class 8 consists of all Allowed Unsecured Claims against PGI.

b. Treatment

The Plan Administrator shall pay each Holder of an Allowed Class 8 Claim in full, without interest, in Cash on the later of thirty (30) days after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Claim.

c. Voting

Class 8 is Impaired. Therefore, Holders of Allowed Class 8 Claims are entitled to vote to accept or reject this Plan.

9. “Class 9” – Interests of PGI – Impaired

a. Classification

Class 9 consists of all Interests in PGI.

b. Treatment

After paying Allowed Administrative Claims (including Professional Fee Claims), 20 Day Administrative Claims, Reclamation Claims, Secured Claims, Priority Tax Claims, Priority Claims and Unsecured Claims against PGI, Holders of Class 9 Interests (which is only AMS) shall receive all remaining Assets of PGI. On or after the Effective Date, after AMS has received its dividend on account of its equity Interests in PGI, PGI will be merged with and into AMS pursuant to the Merger.

c. Voting

Class 9 is Impaired. Therefore, Holders of Allowed Class 9 Interests are entitled to vote to accept or reject this Plan.

10. “Class 10” – Priority Claims against PGW – Not Impaired

a. Classification

Class 10 consists of all Allowed Priority Claims against PGW.

b. Treatment

The Plan Administrator shall pay each Holder of an Allowed Class 10 Claim, in relative order of priority pursuant to Bankruptcy Code § 507, in full, in Cash, without interest, on

the later of thirty (30) days after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Claim.

c. Voting

Class 10 is not Impaired. Holders of Class 10 Claims are conclusively deemed to have accepted this Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 10 are not entitled to vote to accept or reject this Plan.

11. “Class 11” – Secured Claims against PGW – *Not Impaired*

a. Classification

Class 11 consists of all Secured Claims against PGW.

b. Treatment

Each Holder of an Allowed Class 11 Claim shall, at the option of the Plan Administrator, either (i) have such Claim reinstated and rendered unimpaired in accordance with Bankruptcy Code § 1124(2), notwithstanding any contractual provision or applicable non-bankruptcy law that entitles the Holder of such Claim to demand or to receive payment of such Claim prior to the stated maturity of same from and after the occurrence of a default, (ii) receive Cash in an amount equal to such Claim, in full and complete satisfaction of such Claim, on the later of the initial distribution date under this Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable or (iii) receive the collateral securing its Claim in full and complete satisfaction of such Claim on the later of the initial distribution date under this Plan and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable.

c. Voting

Class 11 is not Impaired. Holders of Allowed Class 11 Claims are conclusively deemed to have accepted this Plan pursuant to Bankruptcy Code § 1126(f). Therefore, Holders of Claims in Class 11 are not entitled to vote to accept or reject this Plan.

12. “Class 12” – Unsecured Claims against PGW – *Impaired*

a. Classification

Class 12 consists of all Allowed Unsecured Claims against PGW.

b. Treatment

The Plan Administrator shall pay each Holder of an Allowed Class 12 Claim in full, without interest, in Cash on the later of thirty (30) days after (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Claim.

c. Voting

Class 12 is Impaired. Therefore, Holders of Allowed Class 12 Claims are entitled to vote to accept or reject this Plan.

13. “Class 13” – Interests of PGW – Impaired

a. Classification

Class 13 consists of all Interests in PGW.

b. Treatment

After paying any Allowed Administrative Claims (including Professional Fee Claims), 20 Day Administrative Claims, Reclamation Claims, Secured Claims, Priority Tax Claims, Priority Claims and Unsecured Claims against PGW, Disputed Claims and Post-Confirmation Expenses, Holders of Class 13 Interests (which is only PGI) shall receive all remaining Assets of PGW. On or after the Effective Date, after PGI has received its dividend on account of its equity Interests in PGW, PGW will be merged with and into AMS pursuant to the Merger.

c. Voting

Class 13 is Impaired. Therefore, Holders of Interests in Class 13 are entitled to vote to accept or reject this Plan.

ARTICLE III

ACCEPTANCE OR REJECTION OF THIS PLAN

A. Impaired Classes of Claims Entitled to Vote

Except as otherwise provided in order(s) of the Bankruptcy Court pertaining to solicitation of votes on this Plan, Class 3 (Unsecured Claims against AMS), Class 8 (Unsecured Claims against PGI), Class 9 (Interests of PGI), Class 12 (Unsecured Claims against PGW) and

Class 13 (Interests of PGW) are impaired and shall be entitled to vote to accept or reject this Plan. If and to the extent any Class identified as being unimpaired is impaired (whether as a result of the terms of this Plan or any modification or amendment thereto), such Class shall be entitled to vote to accept or reject this Plan.

B. Classes Deemed to Accept this Plan

Class 1 (Priority Claims against AMS), Class 2 (Secured Claims against AMS), Class 6 (Priority Claims against PGI), Class 7 (Secured Claims against PGI), Class 10 (Priority Claims against PGW), and Class 11 (Secured Claims against PGW) are unimpaired by this Plan. Pursuant to Bankruptcy Code § 1126(f), Classes 1, 2, 6, 7, 10, and 11 are conclusively presumed to have accepted this Plan, and the votes of Holders of Claims in Classes 1, 2, 6, 7, 10, and 11 will therefore not be solicited.

C. Classes Deemed to Reject this Plan

Holders of Claims and Interests in Class 4 (510(b) Claims against AMS) and Class 5 (Interests of AMS) are not entitled to receive any distribution under this Plan on account of such Claims and Interests. Pursuant to Bankruptcy Code § 1126(g), Classes 4 and 5 are impaired and are conclusively presumed to have rejected this Plan, and the votes of Holders of Claims and Interests in Classes 4 and 5 therefore will not be solicited.

D. Nonconsensual Confirmation

If any impaired Class fails to accept this Plan, the Plan Proponents intend to request that the Bankruptcy Court confirm this Plan pursuant to Bankruptcy Code § 1129(b) with respect to that Class.

ARTICLE IV

MEANS FOR IMPLEMENTATION OF THE PLAN

A. Implementation of Plan

The Plan Proponents propose to implement and consummate this Plan on and after the Effective Date.

B. Formation of Reorganized AMS

Prior to the Effective Date, the Debtors shall continue to wind down their businesses subject to all applicable requirements of the Bankruptcy Code and the Bankruptcy Rules. Upon or immediately following the Effective Date, the Merger will be consummated. Upon the consummation of the Merger, title to all Causes of Action, Avoidance Actions, Assets and Cash of the Debtors and their Estates shall vest in Reorganized AMS free and clear of all Liens, Claims and Interests, except as expressly provided in this Plan.

Reorganized AMS will assume all obligations of the Estates to make distributions to Holders of Allowed Claims in accordance with this Plan, and, on and after the Effective Date, the Estates shall be liquidated in accordance with this Plan. As set forth herein, the liquidation and winding up of Reorganized AMS shall become the responsibility of the Plan Administrator who shall thereafter have responsibility for the management, control and operation thereof, and who may use, acquire and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules, subject to any approvals of the Post-Confirmation Committee as set forth in Article IV.G of this Plan. Subject to further order of the Bankruptcy Court, the Plan Administrator shall act as liquidating agent of and for Reorganized AMS and the Estates from and after the Effective Date, subject to any approvals of the Post-Confirmation Committee as set forth in Article IV.G of this Plan.

