



8-K

ADVANCED MARKETING SERVICES INC filed this Form 8-K on 05/19/06

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): May 15, 2006

ADVANCED MARKETING SERVICES, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware (State or Other Jurisdiction of Incorporation)	0-16002 (Commission File Number)	95-3768341 (IRS Employer Identification No.)
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5880 Oberlin Drive, San Diego, California
(Address of principal executive offices)

92121
(Zip Code)

(858) 457-2500
Registrant's telephone number, including area code

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry Into a Material Definitive Agreement.

Effective May 15, 2006, the Company entered into a settlement agreement and general release (the "CNA/Liberty Settlement Agreement") with Columbia Casualty Company, Continental Casualty Company and CNA Financial Corporation (collectively, "CNA") and Liberty Mutual Insurance Company ("Liberty" and together with CNA, the "Carriers"). Pursuant to the CNA/Liberty Settlement Agreement, among other things, in consideration of the settlement payment described below the Company has agreed to dismiss a coverage action (the "Coverage Action") that it initiated against the Carriers for coverage under certain policies (the "Policies") issued by the Carriers for certain securities lawsuits, derivative lawsuits and other lawsuits filed against the Company, certain individuals alleged to be directors and officers of the Company and certain directors, officers and employees of the Company (collectively, the "Underlying Matters"). Upon the dismissals by the Company from the Coverage Action of each of CNA and Liberty, the Company and each of CNA and Liberty will release the other from any and all claims related to the Coverage Action, the Underlying Matters, various matters described in the recitals to the CNA/Liberty Settlement Agreement, and the Policies.

Effective May 17, 2006, the Company entered into a settlement agreement and full mutual release of all claims (the "Federal Settlement Agreement") with Federal Insurance Company ("Federal"). Pursuant to the Federal Settlement Agreement, among other things, in consideration of the settlement payment described below the Company has agreed to dismiss a coverage action (the "Coverage Action") that it initiated against Federal for coverage under a certain policy issued by Federal (the "Federal Policy") for certain securities lawsuits, derivative lawsuits and other lawsuits filed against the Company, certain individuals alleged to be directors and officers of the Company and certain directors, officers and employees of the Company (collectively, the "Underlying Matters"). Effective as of the date of the Federal Settlement Agreement, the Company and Federal have each released the other from any and all claims related to the Coverage Action and the Underlying Matters.

The Carriers and Federal paid the Company the aggregate sum of \$10,150,000 in consideration of the above described releases.

A copy of the Settlement Agreement and General Release by and between Advanced Marketing Services, Inc., and Columbia Casualty Company, Continental Casualty Company and CNA Financial Corporation and Liberty Mutual Insurance Company is attached to this report as Exhibit 10.1 and is incorporated herein by reference.

A copy of the Settlement Agreement and Full Release of All Claims by and between Advanced Marketing Services, Inc., and Federal Insurance Company is attached to this report as Exhibit 10.2 and is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits.

10.1 Settlement Agreement and General Release, by and between
Advanced Marketing Services, Inc., Columbia Casualty
Company, Continental Casualty Company, CNA Financial
Corporation and Liberty Mutual Insurance Company, effective

as of May 15, 2006

10.2 Settlement Agreement and Full Mutual Release of All Claims,
by and between Advanced Marketing Services, Inc., and
Federal Insurance Company, effective as of May 17, 2006

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: May 19, 2006

Advanced Marketing Services, Inc.

/s/ Gary Lloyd

Gary Lloyd
Executive Vice President,
General Counsel & Secretary

EXHIBIT LIST

Exhibit No.	Exhibit
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10.1	Settlement Agreement and General Release, by and between Advanced Marketing Services, Inc., Columbia Casualty Company, Continental Casualty Company, CNA Financial Corporation and Liberty Mutual Insurance Company, effective as of May 15, 2006
10.2	Settlement Agreement and Full Mutual Release of All Claims, by and between Advanced Marketing Services, Inc., and Federal Insurance Company, effective as of May 17, 2006

Exhibit 10.1

SETTLEMENT AGREEMENT AND GENERAL RELEASE

This Settlement Agreement and General Release ("Settlement Agreement" or "Agreement") is made and entered into pursuant to the following terms.

1. THE PARTIES TO THE SETTLEMENT AGREEMENT

1.1 Advanced Marketing Services, Inc. ("AMS").

1.2 Columbia Casualty Company, Continental Casualty Company, and CNA Financial Corporation (jointly "CNA").

1.3 Liberty Mutual Insurance Company ("Liberty Mutual").

1.4 Columbia Casualty Company and Liberty Mutual are sometimes collectively referred to herein as the "Insurers." (Subject to the provisions of paragraph 10, it is agreed that CNA Financial Corporation is not an insurer and that Continental Casualty Company did not issue any insurance policy to AMS relevant to the matters that are the subject of this Agreement.)

1.5 AMS, CNA, and Liberty Mutual are sometimes collectively referred to herein as "the Parties" and sometimes individually as a "Party."