C. Appointment and Term of the Plan Administrator

The Plan Proponents shall appoint and designate the initial Plan Administrator at least ten (10) days prior to the Confirmation Hearing, and the Plan Proponents and the initial Plan Administrator shall have entered into a Plan Administrator Employment Agreement to be filed with the Bankruptcy Court at least ten (10) days prior to the Confirmation Hearing. The initial Plan Administrator, and each successor Plan Administrator, shall serve until the earlier of (i) the dissolution of Reorganized AMS or (ii) such Plan Administrator's resignation, death, incapacity, removal or termination. The Post-Confirmation Committee shall have the right to terminate the Plan Administrator with or without cause and to then appoint a successor Plan

Administrator; provided, that the Post-Confirmation Committee shall file the employment agreement between Reorganized AMS and such successor Plan Administrator with the Bankruptcy Court. The Plan Administrator may also be removed by the Bankruptcy Court upon motion for good cause shown by any Creditor.

Upon consummation of the Merger, the Plan Administrator shall be the chief executive officer and sole director of Reorganized AMS and of any subsidiaries of Reorganized AMS for all purposes and in all respects, with all necessary and appropriate power to act for, on behalf of and in the name of Reorganized AMS and any such subsidiaries, with the same power and effect as if each of his or her actions in furtherance of his or her duties as a responsible person and as a board-appointed officer and shareholder-appointed director of Reorganized AMS and of any subsidiaries of Reorganized AMS were explicitly authorized by the appropriate board of directors or shareholders.

D. Duties of the Plan Administrator

In addition to the duties as set forth elsewhere in this Plan and his or her duties as the sole officer and director of Reorganized AMS, the Plan Administrator, subject to the provisions of Article IV.G, shall have the following duties:

1. to pursue the sale, liquidation and/or recovery of any and all Assets of the Estates and of Reorganized AMS;
2. to manage, control and operate Reorganized AMS;
3. to investigate and, if necessary and appropriate, to prosecute, bring, enforce (or to not pursue, bring or enforce), or to compromise, release, or settle any Causes of Action on behalf of the Estates and Reorganized AMS;
4. to invest the Cash and other Assets of Reorganized AMS and the Estates;
5. to file any and all reports, requests for relief or oppositions thereto;
6. to make any and all distributions required or permitted to be made under this Plan;
7. to pay out of Reorganized AMS any and all claims, liabilities, losses,

damages, costs and expenses incurred in connection therewith or as a result thereof, including all Post-Confirmation Expenses accruing from and after the Effective Date, in accordance with the Administrative Budget;

8. to employ, supervise and compensate any employees of Reorganized AMS;

9. to make and file tax returns for any of the Debtors and Reorganized AMS;

10. to commence and pursue dissolution or winding up proceedings for Reorganized AMS;

11. subject to the approval of the Post-Confirmation Committee, to commence and pursue dissolution or winding up proceedings for any subsidiaries of Reorganized AMS or to terminate any joint ventures of Reorganized AMS, to the extent necessary or appropriate, and to take any and all actions and execute all documents and instruments as may be necessary or appropriate in connection with the dissolution, winding up, bankruptcy or insolvency proceedings of any such subsidiary or joint venture;

12. to request the entry of a Final Decree; and

13. to take any and all other actions necessary or appropriate to implement this Plan and the liquidation and winding up of the Estates and Reorganized AMS in accordance with applicable law; provided, that nothing herein shall permit the Plan Administrator to terminate or cancel the Debtors' director and officer liability insurance coverage relating to the period following the Petition Date; provided further that, the Plan Administrator shall not renew or extend such insurance coverage without the approval of the Post-Confirmation Committee.

In connection with the execution of his or her duties under this Plan, the Plan Administrator, subject to the provisions of Article IV.G, shall be authorized:

a. to execute such documents and to take such other actions as are necessary to effectuate this Plan and perform his or her duties as liquidating agent of and for the Estates and Reorganized AMS, including to execute such documents and take such other action on behalf of Reorganized AMS;

- b. to open, close and manage bank accounts, and to enter into business transactions within or without the ordinary course of business;
- c. to authorize and benefit from any insurance policies and rights of indemnification;
- d. to retain professionals (including any of the Debtors' or the Committee's Professionals) or other Persons to assist the Plan Administrator in the liquidation of the Debtors' Assets, without prior Bankruptcy Court approval, and to designate another Person to be the Disbursing Agent;
- e. to incur any reasonable and necessary expenses (up to the amounts set forth in the Administrative Budget) in the performance of his or her duties as liquidating agent of and for the Estates and Reorganized AMS;
- f. to prepare and deliver to the Post-Confirmation Committee the Administrative Budget of Reorganized AMS with respect to each 6-month period following the Effective Date and any amendments or modifications thereto;
- g. to seek an order of the Bankruptcy Court approving the compromise, release or settlement of any Cause of Action or the sale or disposition of any Asset, provided that nothing herein shall require the Plan Administrator to seek any such order; and
- h. to employ such other procedures, not inconsistent with this Plan, necessary for the Plan Administrator to perform his or her duties hereunder.

The Plan Administrator shall further have all powers of a chief executive officer and sole director of Reorganized AMS, subject to the supervision of the Post-Confirmation Committee as set forth in Article IV.G of this Plan. In discharging the foregoing responsibilities, the Plan Administrator shall be entitled to exercise and rely upon his or her business judgment. The Plan Administrator shall not be obligated to take any action or to pursue any Causes of Action unless justified in his or her reasonable determination by fact and law, nor shall the Plan Administrator be obligated to take any action that could reasonably cause him or her personal liability. Without limiting the generality of the foregoing, the Plan Administrator may consider

the interests of Holders of Allowed Claims in receiving prompt distributions and such other factors as may be reasonable in the exercise of his or her business judgment. Such authorization and benefits shall also extend to any, each and every successor Plan Administrator, without reservation or limitation.

The reasonable and necessary fees and actual and necessary expenses of the Plan Administrator and the professionals retained by the Plan Administrator shall be paid by the Plan Administrator in accordance with the following procedures: upon the submission of a fee statement to the Plan Administrator and the Post-Confirmation Committee, the Plan Administrator and the Post-Confirmation Committee shall have ten (10) days from the delivery of a fee statement to give notice of an objection to the fee statement to the professional or Person seeking compensation or reimbursement. For an objection to be valid, it shall be in writing and set forth in detail the specific fees objected to and the basis for the objection. Any objection that remains unresolved fifteen (15) days after it is made shall be submitted to the Bankruptcy Court for resolution. The uncontested portion of each invoice shall be paid within thirty (30) days after its delivery to the Plan Administrator and the Post-Confirmation Committee.

E. Liability, Indemnification

No Protected Party shall be liable for the act or omission of any other Protected Party, nor shall the Plan Administrator or any member of the Post-Confirmation Committee be liable for any act or omission taken or omitted to be taken in his or her capacity as Plan Administrator (including in his or her capacity as a board-appointed officer or manager of Reorganized AMS or any of its subsidiaries) or as a member of the Post-Confirmation Committee, as the case may be, other than acts or omissions resulting from the Plan Administrator's or Post-Confirmation Committee member's willful misconduct, gross negligence or fraud. The Plan Administrator and the Post-Confirmation Committee may, in connection with the performance of their functions, and in their sole and absolute discretion, consult with their respective attorneys, accountants, financial advisors and agents, and the Plan Administrator and the Post-Confirmation Committee shall not be liable for any act taken, omitted

to be taken, or suffered to be done in accordance with advice or opinions rendered by such Persons. Notwithstanding such authority, the Plan Administrator and the Post-Confirmation Committee shall not be under any obligation to consult with their respective attorneys, accountants, financial advisors or agents, and any determination not to do so shall not result in the imposition of liability on the Plan Administrator or the Post-Confirmation Committee, as the case may be, and their respective designees, unless such determination is based on willful misconduct, gross negligence or fraud. Reorganized AMS and the Estates shall indemnify and hold harmless the Plan Administrator, the Post-Confirmation Committee and their respective designees and professionals, and all duly designated agents and representatives thereof (in their capacity as such), from and against and in respect of all liabilities, losses, damages, claims, costs and expenses (including but not limited to attorneys' fees and costs) arising out of or due to such actions or omissions, or consequences of their actions or omissions with respect or related to the performance of the duties of the Plan Administrator or the Post-Confirmation Committee, as the case may be, or the implementation or administration of this Plan; provided, however, that no such indemnification will be available to such Persons for such actions or omissions if a court of competent jurisdiction has determined by final order that the challenged conduct occurred as a result of willful misconduct, gross negligence or fraud.

F. Dissolution of the Committee

Upon the Effective Date, the Committee shall dissolve automatically, whereupon its members, Professionals and agents shall be released from any further duties and responsibilities in the Chapter 11 Cases and under the Bankruptcy Code, except with respect to: (i) obligations arising under confidentiality agreements, joint interest agreements, and protective orders entered during the Chapter 11 Cases which shall remain in full force and effect according to their terms; (ii) applications for Professional Fee Claims; (iii) requests for compensation and reimbursement of expenses pursuant to Bankruptcy Code § 503(b) for making a substantial contribution in any of the Chapter 11 Cases; and (iv) any motions or other actions seeking enforcement or implementation of the provisions of this Plan or the Confirmation Order. The

Professionals retained by the Committee and the respective members thereof shall not be entitled to compensation and reimbursement of expenses for services rendered after the Effective Date, except for services rendered in connection with applications for allowance of compensation and reimbursement of expenses pending on the Effective Date or filed after the Effective Date.

G. Post-Confirmation Committee

On the Effective Date, the Committee shall be reconstituted as the Post-Confirmation Committee, with the following members: Random House, Inc., Hachette Book Group USA, Inc., Harper Collins Publishers, Penguin Group, and Workman Publishing Co. The bylaws previously adopted by the Committee shall continue to govern the actions of the Post-Confirmation Committee, and the fiduciary duties that applied to the Committee prior to the Effective Date shall apply to the Post-Confirmation Committee. The Post-Confirmation Committee shall have the duties set forth herein to execute this Plan and to maximize distributions to Holders of Claims. The bylaws previously adopted by the Committee shall continue to govern the actions of the Post-Confirmation Committee, and the fiduciary duties that applied to the Committee prior to the Effective Date, including those set forth in Bankruptcy Code §§ 1102 and 1103, shall apply to the Post-Confirmation Committee. The bylaws may be amended from time to time by the Post-Confirmation Committee in its discretion; provided that the bylaws shall at all times provide that each member of the Post-Confirmation Committee shall recuse itself from participation in meetings regarding, or voting on, any matter related to its individual interests, as a creditor or otherwise.

The Post-Confirmation Committee shall have the duty to take actions in accordance with the provisions of this Plan and in furtherance of the execution of this Plan. Additionally, the Post-Confirmation Committee shall have the following rights and duties:

1. as set forth in Article IV.C, (i) to terminate the Plan Administrator with or without cause and (ii) upon such termination or upon the resignation, death, incapacity or removal of the Plan Administrator, to appoint a successor Plan Administrator; provided, that the Post-Confirmation Committee shall file the employment agreement between Reorganized AMS

and such successor Plan Administrator with the Bankruptcy Court;

2. to approve any release or indemnity in favor of any third party granted or agreed to by the Plan Administrator;

3. to authorize the Plan Administrator to commence any Cause of Action or Avoidance Action;

4. to approve the settlement of any Cause of Action or Avoidance Action if the amount sought to be recovered by the Plan Administrator in the complaint or other document initiating such Cause of Action or Avoidance Action exceeds \$150,000 and to approve any application by the Plan Administrator for an order in connection with any such settlement;

5. to approve the allowance of any Disputed Claim if the final allowed amount of such Claim exceeds \$150,000;

6. to approve the sale of any Assets by the Plan Administrator if the consideration to be received in respect of such Assets exceeds \$250,000 and to approve any application by the Plan Administrator for an order in connection with any such sale of Assets;

7. to approve with respect to each 6-month period of Reorganized AMS the Administrative Budget prepared by the Plan Administrator and any amendments or modifications thereto;

8. to approve in advance the Plan Administrator's retention of any professionals (other than the Debtors' or the Committee's Professionals) or a Disbursing Agent other than the Plan Administrator in accordance with the Administrative Budget;

9. to review all financial information relating to Reorganized AMS and the Estates, which shall be promptly provided by the Plan Administrator upon request by the Post-Confirmation Committee;

10. to approve of the Plan Administrator's making of any interim distributions to Holders of Allowed Class 3 Claims (Unsecured Claims against AMS) if the Post-Confirmation Committee determines such interim distributions are warranted and economical;

11. to approve of any investment of Cash or other Assets of the Estates or

Reorganized AMS pending distributions to Holders of Allowed Claims or Interests; and

11. to approve of any distributions to Holders of Allowed Claims or Allowed Interests to be made pursuant to this Plan.

The duties and powers of the Post-Confirmation Committee shall terminate upon the entry of the Final Decree.

The Post-Confirmation Committee shall have the right to retain counsel of its choice in the event of a dispute or conflict with Reorganized AMS and/or Plan Administrator, and the reasonable fees of such counsel shall be paid by the Plan Administrator in accordance with the following procedures: upon the submission of a fee statement to the Post-Confirmation Committee and the Plan Administrator, the Post-Confirmation Committee and the Plan Administrator shall have ten (10) days from the delivery of a fee statement to give notice of an objection to the fee statement to the professional seeking compensation or reimbursement. For an objection to be valid, it shall be in writing and set forth in detail the specific fees objected to and the basis for the objection. Any objection that remains unresolved fifteen (15) days after it is made shall be submitted to the Bankruptcy Court for resolution. The uncontested portion of each invoice shall be paid within thirty (30) days after its delivery to the Post-Confirmation Committee and the Plan Administrator.

H. Corporate Action

On the Effective Date, the matters under this Plan involving or requiring corporate action of the Debtors, including but not limited to actions requiring a vote or other approval of the board of directors or shareholders and execution of all documentation incident to this Plan, shall be deemed to have been authorized by the Confirmation Order and to have occurred and be in effect from and after the Effective Date without any further action by the Bankruptcy Court or the officers, directors or shareholders of the Debtors.

I. Continued Corporate Existence; Dissolution of Reorganized AMS

The board of directors of AMS shall be reconstituted upon consummation of the Merger and, as provided in Article IV.C, shall consist solely of the Plan Administrator. From

and after the Effective Date, Reorganized AMS shall remain in existence for the purpose of liquidating and winding up the Estates. After the liquidation and the winding up of the various Estates, the completion of distributions under this Plan and the entry of the Final Decree, the Plan Administrator shall file a certificate of dissolution in the applicable state of incorporation for Reorganized AMS, and Reorganized AMS shall dissolve and cease to exist.

J. Saturday, Sunday or Legal Holiday

If any payment or act under this Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the next succeeding Business Day, but shall be deemed to have been completed as of the required date.

K. Preservation of All Avoidance Actions and Causes of Action

From and after the Effective Date, Reorganized AMS and the Plan Administrator, subject to any approval of the Post-Confirmation Committee as set forth in Article IV.G of this Plan, may litigate or settle any avoidance, recovery or subordination actions under Bankruptcy Code §§ 502, 510, 522(f), 522(h), 542, 543, 544, 545, 547, 548, 549, 550, 551, 553 or 724 or any other Causes of Action or rights to payments or claims that belong to the Debtors that may be pending on the Effective Date or instituted by the Plan Administrator after the Effective Date, except as otherwise expressly provided in this Plan. Pursuant to Bankruptcy Code § 1123(b)(3)(B), no other Person may pursue any such Causes of Action.