2. THE INSURANCE POLICIES

2.1 Columbia Casualty Company issued Combined Solutions Policy Number 267868733 to AMS for the policy period April 28, 2003 to April 28, 2004 (the "Columbia Casualty Policy"). The Columbia Casualty Policy contains a maximum aggregate Limit of Liability for all Loss under the Policy of \$5 million.

2.2 Liberty Mutual Insurance Company issued Excess Follow Form Policy Number 192825-013 to AMS for the policy period April 28, 2003 to April 28, 2004 (the "Liberty Mutual Policy"). The Liberty Mutual Policy contains a maximum Limit of Liability for all loss of \$5 million in excess of the Columbia Casualty Policy's Limit of Liability and any applicable Retention under the Columbia Casualty Policy.

2.3 The Columbia Casualty Policy and Liberty Mutual Policy, collectively, are sometimes referred to herein as the "Policies."

3. THE COVERAGE ACTION

3.1 The "Coverage Action" refers to the case captioned Advanced Marketing Services, Inc. v. Columbia Casualty Company, et al., Case No. GIC 832603, which is pending in San Diego Superior Court.

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3.2 Liberty Mutual has filed a Cross-Complaint in the Coverage Action. A demurrer was sustained as to that Cross-Complaint. No Amended Cross-Complaint has yet been filed.

4. RECITALS

4.1 In July 2003, the U.S. District Court for the Southern District of California issued a search warrant to the Federal Bureau of Investigation, authorizing a search of AMS's corporate offices, and the FBI executed that warrant.

4.2 Commencing in July of 2003, the United States Attorney's Office issued one or more grand jury subpoenas to AMS and/or its custodian of records. AMS represents that the United States Attorney's Office issued grand jury subpoenas to certain of AMS's present and/or former officers, directors and/or employees.

4.3 In September 2003, the United States Securities and Exchange Commission began an investigation of AMS and subsequently issued subpoenas to certain of AMS's present and/or former officers, directors and/or employees, and to AMS's custodian of records.

4.4 AMS announced in January 2004 that it would restate its financial statements for the previous five fiscal years. AMS has subsequently announced certain anticipated revisions to that restatement. As of this date AMS has not yet issued the restated financial information.

4.5 In or around January and February 2004, several purported class action securities lawsuits were filed against AMS and others. These lawsuits have since been consolidated under the case captioned In re Advanced Marketing Services, Inc. Securities Litigation, Master File No. 04-00121 JM (AJB), which is pending in the United States District Court for the Southern District of California (the "Securities Litigation").

4.6 In or around January 2004, two derivative lawsuits were filed against certain individuals alleged to be directors and officers of AMS, with AMS named as a nominal defendant. These lawsuits have since been consolidated under the case captioned In re Advanced Marketing Services, Inc. Derivative Litigation, Lead Case No. GIC824845, which is pending in San Diego Superior Court (the "State Court Derivative Litigation").

4.7 On or around April 6, 2005, a derivative lawsuit captioned Dubbert v. Bartlett, et al., No. 05CV706H(RBB), was filed against certain individuals alleged to be directors and officers of AMS, with AMS as a nominal defendant, in the United States District Court for the Southern District of California (the "Dubbert Action").

4.8 In addition, other lawsuits were filed and indictments were issued against directors, officers, or employees of AMS, including but not necessarily limited to lawsuits filed or indictments issued by the United States and/or its agencies against Karyn Larko and Marcy Roke.

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4.9 AMS has sought coverage under the Policies for the matters listed on Exhibit "A" to this Agreement (collectively, the "Underlying Matters"). Columbia Casualty has denied coverage for some Underlying Matters and accepted possible coverage for other Underlying Matters under a full reservation of rights. Liberty has not accepted coverage for any of the Underlying Matters under the Liberty Mutual Policy. Columbia Casualty has reserved the right to rescind the Columbia Casualty Policy, and Liberty Mutual, in its Cross-Complaint, has asserted a claim for rescission of the Liberty Mutual Policy.

4.10 AMS disputes the Insurers' coverage positions with respect to the Underlying Matters, and specifically disputes that there is a basis to rescind the Policies.

4.11 AMS has paid attorneys' fees and costs incurred by AMS and present and/or former directors, officers and/or employees of AMS in connection with some or all of the Underlying Matters. AMS has requested from Columbia Casualty and Liberty Mutual payment of invoices totaling at least \$14,369,461.60, and has contended that such invoices constitute covered Defense Costs within the meaning of the Policies.

4.12 AMS contends that all of the attorneys' fees and costs it has paid to date in connection with some or all of the Underlying Matters constitute covered "Defense Costs" within the meaning of the Policies, and Columbia Casualty and Liberty Mutual dispute that contention.

4.13 AMS has stated its intention to incur future attorneys' fees and costs both on behalf of itself and on behalf of various present and/or former directors, officers and/or employees in connection with the Underlying Matters.

4.14 Plaintiffs in the Securities Litigation and AMS have reached an agreement to settle the Securities Litigation for payment by or on behalf of AMS of \$6 million and releases by the plaintiff class of claims against AMS and all of its current and former directors, officers, agents, employees, etc. The terms of the settlement are embodied in a Memorandum of Understanding that was executed by counsel for the Lead Plaintiff in the Securities Litigation and AMS on February 17, 2006. The Board of AMS has approved the settlement of the Securities Litigation subject to funding by the carriers. Settlement of the Securities Litigation is subject to approval by the United States District Court for the Southern District of California.