ARTICLE V

TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

A. Assumption of Certain Contracts and Leases and Cure Payments

Fifteen (15) days prior to the Confirmation Hearing, the Plan Proponents shall file the Assumption Schedule, which shall be attached to this Plan as **Exhibit A**. Objections to any proposed cure payment must be filed and served no later than the Assumption Objection Deadline and shall be adjudicated, if necessary, at the Confirmation Hearing. Any non-debtor party or Person to an Executory Contract that has not filed an appropriate pleading with the

Bankruptcy Court on or before the applicable Assumption Objection Deadline shall be deemed to have waived its right to dispute the cure amount. All unpaid cure payments under any Executory Contracts that are assumed or assumed and assigned under this Plan shall be made by the Plan Administrator as soon as practicable after the Effective Date but not later than thirty (30) days after the Effective Date, provided that, in the event there is a dispute regarding the amount of any cure payments, the Plan Administrator shall make such cure payments as may be required by Bankruptcy Code § 365(b)(1) within ten (10) days following the entry of a Final Order resolving such dispute.

The Plan Proponents reserve the right to remove any Executory Contract from the Assumption Schedule at any time prior to the Confirmation Hearing.

B. Rejection of Remaining Executory Contracts and Unexpired Leases

On the Confirmation Date, except for (i) any Executory Contract that was previously assumed or rejected by an order of the Bankruptcy Court pursuant to Bankruptcy Code § 365 and (ii) any Executory Contract identified on the Assumption Schedule, each Executory Contract entered into by the Debtors prior to the Petition Date that has not previously expired or terminated pursuant to its own terms, shall be deemed rejected pursuant to Bankruptcy Code §§ 365 and 1123, effective as of the Confirmation Date. The Confirmation Order shall constitute an order of the Bankruptcy Court approving such rejection pursuant to Bankruptcy Code §§ 365 and 1123 as of the Confirmation Date.

C. Rejection Damages Bar Date

Except to the extent another Bar Date applies pursuant to an order of the Bankruptcy Court, all Proofs of Claim with respect to Claims arising from the rejection of Executory Contracts under this Plan must be filed with the Advanced Marketing Claims Agent, c/o Epiq Bankruptcy Solutions LLC, 757 Third Avenue, 3rd Floor, New York, New York 10017, and a copy served on counsel for the Debtors and the Plan Administrator, within thirty (30) days from the entry of the Confirmation Order, or such Claim shall be forever barred and shall not be entitled to a distribution or be enforceable against the Debtors, their Estates, Reorganized AMS,

the Plan Administrator, their successors, their assigns or their Assets. Any Claim arising from the rejection of an Executory Contract shall be treated as a Claim in Class 3 (Unsecured Claims against AMS), Class 8 (Unsecured Claims against PGI) or Class 12 (Unsecured Claims against PGW), depending on which Debtor the Claim is asserted against. Nothing in this Plan extends or modifies any previously applicable Bar Date.

D. Insurance Policies

To the extent any or all of the insurance policies set forth on **Exhibit B** to this Plan are considered to be Executory Contracts, then notwithstanding anything contained in this Plan to the contrary, this Plan shall constitute a motion to assume the insurance policies set forth on **Exhibit B** to this Plan. Subject to the occurrence of the Effective Date, the entry of the Confirmation Order shall constitute approval of such assumption pursuant to Bankruptcy Code § 365(a) and a finding by the Bankruptcy Court that each such assumption is in the best interest of the Debtors, the Estates and all parties in interest in these Chapter 11 Cases. Unless otherwise determined by the Bankruptcy Court pursuant to a Final Order or agreed to by the parties thereto prior to the Effective Date, no payments are required to cure any defaults of the Debtors existing as of the Confirmation Date with respect to each such insurance policy set forth on **Exhibit B** to this Plan. To the extent the Bankruptcy Court determines otherwise with respect to any insurance policy, the Plan Proponents reserve the right to seek rejection of such insurance policy or other available relief. This Plan shall not affect contracts that have been assumed and assigned by order of the Bankruptcy Court prior to the Confirmation Date. For the avoidance of doubt, all insurance policies (including any insurance policies that are not executory contracts, insurance policies that may have expired prior to the Petition Date, insurance policies in existence on the Petition Date and insurance policies entered into by the Debtors after the Petition Date) of the Debtors and all rights thereunder and rights under any other insurance policies under which the Debtors may be beneficiaries (including the rights to make, amend, prosecute and benefit from claims) are retained and will be transferred to Reorganized AMS pursuant to this Plan. As set forth in Article IV.D of this Plan, the Plan Administrator shall not

be permitted to terminate or cancel the Debtors' director and officer liability insurance coverage relating to the period following the Petition Date; provided that, the Plan Administrator shall not renew or extend such insurance coverage without the approval of the Post-Confirmation Committee.

E. Termination of AMS's Deferred Compensation Plan

Upon the Effective Date, the Deferred Compensation Plan shall terminate without further corporate action. Pursuant to the Plan, the Deferred Compensation Trust shall pay all Cash and any other Assets it may hold in respect of the Deferred Compensation Plan to Reorganized AMS. **UPON ENTRY OF THE CONFIRMATION ORDER, THE CASH AND ASSETS OF THE DEFERRED COMPENSATION TRUST WILL BE TRANSFERRED TO REORGANIZED AMS AND WILL BECOME PROPERTY OF AMS'S ESTATE AND AVAILABLE FOR DISTRIBUTION TO HOLDERS OF ALLOWED UNSECURED CLAIMS AGAINST AMS. INDIVIDUALS WHO CONTRIBUTED TO THE DEFERRED COMPENSATION PLAN WILL BE TREATED AS HOLDERS OF UNSECURED CLAIMS AGAINST AMS.**

ARTICLE VI

DISTRIBUTIONS

A. Disbursing Agent

1. Plan Administrator as Disbursing Agent

The Plan Administrator shall be the Disbursing Agent and the Disbursing Agent shall make all distributions under this Plan. The Plan Administrator, subject to any approval of the Post-Confirmation Committee as set forth in Article IV.G of this Plan, can designate another Person to be the Disbursing Agent under this Plan. The Plan Administrator shall maintain separate bank accounts for PGW and AMS until such time as all Allowed Claims against PGW have been paid in accordance with this Plan.

2. Alternative Disbursing Agent Qualification

No Person other than the Plan Administrator shall be authorized by the Bankruptcy Court to serve as Disbursing Agent unless and until the Plan Administrator and the Post-Confirmation Committee consent in writing to that Person serving as Disbursing Agent and that Person (i) executes and files a statement with the Bankruptcy Court agreeing to perform all of the duties of the Disbursing Agent under this Plan and (ii) consents to the jurisdiction of the Bankruptcy Court in respect to all matters relating to the performance of its duties as the Disbursing Agent under this Plan.

B. Time and Manner of Distributions

Subject to any approval of the Post-Confirmation Committee as set forth in Article IV.G of this Plan, the Plan Administrator shall have the right to make interim distributions to Holders of Allowed Unsecured Claims against AMS if the Plan Administrator determines that such interim distributions are warranted and economical. If the Plan Administrator determines to make interim distributions to Holders of Allowed Unsecured Claims against AMS, the Plan Administrator will determine the amount to be distributed on an interim basis by taking into account such factors as ongoing expenses and costs, taxes and reserves necessary to provide for the resolution of Disputed Claims. Amounts withheld will be placed in an interest-bearing account which shall fund ongoing expenses and costs relating to such reserves, including, without limitation, taxes in respect of Disputed Claims, if any.

At the option of the Plan Administrator, any distributions under this Plan may be made either in Cash, by check drawn on a domestic bank, by wire transfer or by ACH. Notwithstanding any other provisions of this Plan to the contrary, no payment of fractional cents will be made under this Plan. Cash will be issued to Holders entitled to receive a Distribution of Cash in whole cents (rounded to the nearest whole cent when and as necessary). Any distribution of less than \$10.00 will be considered de minimus, and Holders of Allowed Claims that are entitled to any distribution of less than \$10.00 will not receive any distribution. Such

funds shall remain with and vest in Reorganized AMS for distribution to other Holders of Allowed Claims.

C. Delivery of Distributions

Except as otherwise provided in this Plan, distributions to Holders of Allowed Claims shall be made by the Disbursing Agent (i) at the addresses set forth on the Proofs of Claim filed by such Holder (or at the last known addresses of such Holder if no motion requesting payment or Proof of Claim is filed or the Debtors or Reorganized AMS have been notified in writing of a change of address), (ii) at the addresses set forth in any written notices of address changes delivered to the Plan Administrator after the date of any related Proof of Claim or (iii) at the addresses reflected in the Schedules if no Proof of Claim has been filed and the Plan Administrator has not received a written notice of a change of address.

D. Undeliverable Distributions

If a distribution to a Holder of a Claim is returned as undeliverable, no further distributions to such Holder of a Claim shall be made unless and until the Plan Administrator or Disbursing Agent is notified of the then-current address of such Holder, at which time (subject to the terms of the last sentence of this Article VI.D) all missed distributions shall be made to such Holder without interest. Amounts in respect of undeliverable distributions shall be returned to the Plan Administrator until such distributions are claimed. All funds or other undeliverable distributions returned to the Plan Administrator in respect of any Claim and not claimed within four (4) months of return shall be forfeited and remain with and vest in Reorganized AMS for distribution to other Holders of Allowed Claims. Any unclaimed funds held by Reorganized AMS at the time the Final Decree is entered may be donated to a charity selected by the Plan Administrator and the Post-Confirmation Committee.

E. Claims Administration Responsibility

1. Reservation of Rights to Object to Claims

Unless a Claim is expressly described as an Allowed Claim pursuant to or under this Plan, or otherwise becomes an Allowed Claim prior to or after the Effective Date,

Reorganized AMS and the Plan Administrator (on behalf of the Estates) reserve any and all objections to any and all Claims and motions or requests for the payment of Claims, whether administrative expense, priority, secured or unsecured, including without limitation any and all objections to the validity or amount of any and all alleged Administrative Claims, Priority Tax Claims, Priority Claims, Secured Claims, Unsecured Claims, Interests, Liens and security interests, whether under the Bankruptcy Code, other applicable law or contract. Reorganized AMS's and/or the Plan Administrator's failure to object to any Claim in the Chapter 11 Cases shall be without prejudice to Reorganized AMS's and the Plan Administrator's rights to contest or otherwise defend against such Claim in the Bankruptcy Court when and if such Claim is sought to be enforced by the Holder of such Claim.

2. Objections to Claims

Prior to the Effective Date, the Debtors shall be responsible for pursuing any objection to the allowance of any Claim. From and after the Effective Date, the Plan Administrator will retain responsibility for administering, disputing, objecting to, compromising or otherwise resolving and making distributions, if any, with respect to all Claims, subject to any approvals of the Post-Confirmation Committee as set forth in Article IV.G of this Plan. Unless otherwise provided in this Plan or by order of the Bankruptcy Court, any objections to Claims by the Plan Administrator will be filed and served not later than 180 days after the Effective Date, provided that Reorganized AMS or the Plan Administrator may request (and the Bankruptcy Court may grant) an extension of such deadline by filing a motion with the Bankruptcy Court, based upon a reasonable exercise of his or her business judgment. A motion seeking to extend the deadline to object to any Claim shall not be deemed an amendment to this Plan.

3. Filing of Objections

An objection to a Claim shall be deemed properly served on the Holder of such Claim if Reorganized AMS or the Plan Administrator effect service by any of the following methods: (i) in accordance with Rule 4 of the Federal Rule of Civil Procedure, as modified and made applicable by Bankruptcy Rule 7004; (ii) to the extent counsel for such Holder is unknown,

by first class mail, postage prepaid, on the signatory on the Proof of Claim or Interest or other representative identified on the Proof of Claim or Interest or any attachment thereto; or (iii) by first class mail, postage prepaid, on any counsel that has appeared on the behalf of such Holder in the Chapter 11 Cases.

4. Determination of Claims

Except as otherwise agreed by Reorganized AMS or the Plan Administrator, any Claim as to which a Proof of Claim or motion or request for payment was timely filed in the Chapter 11 Cases may be determined and (so long as such determination has not been stayed, reversed or amended and as to which determination (or any revision, modification or amendment thereof) the time to appeal or seek review or rehearing has expired and as to which no appeal or petition for review or rehearing was filed or, if filed, remains pending) liquidated pursuant to (i) an order of the Bankruptcy Court, (ii) applicable bankruptcy law, (iii) agreement of the parties, (iv) applicable non-bankruptcy law or (v) the lack of (a) an objection to such Claim, (b) an application to equitably subordinate such Claim and (c) an application to otherwise limit recovery with respect to such Claim, filed by the Debtors, Reorganized AMS or the Plan Administrator on or prior to any applicable deadline for filing such objection or application with respect to such Claim. Any such Claim so determined and liquidated shall be deemed to be an Allowed Claim for such liquidated amount and shall be satisfied in accordance with this Plan. Nothing contained in this Article VI.E shall constitute or be deemed a waiver of any claim, right, or Causes of Action that the Debtors or the Plan Administrator may have against any Person in connection with or arising out of any Claim or Claims, including without limitation any rights under 28 U.S.C. § 157.

F. Procedures for Treating and Resolving Disputed and Contingent Claims

1. No Distributions Pending Allowance

No payments or distributions will be made with respect to all or any portion of a Disputed Claim unless and until all objections to such Disputed Claim have been settled or withdrawn or have been determined by a Final Order, and the Disputed Claim has become an

Allowed Claim; provided, however, that in the event that only a portion of such Claim is an Allowed Claim, the Plan Administrator may make, in his or her discretion, a distribution pursuant to the Plan on account of the portion of such Claim that becomes an Allowed Claim.

2. Claim Estimation

The Debtors or the Plan Administrator may request estimation or liquidation of any Disputed Claim that is contingent or unliquidated pursuant to Bankruptcy Code § 502(c); provided, however, that the Bankruptcy Court shall determine (i) whether such Disputed Claims are subject to estimation pursuant to Bankruptcy Code § 502(c) and (ii) the timing and procedures for such estimation proceedings, if any.

G. Setoffs and Recoupment

Reorganized AMS and/or Plan Administrator (as the case may be) may, pursuant to Bankruptcy Code §§ 553 and 558 or applicable non-bankruptcy law, but shall not be required to, setoff against or recoup from any Claim on which payments are to be made pursuant to this Plan, any claims or Causes of Action of any nature whatsoever the Debtors may have against the Holder of such Claim; provided, however, that neither the failure to effect such offset or recoupment nor the allowance of any Claim shall constitute a waiver or release by the Debtors of any setoff or recoupment the Debtors may have against the Holder of such Claim, nor of any other claim or Cause of Action.

H. Allowance and Disallowance of Claims Subject to Bankruptcy Code § 502

Allowance and disallowance of Claims shall be in all respects subject to the provisions of Bankruptcy Code § 502, including without limitation subsections (b), (d), (e), (g), (h) and (i) thereof.

I. Cancellation of Instruments and Agreements

Upon the occurrence of the Effective Date, except as otherwise provided herein, all promissory notes, shares, certificates, instruments, indentures, or stock, or agreements evidencing, giving rise to, or governing any Claim or Interest shall be deemed canceled and annulled without further act or action under any applicable agreement, law, regulation, order, or

rule and the obligations of the Debtors under such promissory notes, share certificates, instruments, indentures, or agreements shall be discharged, and the Holders thereof shall have no rights against the Debtors, the Plan Administrator, the Estates or Reorganized AMS, and such instruments shall evidence no such rights, except the right to receive the distributions provided for in this Plan.