4.15 Prior to execution of this Settlement Agreement, Columbia Casualty paid the sum of \$798,341.41 to AMS for amounts that Columbia Casualty determined constituted Defense Costs within the meaning of the Columbia Casualty Policy, without waiver of any of its rights under the Columbia Casualty Policy or applicable law, including, but not limited to, the right to seek repayment by AMS for amounts advanced that are finally established not to be insured, and subject to AMS's written undertaking to repay such amounts.

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4.16 The Parties hereby enter into the Settlement Agreement in consideration of the foregoing and in consideration of the promises, covenants, releases and agreements set forth herein, the adequacy of which consideration is hereby acknowledged.

5. PAYMENT AND DISMISSALS

5.1 AMS/CNA Settlement:

5.1.1 This Agreement shall be effective as between AMS and CNA when this Agreement has been executed by or on behalf of AMS and CNA independent of whether this Agreement also has been executed by or on behalf of Liberty Mutual.

5.1.2 On or before May 11, 2006, but not before this Agreement has been executed by AMS and CNA and executed copies of the signature pages have been provided to all Parties hereto, Columbia Casualty shall pay or cause to be paid, the sum of \$4,151,658.59, which payment shall be deemed to have exhausted the remaining Limit of Liability of the Columbia Casualty Policy (the "CNA Settlement Payment"). Columbia Casualty will deliver the CNA Settlement Payment to Valley National Bank pursuant to the instructions set forth in Schedule 5.1.2 hereto. The CNA Settlement Payment will be deposited by Valley National Bank directly into the escrow account referenced in Schedule 5.1.2 hereto (the "Securities Litigation Escrow Account") to be held in trust to fund the settlement of the Securities Litigation.

5.1.3 AMS shall dismiss the Coverage Action with prejudice as to CNA, each party to bear its own costs, within five (5) court days after deposit of the CNA Settlement Payment into the Securities Litigation Escrow Account.

5.1.4 Upon dismissal of the Coverage Action with prejudice as to CNA as set forth in Section 5.1.3 of this Agreement, Section 6 of this Agreement shall be deemed effective as between AMS and CNA. This shall be understood as including, but not be limited to, a relinquishment of any rights which CNA may have had pursuant to the Undertaking of Repayment executed by AMS on July 22, 2004.

5.1.5 Should the settlement of the Securities Litigation as described in Section 4.14 of this Agreement not be consummated, for whatever reason, then the CNA Settlement Payment shall be paid out of the Securities Litigation Escrow Account directly to AMS as a final resolution of AMS's claim against CNA for reimbursement of Defense Costs.

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5.2 AMS/Liberty Mutual Settlement:

5.2.1 This Agreement shall be effective as between AMS and Liberty Mutual when this Agreement has been executed by or on behalf of AMS and Liberty Mutual, independent of whether this Agreement also has been executed by or on behalf of CNA.

5.2.2 On or before May 11, 2006, but not before this Agreement has been executed by AMS and Liberty Mutual and executed copies of the signature pages have been provided to all Parties hereto, Liberty Mutual shall pay or cause to be paid, in accordance with the provisions of Schedule 5.2.3, the sum of \$3,450,000, which payment shall be deemed to have exhausted the remaining Limit of Liability of the Liberty Mutual Policy, including all claims for Defense Costs thereunder (the "Liberty Mutual Settlement Payment").

5.2.3 AMS and Liberty Mutual expressly agree that payment of the Liberty Mutual Settlement Payment is not conditioned upon settlement of any Underlying Matter(s). However, it is agreed by AMS and Liberty Mutual that Liberty Mutual will deliver the Liberty Mutual Settlement Payment in accordance with Schedule 5.2.3 hereto to be held in trust and distributed as follows: (a) if the settlement of the Securities Litigation as described in Section 4.14 of this Agreement is consummated, then an amount equal to such settlement payment less the amount of the CNA Settlement Payment shall be released and delivered to AMS as reimbursement of amounts paid to settle the Securities Litigation; (b) any remaining portion of the Liberty Mutual Settlement Payment shall be released and delivered as payment or reimbursement of Defenses Costs incurred in connection with the Underlying Matters. The foregoing, together with the other terms and provisions herein, shall be accepted by AMS as a final resolution of AMS's claim against Liberty Mutual for reimbursement of Defense Costs incurred in connection with the Underlying Matters.

5.2.4 AMS shall dismiss the Coverage Action with prejudice as to Liberty Mutual, each party to bear its own costs, within five (5) court days after deposit of the Liberty Mutual Settlement Payment into the account identified on Schedule 5.2.3.

5.2.5 Upon the dismissals set forth in Section 5.2.4 of this Agreement, Section 6 of this Agreement shall be deemed effective as between AMS and Liberty Mutual.

6. RELEASES

6.1 This Section 6 shall become effective between the Parties only at such time, and between such Parties, as specified in Section 5 of this Agreement.

6.2 AMS, for and on behalf of itself and, to the extent legally permissible, on behalf of its predecessors, successors, successors in interest, affiliates, subsidiaries, parents, divisions, partnerships and joint ventures, and all of the foregoing persons' and entities' past, present and future

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associates, representatives, owners, members, managing members, managers, heirs, assigns, shareholders, creditors, liquidators, administrators, executors, partners, principals, trustees, directors, officers, employees, spouses, independent contractors, attorneys, agents, and all others acting or claiming by, through, under or in concert with any of the foregoing (hereinafter the "AMS-Related Persons and Entities"), hereby releases, remises, acquits and forever discharges CNA and Liberty Mutual and their respective predecessors, successors, successors in interest, affiliates, subsidiaries, parents, divisions, partnerships and joint ventures, and all of the foregoing entities' past, present and future associates, representatives, owners, members, assigns, insurers, reinsurers, claims managers, shareholders, creditors, liquidators, administrators, executors, partners, principals, trustees, directors, officers, employees, independent contractors, attorneys, agents, and all others acting or claiming by, through, under or in concert with any of the foregoing (hereinafter, the "CNA-Related Persons and Entities" and "Liberty Mutual-Related Persons and Entities," respectively) from any and all claims (including without limitation all rights and claims for fraud or misrepresentation, or pursuant to any applicable statute, case law, and/or doctrine, for any alleged failure to effectuate prompt, fair and equitable investigation or settlement of the Underlying Matters or any matter that is the subject of this Agreement, or for any actions taken or not taken in connection therewith, or for breach of statutory duties, or for breach of the covenant of or other alleged duties of good faith and fair dealing in connection therewith), debts, duties, benefits, costs, expenses, judgments, settlements, actions, causes of action, demands, obligations, liabilities, promises, acts, agreements, rights, damages (including, but not limited to, compensatory, contractual, bad faith, punitive, exemplary, statutory or extra-contractual damages, or any other damages), losses, attorneys' fees, or other relief of any kind or character, whether known or unknown, suspected or unsuspected, asserted or unasserted, whether at law or in equity, which AMS or the AMS-Related Persons and Entities now have or may hereafter accrue against CNA or the CNA-Related Persons and Entities, or Liberty Mutual or the Liberty Mutual-Related Persons and Entities, or any of them, by reason of, in connection with, based on, arising out of, related to, or in any way involving: (1) the Coverage Action, (2) the Underlying Matters, including but not limited to the Securities Litigation, the State Court Derivative Litigation, and the Dubbert Action, (3) any matter described in the Recitals to this Agreement, (4) the facts, circumstances, events, or allegations asserted in or underlying the Coverage Action, the Underlying Matters, or the matters described in the Recitals to this Agreement, (5) the Columbia Casualty Policy, and/or (6) the Liberty Mutual Policy. This release will not apply to claims for breach of this Agreement.

6.3 CNA and Liberty Mutual, for and on behalf themselves and their respective Related Persons and Entities, hereby release, remise, acquit and forever discharge AMS from any and all claims, debts, duties, benefits, costs, expenses, judgments, settlements, actions, causes of action, demands, obligations, liabilities, promises, acts, agreements, rights, damages, losses,

attorneys' fees, or other relief of any kind or character, whether known or unknown, suspected or unsuspected, asserted or unasserted, whether at law or in equity, which CNA or the CNA-Related Persons and Entities, or Liberty Mutual or the Liberty Mutual-Related Persons and Entities, or any of them, now have or may hereafter accrue against AMS by reason of, in connection with, based on, arising

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out of, related to, or in any way involving: (1) the Coverage Action, (2) the Underlying Matters, including but not limited to the Securities Litigation, the State Court Derivative Litigation, and the Dubbert Action, (3) any matter described in the Recitals to this Agreement, (4) the facts, circumstances, events, or allegations asserted in or underlying the Coverage Action, the Underlying Matters, or the matters described in the Recitals to this Agreement, (5) the Columbia Casualty Policy, and/or (6) the Liberty Mutual Policy. This release will not apply to claims for breach of this Agreement.

6.4 Except as provided in Paragraph 6.5 of this Agreement, this Agreement shall not affect any Party's rights under or with respect to any insurance policy issued by CNA or Liberty Mutual to AMS other than the Policies.

6.5 Notwithstanding Paragraph 6.4 of this Agreement, or any other provision of this Agreement, this Agreement, including the releases set forth in Paragraphs 6.2 and 6.3, shall apply fully to any request for coverage for the matters released in this Agreement, whether under the CNA Policy, the Liberty Mutual Policy, or any other insurance policy issued by CNA or Liberty to AMS.