The amended certificate of incorporation of Reorganized AMS will further provide for the issuance of one share of stock. This share will be issued to the Plan Administrator, who will hold such share in trust for the benefit of the Holders of Allowed Claims. The Plan Administrator shall have the ability to vote the interests of Reorganized AMS through his or her possession and voting control of the post-Effective Date stock of Reorganized AMS. Under Bankruptcy Code § 1145, the issuance of the sole share of Reorganized AMS to the Plan Administrator under this Plan shall be exempt from registration under the Securities Act of 1933, as amended, and all applicable state and local laws requiring registration of securities.

J. No Interest on Claims

Unless otherwise specifically provided for in this Plan, the Confirmation Order or a postpetition agreement in writing between the Debtors and a Holder of a Claim and approved by an order of the Bankruptcy Court, postpetition interest shall not accrue or be paid on any Claim, and no Holder of a Claim shall be entitled to interest accruing on or after the Petition Date on any Claim. In addition, and without limiting the foregoing, interest shall not accrue on or be paid on any Disputed Claim in respect of the period from the Effective Date to the date a final distribution is made when and if such Disputed Claim becomes an Allowed Claim.

K. Withholding Taxes

The Plan Administrator shall be entitled to deduct any federal, state or local withholding taxes from any payments under this Plan. As a condition to making any distribution under this Plan, the Plan Administrator may require that the Holder of an Allowed Claim provide such Holder's taxpayer identification number and such other information and certification as the

Plan Administrator may deem necessary to comply with applicable tax reporting and withholding laws.

L. Reports

From the Effective Date, until a Final Decree is entered, the Plan Administrator shall submit quarterly reports to the United States Trustee setting forth all receipts and disbursements of Reorganized AMS as required by the United States Trustee guidelines.

ARTICLE VII

EFFECT OF CONFIRMATION

A. Injunction

Except as otherwise expressly provided in this Plan or in the Confirmation Order, and except in connection with the enforcement of the terms of this Plan or any documents provided for or contemplated in this Plan, all entities who have held, hold or may hold Claims against or Interests in the Debtors or the Estates that arose prior to the Effective Date are permanently enjoined from: (i) commencing or continuing in any manner, directly or indirectly, any action or other proceeding of any kind against any Protected Party or any property of any Protected Party with respect to any such Claim or Interest; (ii) the enforcement, attachment, collection or recovery by any manner or means, directly or indirectly, of any judgment, award, decree, or order against any Protected Party or any property of any Protected Party with respect to any such Claim or Interest; (iii) creating, perfecting or enforcing, directly or indirectly, any lien or encumbrance of any kind against any Protected Party or any property of any Protected Party with respect to any such Claim or Interest; (iv) effecting, directly or indirectly, any setoff or recoupment of any kind against any obligation due to any Protected Party or any property of any Protected Party with respect to any such Claim or Interest, unless approved by the Bankruptcy Court; and (v) any act, in any manner, in any place whatsoever, that does not conform to or comply with the provisions of this Plan with respect to such Claim or Interest. Nothing contained in this Article VII.A shall prohibit the Holder of a Disputed Claim from litigating its right to seek to have such Disputed Claim declared an Allowed Claim and paid in

accordance with the distribution provisions of this Plan, or enjoin or prohibit the interpretation or enforcement by the Holder of such Disputed Claim of any of the obligations of the Debtors, the Plan Administrator or Reorganized AMS under this Plan. The Confirmation Order shall also constitute an injunction enjoining any Person from enforcing or attempting to enforce any claim or cause of action against any Protected Party or any property of any Protected Party based on, arising from or related to any failure to pay, or make provision for payment of, any amount payable with respect to any Priority Tax Claim on which the payments due under Article VI.K of this Plan have been made or are not yet due under Article VI.K of this Plan.

B. Term of Injunctions or Stays

Unless otherwise provided herein or in the Confirmation Order, all injunctions or stays provided for in the Chapter 11 Cases under Bankruptcy Code §§ 105 or 362, this Plan or otherwise, and extant on the Confirmation Date, shall remain in full force and effect until the later of (i) entry of the Final Decree or (ii) the dissolution of Reorganized AMS.

C. Exculpation

None of the Protected Parties shall have or incur any liability for, and each Protected Party is hereby released from, any claim, cause of action or liability to any other Protected Party, to any Holder of a Claim or an Interest, or to any other party in interest, for any act or omission taken in connection with, arising from or relating to the Chapter 11 Cases, the formulation, negotiation, and/or pursuit of confirmation of this Plan, the consummation of this Plan, and/or the administration of this Plan and/or the property to be distributed under this Plan, except for claims, causes of action or liabilities arising from the gross negligence, willful misconduct or fraud of any Protected Party, in each case subject to determination of such by final order of a court of competent jurisdiction and provided that any Protected Party shall be entitled to reasonably rely upon the advice of counsel with respect to its duties and responsibilities (if any) under this Plan and such reasonable reliance shall form an absolute defense to any such claim, cause of action or liability. Without limiting the generality of the foregoing, each

Protected Party shall be entitled to and granted the protections and benefits of Bankruptcy Code § 1125(e).

The above provision shall not be deemed or act to release any claims, Causes of Action or liabilities that Reorganized AMS or the Debtors' Estates may have against any Person or entity for any act, omission, failure to act that occurred prior to the Petition Date and shall not be deemed or act to release any Avoidance Actions and/or Causes of Action.

ARTICLE VIII

CONDITIONS PRECEDENT

A. Condition Precedent to Effective Date

This Plan shall not become effective unless and until each of the following conditions shall have been satisfied in full in accordance with the provisions specified below:

1. The Bankruptcy Court shall have approved a disclosure statement with respect to this Plan in form and substance acceptable to the Plan Proponents in their sole and absolute discretion;
2. The Confirmation Order shall be in form and substance acceptable to the Plan Proponents in their sole and absolute discretion;
3. The Confirmation Order shall have been entered by the Bankruptcy Court and shall not be subject to any stay of effectiveness, the Confirmation Date shall have occurred and no request for revocation of the Confirmation Order under Bankruptcy Code § 1144 shall have been made, or, if made, shall remain pending; and
4. The appointment of the Plan Administrator shall have been confirmed by order of the Bankruptcy Court.

B. Revocation, Withdrawal or Non-Consummation of Plan

If, after the Confirmation Order is entered, each of the conditions precedent to the Effective Date have not been satisfied or duly waived on or by ninety (90) days after the Confirmation Date, then upon motion by the Plan Proponents, the Confirmation Order may be vacated by the Bankruptcy Court; provided, however, that notwithstanding the filing of such a

motion, the Confirmation Order shall not be vacated if each of the conditions precedent to the Effective Date is either satisfied or duly waived before the Bankruptcy Court enters an order granting the relief requested in such motion. A condition precedent to the Effective Date may only be waived by a writing executed by the Plan Proponents. If the Confirmation Order is vacated pursuant to this Article VIII.B., this Plan shall be null and void in all respects, and nothing contained in this Plan shall (i) constitute a waiver or release of any Claims against or Interests in the Debtors, (ii) prejudice in any manner the rights of the Holder of any Claim against or Interest in the Debtors or (iii) prejudice in any manner the rights of the Plan Proponents in the Chapter 11 Cases.