7. INDEMNITY AND HOLD HARMLESS IN FAVOR OF CNA AND LIBERTY

7.1 AMS agrees to indemnify, defend, and hold harmless CNA and Liberty Mutual and their respective Related Persons and Entities, or any of them, in the event that an individual or entity purporting to be entitled to coverage under the Columbia Casualty Policy and/or the Liberty Mutual Policy, or any attorney, agent, representative, spouse, heir, executor, administrator, successor, or assign of any such individual or entity, seeks coverage from CNA or its Related Persons or Entities, or Liberty Mutual or its Related Persons or Entities, or any of them, for claimed Defense Costs, Loss, or other losses with respect to the matters released in this Agreement. AMS will defend CNA and its Related Persons and Entities and Liberty Mutual and its Related Persons and Entities with respect to any and all such claims and will pay 100% of any resulting liability. CNA and Liberty Mutual, jointly as to claims asserted against both CNA and Liberty Mutual, CNA, as to claims asserted against CNA but not Liberty, and Liberty, as to claims asserted against Liberty Mutual but not CNA, shall have the right to select counsel to defend such claims, subject to the consent of AMS, which shall not be unreasonably withheld. CNA and/or Liberty Mutual, as applicable, shall have the right to direct such counsel concerning the defense of the claim, subject to reasonable cooperation and consultation with AMS.

8. REPRESENTATIONS AND WARRANTIES

8.1 Representations and Warranties by AMS Relating to AMS's Solvency: AMS represents and warrants that: (1) AMS has sufficient resources to pay its debts as they come due; (2) there is currently no petition in bankruptcy, voluntary or involuntary, on file in any court involving AMS as debtor (as distinguished from creditor and/or claimant); (3) AMS has no present intent to file a voluntary

petition in bankruptcy; (4) to the best of AMS's knowledge, no creditor of AMS intends to file an involuntary bankruptcy petition against AMS; and (5) to the extent permitted and required under applicable law, as such may be limited by general principles of corporate, bankruptcy or insolvency law, AMS will continue to indemnify, and pay attorneys' fees and costs incurred by, its present and/or former directors, officers and employees in connection with the Underlying Matters to the fullest extent permitted by law.

8.2 No Assignment: The Parties represent and warrant that they have not assigned, sold, transferred or otherwise disposed of any of the claims, demands, rights, or causes of action released in this Agreement, that they are the current holders of all such claims, and that no future assignment or transfer will be made without the prior written consent of all other Parties to this Agreement. Any assignment of rights or delegation of duties or obligations hereunder made without the written consent of each other Party hereto shall be void and of no effect.

8.3 Authority: Each of the undersigned individuals executing this Agreement on behalf of his respective Party represents and warrants that he or she is authorized to enter into and execute this Agreement on behalf of such Party, that the appropriate corporate resolutions or other consents have been passed and/or obtained, and that this Agreement will be binding on the Party on whose behalf it is executed.

8.4 Advice of Counsel: Each Party hereby represents, agrees and warrants to each other Party: (a) that he, she, or it has made and executed this Agreement with the advice and counsel of independently selected legal counsel; (b) that he, she, or it has not relied upon a representation, disclosure or nondisclosure by any other Party not explicitly provided in this Agreement; and (c) that he, she, or it has not been coerced or induced to enter into this Agreement by any improper action of any other Party.

8.5 Indemnity and Hold Harmless: AMS expressly covenants and agrees to indemnify, defend and hold harmless CNA and Liberty Mutual and their respective Related Persons and Entities, and CNA and Liberty and their respective Related Persons and Entities expressly covenant and agree to indemnify, defend, and hold harmless AMS of and from any and all losses, costs, damages, liabilities, claims, suits, proceedings, demands, causes of action and expenses (including costs of investigation, defense of legal action, and reasonable attorneys' fees) arising out of or resulting from a breach by such Party of the representations and warranties contained in this Agreement, whether in this Section 8 or elsewhere in this Agreement.

9. RELEASE OF UNKNOWN CLAIMS.

9.1 The Parties, and each of them, acknowledge their awareness of California Civil Code Section 1542, which reads as follows:

Section 1542. A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time

of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

It is the intention of each of the Parties to waive his, her, or its respective rights under that section and any statute, rule, or legal doctrine of similar import for any and all matters released herein. In waiving the provisions of Section 1542 of the California Civil Code and similar statutes, rules, or legal doctrines, the Parties, and each of them, expressly acknowledge and understand that they may hereafter discover facts in addition to or different from those which they now believe to be true with respect to the subject matter of the matters released herein, but expressly agree that they have taken these possibilities into account in electing to participate in this Agreement, and that the releases given herein shall be and remain in effect as full and complete releases notwithstanding the discovery or existence of any such additional or different facts, as to which the Parties, and each of them, expressly assume the risk.

9.2 In entering into this Agreement, each Party assumes the risk of any mistake. Subject to the possibility of this Agreement terminating or becoming null and void as expressly set forth therein, this Agreement is intended to be and is a final and binding agreement among the Parties, regardless of any claims of mistake of fact or law.

10. NO ADMISSION OF LIABILITY

10.1 This Agreement is intended to be, and is, a compromise of disputed claims among the Parties and shall not be construed as an admission with respect to coverage under the Policy or any other policy, or of any liability by any Party to any other Party or person for any purpose whatsoever. This Agreement shall not be used in any proceeding or hearing to create, prove, or interpret the obligations under, or terms and conditions of, any other agreement or any alleged insurance policy.