ARTICLE IX

ADMINISTRATIVE PROVISIONS

A. Retention of Jurisdiction by the Bankruptcy Court

This Plan shall not in any way limit the Bankruptcy Court's post-confirmation jurisdiction as provided under the Bankruptcy Code. Pursuant to Bankruptcy Code §§ 105(a) and 1142, the Bankruptcy Court shall retain and have exclusive jurisdiction (to the extent granted by applicable law, including any provisions permitting mandatory or discretionary withdrawal of such jurisdiction) over any matter arising out of or related to the Chapter 11 Cases and this Plan, including without limitation the following matters:

1. to hear and determine motions for (i) the assumption or rejection or (ii) the assumption and assignment of executory contracts or unexpired leases to which Reorganized AMS, as successor-in-interest to any of the Debtors, is a party or with respect to which Reorganized AMS, as successor-in-interest to any of the Debtors, may be liable, and to hear and determine the allowance of Claims resulting therefrom including the amount of cure, if any, required to be paid;
2. to adjudicate any and all disputes over the ownership of a Claim or Interest;
3. to adjudicate any and all disputes arising from or relating to the

distribution or retention of consideration under this Plan;

4. to adjudicate any and all disputes between the Plan Administrator and/or Reorganized AMS, on the one hand, and the Post-Confirmation Committee, on the other hand;

5. to ensure that distributions to Holders of Allowed Claims are accomplished as provided herein;

6. to hear and determine any and all objections to the allowance or estimation of Claims filed, both before and after the Confirmation Date, including any objections to the classification of any Claim, and to allow or disallow any Claim, in whole or in part;

7. to enter and implement such orders as may be appropriate if the Confirmation Order is for any reason stayed, revoked, modified and/or vacated;

8. to issue orders in aid of execution, implementation or consummation of this Plan;

9. to hear and determine disputes arising in connection with the interpretation, implementation or enforcement of this Plan or the Confirmation Order including disputes arising under agreements, documents or instruments executed in connection with this Plan;

10. to consider any modifications of this Plan, to cure any defect or omission or to reconcile any inconsistency in any order of the Bankruptcy Court, including without limitation the Confirmation Order;

11. to hear and determine all applications for allowance of compensation and reimbursement of Professional Fee Claims under this Plan or under Bankruptcy Code §§ 328, 330, 331, 503(b), 1103 and 1129(a)(4);

12. to hear and determine all motions requesting allowance of an Administrative Claim;

13. to determine requests for the payment of Claims entitled to priority under Bankruptcy Code § 507(a)(2), including compensation and reimbursement of expenses of parties entitled thereto;

14. to hear and determine all Causes of Action, Avoidance Actions and other suits and adversary proceedings to recover assets of Reorganized AMS, as successor-in-interest to any of the Debtors and property of the Estates, wherever located, and to adjudicate any and all other Causes of Action, Avoidance Actions, suits, adversary proceedings, motions, applications and contested matters that may be commenced or maintained pursuant to the Chapter 11 Cases or this Plan, proceedings to adjudicate the allowance of Disputed Claims and all controversies and issues arising from or relating to any of the foregoing;

15. to hear and determine matters concerning state, local and federal taxes in accordance with Bankruptcy Code §§ 346, 505 and 1146;

16. to hear any other matter not inconsistent with the Bankruptcy Code;

17. to hear and determine all disputes involving the existence, nature or scope of the Debtors' discharge, including any dispute relating to any liability arising out of the termination of employment or the termination of any employee or retiree benefit program, regardless of whether such termination occurred prior to or after the Effective Date;

18. to enter the Final Decree closing the Chapter 11 Cases; and

19. to enforce all orders previously entered by the Bankruptcy Court.

B. Payment of Statutory Fees

All fees payable through the Effective Date pursuant to 28 U.S.C. § 1930 shall be paid on or before the Effective Date. All fees payable after the Effective Date pursuant to 28 U.S.C. § 1930 shall be paid by the Debtors or the Plan Administrator out of the Assets of the Estates.

C. Headings

The headings of the articles, paragraphs and sections of this Plan are inserted for convenience only and shall not affect the interpretation hereof.

D. Binding Effect of Plan

Except as otherwise provided in Bankruptcy Code § 1141(d)(3), on and after the Effective Date, the provisions of this Plan shall bind any Holder of a Claim against, or Interest

in, the Debtors, the Estates, Reorganized AMS and their respective successors or assigns, whether or not the Claim or Interest of such Holders is impaired under this Plan and whether or not such Holder has accepted this Plan. The rights, benefits and obligations of any entity named or referred to in this Plan, whose actions may be required to effectuate the terms of this Plan, shall be binding on and shall inure to the benefit of any heir, executor, administrator, successor or assign of such entity (including, without limitation, the Plan Administrator and any trustee appointed for the Debtors under chapters 7 or 11 of the Bankruptcy Code).

E. Final Order

Except as otherwise expressly provided in this Plan, any requirement in this Plan for a Final Order may be waived by the Plan Proponents upon written notice to the Bankruptcy Court. No such waiver shall prejudice the right of any party in interest to seek a stay pending appeal of any order that is not a Final Order.

F. Withholding and Reporting Requirements

In connection with this Plan and all instruments issued in connection herewith and distributions hereunder, Reorganized AMS and the Plan Administrator shall comply with all withholding and reporting requirements imposed by any federal, state, local or foreign taxing authority, and all distributions hereunder shall be subject to any such withholding and reporting requirements.

G. Tax Exemption

Pursuant to Bankruptcy Code § 1146, any transfers from a Debtor, Reorganized AMS or the Plan Administrator to any other Person or entity pursuant to this Plan, or any agreement regarding the transfer of title to or ownership of any of the Debtors' or Reorganized AMS's real or personal property, or the issuance, transfer or exchange of any security under this Plan, or the execution, delivery or recording of an instrument of transfer pursuant to, in implementation of or as contemplated by this Plan, including, without limitation, any transfers to or by the Plan Administrator of the Debtors' or Reorganized AMS's property in implementation of or as contemplated by this Plan (including, without limitation, any subsequent transfers of

property by the Plan Administrator) shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, stamp act, real estate transfer tax, mortgage recording tax, Uniform Commercial Code filing or recording fee or other similar tax or governmental assessment. Consistent with the foregoing, each recorder of deeds or similar official for any county, city or governmental unit in which any instrument hereunder is to be recorded shall, pursuant to the Confirmation Order, be ordered and directed to accept such instrument, without requiring the payment of any documentary stamp tax, deed stamps, stamp tax, transfer tax, intangible tax or similar tax.

H. Governing Law

Except to the extent a rule of law or procedure is supplied by federal law (including the Bankruptcy Code and Bankruptcy Rules) or unless specifically stated, the rights, duties and obligations arising under this Plan, any agreements, documents and instruments executed in connection with this Plan (except as otherwise set forth in those agreements, in which case the governing law of such agreements shall control) and, with respect to the Debtors incorporated in Delaware and Reorganized AMS, corporate governance matters shall be governed by, and construed and enforced in accordance with the laws of the State of Delaware, without giving effect to conflicts of law principles. Corporate governance matters relating to any Debtor not incorporated in Delaware shall be governed by the law of the state of incorporation of the applicable Debtor.

I. Severability

After the Effective Date, should the Bankruptcy Court, or any other court of competent jurisdiction, determine that any provision in this Plan is either illegal on its face or illegal as applied to any Claim, such provisions shall be unenforceable either as to all Holders of Claims or as to the Holder of such Claim as to which the provision is illegal, respectively. Such a determination of unenforceability shall in no way limit or affect the enforceability and operative effect of any other provision of this Plan.

J. Revocation

The Plan Proponents reserve the right to revoke and withdraw this Plan prior to the Confirmation Date. If the Plan Proponents revoke or withdraw this Plan, then this Plan shall be null and void and, in such event, nothing contained herein shall be deemed to constitute a waiver or release of any Claims by or against the Debtors, the Committee or any other Person or to prejudice in any manner the rights of the Debtors, the Committee or any Person in any further proceedings involving the Debtors, or be deemed an admission by the Debtors and/or the Committee.