11. NO FURTHER ACTIONS

11.1 The Parties understand, acknowledge and agree that this Agreement may be pleaded as a full and complete defense to, and used as a basis for an injunction against, any action, suit or other proceeding that may be instituted, prosecuted or attempted in breach of this Agreement or in connection with any matter released pursuant to this Agreement.

12. CONSTRUCTION OF AGREEMENT

12.1 This Agreement will not be construed against the Party preparing it but will be construed as if all Parties had prepared it, and it will not be construed against any Party because that Party is or may be an insurer.

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13. ENTIRE AGREEMENT

13.1 This Agreement and the Policies constitute the entire agreement among the Parties with respect to the subject matter hereof, and supersede all other prior discussions, agreements and understandings, both written and oral, among the Parties with respect thereto.

14. SUCCESSORS AND ASSIGNS

14.1 The Parties agree that this Agreement will be binding upon and inure to the benefit of the Parties and their Related Persons and Entities (except as may be otherwise specifically provided for in this Agreement) and any corporation, partnership or other entity into which either of the corporate Parties may merge, consolidate or reorganize.

15. MODIFICATIONS, AMENDMENTS, WAIVERS AND EXTENSIONS

15.1 This Settlement Agreement may not be modified, changed or supplemented, nor may any obligations hereunder be waived or extensions of time for performance granted, except by written instrument signed by the Party to be charged or by its agent duly authorized in writing or as otherwise expressly permitted herein. No waiver of any breach of any agreement or provision herein contained shall be deemed a waiver of any preceding or succeeding breach thereof or of any other agreement or provision herein contained. No extension of time for performance of any obligations or acts shall be deemed an extension of the time for performance of any other obligations or acts.

16. COOPERATION

16.1 The Parties shall cooperate fully and execute and deliver any and all supplementary documents and take any and all additional actions which may be necessary or appropriate to give full force and effect to this Settlement Agreement.

17. RELATIONSHIP BETWEEN PARTIES

17.1 This Settlement Agreement creates no agency relationship between the Parties hereto, and nothing herein contained shall be construed to place the Parties in the relationship of partners or joint venturers.

18. FORCE MAJEURE

18.1 In the event that any Party is prevented from performing, or is unable to perform, any of its obligations under this Settlement Agreement due to any act of God, fire, casualty, loss, flood, war, insurrection, failure of public utilities, epidemic, or destruction of facilities, then the affected Party's performance shall be excused and the time for performance shall be extended for the period of delay or inability to perform due to such occurrence.

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19. GOVERNING LAW

19.1 This Settlement Agreement shall be governed by, interpreted under, construed and enforced in accordance with the substantive and procedural laws of the State of California.

20. VENUE

20.1 The Parties agree that sole and exclusive jurisdiction for litigation of any disputes between the Parties related to this Settlement Agreement shall be in the state or federal courts having principal jurisdiction in San Diego, California.

21. HEADINGS

21.1 The section headings contained herein are for convenience only and are

not intended to define, limit or describe the scope or intent of any provision of this Settlement Agreement.

22. CONFIDENTIALITY

22.1 The Parties acknowledge that AMS has substantial disclosure obligations relating to this Agreement such that general confidentiality is impractical and/or impossible. However, the Parties agree to confidentiality of specific information as set forth below.

22.2 AMS is concurrently entering into a settlement with Federal Insurance Company, which issued a policy of insurance which was excess to Liberty Mutual (the "Federal Settlement"). The Federal Settlement is a separate transaction and forms no part of this Agreement, but AMS will exercise its best efforts to obtain a similar degree of confidentiality in the Federal Settlement. Subject to the provisions of Section 22.3, the Parties agree that the separate dollar amount of payment by CNA, by Liberty Mutual, and/or by Federal, will be treated as confidential and not disclosed. Specifically, it is understood and agreed that the total dollar amount of the settlement payments, in the aggregate (\$10,150,000) will not be confidential, but the amount of contribution by any individual insurer is confidential. Further, the parties agree that the names of individuals set forth in Paragraph 5 of Exhibit "A" shall also be treated as confidential information under this Settlement Agreement.

22.3 The Parties may disclose the confidential information: (1) as required by a Court Order; (2) in an action or other proceeding among the Parties, or any of them, regarding enforcement of the terms of this Agreement; (3) by agreement, in writing, among the Parties to this Agreement; (4) to their counsel, auditors, accountants, reinsurers and agents; (5) to any governmental agency, if such disclosure is required by law, while exercising all reasonably available options to preserve confidentiality on such disclosure; and/or (6) publicly, if the Party is advised by legal counsel that such disclosure is required by law.

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22.4 All Parties hereto shall cooperate to protect the confidential information from disclosure. If any Party to this Agreement is served with a demand or request to produce the confidential information, or is advised by legal counsel that disclosure is required by law, such Party shall give written notice to the other Parties. Such notice shall be given within ten (10) days of the receipt of such disclosure demand or determination to disclose, unless ten (10) days' notice would not permit sufficient time in which to allow the other Parties to assert any interest in prohibiting the requested disclosure. In such case, the Party being requested to make the disclosure or planning to disclose shall give written notice to the other Parties as soon as possible.

23. NOTICE

23.1 Unless another person is designated in writing to all respective Parties for receipt of notice hereunder, notices to the respective Parties shall be sent to the following persons:

If to AMS:

Steven Brower
Stephan, Oringher, Richman, Theodora & Miller
535 Anton Boulevard, Ninth Floor
Costa Mesa, California 92626
Telephone: (714) 549-5150
Email: sbrower@sortm.com

If to CNA: Michael R. Davisson
Sedgwick, Detert, Moran & Arnold LLP
801 South Figueroa Street, 18th Floor
Los Angeles, CA 90017-5556

If to Liberty Mutual: Andrew Margulis
Ropers, Majeski, Kohn & Bentley
17 State Street, 24th Floor
New York, NY 10004

24. EXECUTION

24.1 This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and when taken together with the other signed counterparts, shall constitute one agreement which shall be binding upon and effective as to all Parties. This Agreement shall be effective when at least one counterpart has been executed by each Party and delivered to all Parties, even though no single counterpart is executed by all Parties. Facsimile or .pdf signatures will constitute valid evidence of execution.

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IN WITNESS WHEREOF, the Parties agree to be bound by the terms of this Agreement and, in order to signify such agreement, have executed this Agreement as of the last date appearing below.

Dated: May 5, 2006

Advanced Marketing Services, Inc.

By: /s/ Loren C. Paulsen

Title: President and Chief Executive Officer

Dated: May 5, 2006

Columbia Casualty Company

By: /s/ Danielle Librizzi

Title: Director - Complex Claims

Dated: May 5, 2006

Continental Casualty Company

By: /s/ Danielle Librizzi

Title: Director - Complex Claims

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Dated: May 5, 2006

CNA Financial Corporation

By: /s/ Danielle Librizzi

Title: Director - Complex Claims

Dated: May 5, 2006

Liberty Mutual Insurance Company

By: /s/ John Patterson

Title: Vice President

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Exhibit 10.2

SETTLEMENT AGREEMENT AND

FULL MUTUAL RELEASE OF ALL CLAIMS

This Settlement Agreement and Full Mutual Release of All Claims (hereinafter "Settlement Agreement") is made and entered into as of May 17, 2006, pursuant to the following terms:

1. THE PARTIES

1.1 Advanced Marketing Services, Inc. ("AMS").

1.2 Federal Insurance Company ("Federal").

1.3 AMS and Federal are sometimes referred to individually as a "Party" or collectively as "the Parties."

2. THE INSURANCE POLICIES

2.1 Columbia Casualty Company ("CNA") issued the Combined Solutions Policy, Policy Number: 267868733, for the policy period April 28, 2003 to April 28, 2004, with policy limits of \$5 million.

2.2 Liberty Mutual Insurance Company ("Liberty Mutual") Excess Follow Form Policy, Policy Number: 192825-013, for the policy period April 28, 2003 to April 28, 2004, with policy limits of \$5 million excess of the Columbia Casualty policy.

2.3 Federal Insurance Company Excess Policy, Policy Number: 8171-3259 (the "Policy"), for the policy period April 28, 2003 to April 28, 2004, with policy limits of \$5 million excess of the Liberty Mutual policy.

2.4 CNA, Liberty and Federal are sometimes collectively referred to herein as the "Insurers."

3. THE INSURANCE COVERAGE LITIGATION

3.1 The "Insurance Coverage Action" refers to a case generally known as AMS v. Columbia Casualty Company, Continental Casualty Company, CNA Financial Corporation, Liberty Mutual Insurance Company and Federal Insurance Company, now pending as San Diego Superior Court, Case No. GIC 832603.

3.2 Liberty Mutual and Federal have each filed cross-complaints in that matter. A demurrer was sustained to each of those cross-complaints and amended cross-complaints have not yet been filed.

4. RECITALS

4.1 In July 2003, the Federal Bureau of Investigation executed a search warrant against AMS.

4.2 Commencing in July of 2003, the United States Attorney's Office "USAO" issued multiple grand jury subpoenas to AMS and/or its custodian of records, and to certain of its present and/or former officers, directors and/or employees.

4.3 In September 2003, the United States Securities and Exchange Commission "SEC" began an investigation of AMS and subsequently issued subpoenas to certain of AMS' present and/or former officers, directors and/or employees,

and to AMS' custodian of records.

4.4 AMS announced in January 2004 that it would restate its financial statements for the previous five fiscal years. AMS has subsequently announced certain anticipated revisions to that restatement. As of this date AMS has not yet issued the restated financial information.

4.5 Since January 2004, AMS was served with the following securities class action complaints: Bowen v. Advanced Marketing Services, United States District, Court Southern District of California, Case No. 04 CV 00139 H, filed on January 22, 2004; Eastside Investors LLP v. Advanced Marketing Services, United States District, Court Southern District of California, Case No. 04 CV 00121 JM, filed on January 16, 2004; and Anderson v. Advanced Marketing Services, United States District Court, Southern District of California, Case No. 04 CV 00324WQH, filed on February 17, 2004. These class action actions were consolidated as In re Advanced Marketing Services Securities Litigation, United States District Court, Southern District of California, Case No. 04 CV 00121 BEN (AJB) (collectively the "Securities Class Actions".)