K. Construction

The rules of construction as set forth in Bankruptcy Code § 102 shall apply to the construction of this Plan.

L. Plan Controls Disclosure Statement

In the event and to the extent any provision of this Plan is inconsistent with any provision of the Disclosure Statement, the provisions of this Plan shall control and take precedence.

M. Amendments and Modifications

The Plan Proponents may alter, amend or modify this Plan under Bankruptcy Code § 1127(a) at any time prior to the Confirmation Hearing. After the Confirmation Date and prior to “substantial consummation” (as such term is defined in Bankruptcy Code § 1101(2)) of this Plan with respect to any Debtor or Reorganized AMS, Reorganized AMS or the Plan Administrator may, subject to the approval of the Post-Confirmation Committee, institute proceedings in the Bankruptcy Court pursuant to Bankruptcy Code § 1127(b) to remedy any defect or omission or reconcile any inconsistencies in this Plan, the Disclosure Statement or the Confirmation Order, and such matters as may be necessary to carry out the purposes and effects of this Plan, by the filing of a motion on notice to the Bankruptcy Rule 2002 service list only, and the solicitation of all Creditors and other parties-in-interest shall not be required.

N. Notices

Any notices required under this Plan or any notices or requests of the Debtors or the Plan Administrator by parties in interest under or in connection with this Plan shall be in writing and served either by (i) certified mail, return receipt requested, postage prepaid, (ii) hand delivery or (iii) reputable overnight delivery service, all charges prepaid, and shall be deemed to have been given when received by the following parties:

To the Debtors, Reorganized AMS and the Plan Administrator:

Advanced Marketing Services, Inc.
Publishers Group West Incorporated
Publishers Group Incorporated
Attention: Curtis R. Smith
13475 Danielson Street, Suite 110
Poway, California 92064

With a copy to:

Richards, Layton & Finger, PA
Attention: Mark D. Collins, Esq.
One Rodney Square
Box 551
Wilmington, DE 19899

O'Melveny & Myers LLP
Attention: Suzzanne S. Uhland, Esq.
275 Battery Street
San Francisco, CA 94111

With a copy to:

Lowenstein Sandler PC
Attention: Bruce Buechler, Esq.
65 Livingston Avenue
Roseland, NJ 07068

O. Filing of Additional Documents

On or before substantial consummation of this Plan, the Plan Proponents may file with the Bankruptcy Court such agreements or other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of this Plan.

P. Direction to a Party

From and after the Effective Date, the Plan Proponents may apply to the Bankruptcy Court for the entry of an order directing any Person to execute or deliver or to join in the execution or delivery of any instrument or document reasonably necessary or reasonably appropriate to effect a transfer of properties dealt with by this Plan, and to perform any other act (including the satisfaction of any lien or security interest) that is reasonably necessary or reasonably appropriate for the consummation of this Plan.

Q. Successors and Assigns

The rights, duties and obligations of any Person named or referred to in this Plan, including all Creditors, shall be binding on, and shall inure to the benefit of, the successors and assigns of such Person.

R. Waiver of Subordination

Notwithstanding any provision of this Plan to the contrary, all Holders of Claims shall be deemed to have waived any and all contractual subordination rights which they may have with respect to the distributions made pursuant to this Plan, and the Confirmation Order shall permanently enjoin, effective as of the Effective Date, all Holders of Claims from enforcing or attempting to enforce any such rights against any Person receiving distributions under this Plan.

Dated: August 24, 2007 Respectfully submitted,

Advanced Marketing Services, Inc.

By: /s/ Curtis R. Smith
Name: Curtis R. Smith
Title: Chief Executive Officer

Publishers Group Incorporated

By: /s/ Curtis R. Smith
Name: Curtis R. Smith
Title: Sole Director

Publishers Group West Incorporated

By: /s/ Curtis R. Smith
Name: Curtis R. Smith
Title: Sole Director

Official Committee of Unsecured Creditors

By: /s/ William C. Sinnott
Name: William C. Sinnott of Random
 House, Inc.
Title: Chairman of the Committee

Exhibit A

Assumption Schedule

[TO COME]

Exhibit B
Insurance Policies

COVERAGE/POLICY #/CARRIER	
Workers' Compensation	
	WA2-16D-035346-106
	WC2-161-035346-116
	Liberty Mutual Insurance Company
Property (Multi-Peril Casualty) & General Liability	
	Y-630-5792C220-TIL-06
	Travelers Property Casualty Company of America
Transit or Cargo	
	OC-06100271
	St. Paul Fire & Marine Insurance Company
Commercial Crime	
	SAA 517-76-99
	Great American Insurance Company
Terrorism	
	Y-630-5792C220-TIL-06
	Travelers Property Casualty Company of America
Kidnap & Ransom	
	494CF0554
	St. Paul Fire & Marine Insurance Company
Publishers' Errors & Omissions	
	LS035570
	National Casualty Company/ Media/Professional Insurance
Umbrella	
	YSM-CUP-5792C220-TIL-06
	Travelers Property Casualty Company of America
Excess Liability	
	93636920
	Chubb Insurance Company
Fiduciary Liability – Retirement Plans	
	512CM1234
	The St. Paul Mercury Insurance Company
Automobiles	
	Y-810-5792C220-TIL-06
	Travelers Property Casualty Company of America

COVERAGE/POLICY #/CARRIER	
Accounts Receivable	
	3971786
	Euler Hermes ACI
Foreign Liability – Global Companion Policy	
	GB06101033
	St. Paul Fire & Marine Insurance Company
Directors & Officers Liability	
	ELU0925529-06
	XL Specialty Insurance Company
Directors & Officers Liability – Excess	
	HS-0303-1728-051206
	Hudson Specialty Insurance Company
Directors & Officers Liability	
	965 44 58
	National Union Fire Insurance Co. of Pittsburgh, PA
Premium Financing Agreement	
	AFCO Acceptance Corporation
Medical (HMO, POS and PPO Plans) and Dental (PPO Plan)	
	3192716
	CIGNA
Life Insurance (Basic & Supplemental)	
	FLX-960934
	CIGNA
AD&D Insurance	
	OK 960964
	CIGNA
Short Term Disability	
	LK-750184
	CIGNA
Long Term Disability	
	LK-960790
	CIGNA
Business Travel Accident Insurance	
	ABL 961281
	CIGNA
Vision Plan	
	12252754
	Vision Service Plan
401k Retirement Savings Plan	
	5-15553
	Principal Financial Group

Exhibit B
The Debtors' Cash Flow Statements
for the period from the Petition Date through [_____, 2007]

Exhibit C

Potential Defendants of Avoidance Actions and/or Causes of Action

- (a) Persons who served as officers and/or directors of the Debtors (excluding Persons who served as officers and/or directors of the Debtors for any material period of time following the Petition Date) and who may be insured under certain of the Debtors' director and officer liability insurance policies:**

Adam Zoldan
Alisa Judge
E. William (Bill) Swanson
Bruce Derkash
Bruce Grout
Bruce C. Myers
Charles Tillinghast
Derek Brown
Edward Leonard
Gary M. Rautenstrauch
Irwin Myers
James A. Leidich
John McGee
John Rogers
Kenneth Hayes
Kevan Lyon
Laurie Lingal
Loren Hotz
Loren Paulsen
Lynn Dawson
Marcy Roke
Mark Flournoy
Marty Vrable
Michael Nicita
Robert F. Bartlett
Sandra Christie
Sandra Dear
Steve Boyle
Sydney Stanley
Tara Catogge
Thomas Leettola
Trygve E. Myhren

(b) Other potential defendants:

Deloitte & Touche and certain of its current and/or former employees who
performed services for the Debtors

Jefferies & Co., Inc.

Hughes Hubbard & Reed LLP

Ernst & Young

Lina Hinds