4.6 Since January 2004, AMS was also served with the following shareholder derivative complaints: Katz v. Tillinghast et al., San Diego Superior Court, Case No. GIC 824845, filed on January 29, 2004; Deranieri v. Tillinghast et al., San Diego Superior Court, Case No. GIC 824846, filed on January 29, 2004; and Dubbert v. Bartlet et al., United States District Court, Southern District of California, Case No. 05CV706 H, filed on April 6, 2005. These shareholder derivative actions were consolidated as In Re Advanced Marketing Services, Inc. Derivative Litigation, San Diego Superior Court, Lead Case No. GIC 824845, filed on or about April 22, 2004 (collectively the "Derivative Actions").

4.7 Additionally, the following government actions have been initiated against certain of AMS' current and former officers, directors and/or employees: Securities and Exchange Commission v. Mary Wilson Roke, United States District Court, Southern District of California, Case No. 04CV1966 H (POR), filed on September 29, 2004; Securities and Exchange Commission v. Sandra Miller Christie, United States District, Court Southern District of California, Case No. 05CV0420 JM (JFS), filed on March 2, 2005; United States of America v. Sandra Miller Christie, United States District Court, Southern District of

California, Criminal Case No. 05CR0364LAB, filed on March 2, 2005; United States of America v. Marcy Wilson Roke, United States District Court, Southern District of California, Criminal Case No. 04 CR 2524LAB, filed on September 29, 2004; and United States of America v. Karyn Ann Larko, United States District Court, Southern District of California, Criminal Case No. 05 CR 0384LAB, filed on March 8, 2005 (collectively, the "Government Actions").

4.8 AMS has tendered to the Insurers the circumstances related to the investigations by the USAO, SEC, the Securities Class Actions, and the Derivative Actions and the Government Actions identified in Paragraphs 4.1 through 4.7 (collectively the "Underlying Matters").

4.9 Federal has asserted certain coverage defenses and other grounds for not paying claims relating to the Underlying Matters, as set forth in its reservation of rights letters, its Answer on file in the Insurance Coverage Action and in its previously filed (but dismissed, without prejudice) Cross-Complaint in the Insurance Coverage Action.

4.10 AMS has paid for attorneys' fees and costs incurred both by AMS, and also by numerous present and/or former directors, officers and/or employees, in

connection with the Underlying Matters. AMS contends that it has already expended in excess of \$10 million for such attorneys' fees and costs.

4.11 AMS has stated its intention to incur future attorneys' fees and costs both on behalf of itself and on behalf of various present and/or former directors, officers and/or employees, in connection with the Underlying Matters.

4.12 AMS has advised the Insurers that it has reached a settlement with and received a Memorandum of Understanding related to such settlements (the "MOU"), from the plaintiffs in the Securities Class Action litigation, offering to resolve that litigation for \$6 million, subject to court approval. AMS has executed the MOU and the settlement of the Securities Class Actions has been approved by AMS' Board of Directors subject to funding by the Carriers. The Parties to this Settlement Agreement each dispute all of the allegations made against them by the respective opposing Parties in the Insurance Coverage Action. By entering into this Settlement Agreement the Parties do not intend to admit the validity of any allegation set forth in such Insurance Coverage Action. In fact, it is a material provision of this Settlement Agreement, without which the Parties would not agree to enter into this Settlement Agreement, that the Parties are not admitting such merits; and that the Parties intend by the settlement of the Insurance Coverage Action merely to resolve the disputed issues, avoid further litigation and to have their peace.

4.13 By this Settlement Agreement the Parties intend to effect a full and final resolution and settlement of any and all issues with respect to the

Insurance Coverage Action and/or the Underlying Matters, including claims for damages, attorneys' fees and/or costs, regardless of their nature or basis, which arose, may have arisen, or hereinafter may arise by reason of any manner, cause or thing whatsoever, whether or not they were made a part of the Insurance Coverage Action and/or the Underlying Matters.

5. PAYMENT AND TERMS OF SETTLEMENT

5.1 The Parties agree to the following terms and conditions and expressly acknowledge that each of the terms and conditions set forth below are material to the Settlement Agreement, without which the Parties would not have consented to the settlement.

5.2 Within 15 days of the execution of this Agreement by AMS and Federal, and executed copies of the signature pages being provided to all Parties hereto, Federal shall pay, in accordance with the provisions of Schedule 5.2, the sum of \$1,750,000, which represents the remaining policy limits less \$3,250,000. Said payment shall be held in trust with such sums to be released as payment of Defense Costs incurred in connection with the Underlying Matters or as reimbursement of prior Defense Costs.

5.3 The Parties expressly agree that payment by Federal, and acceptance by AMS, of the amount referenced in Section 5.2, is not conditioned upon settlement of the Underlying Matters or a global settlement of the Insurance Coverage Action. Nor is AMS obligated to expend such funds for any specified purpose.

5.4 (a) Within five court (5) days after receipt of the amount referenced in Section 5.2, AMS shall file a dismissal, with prejudice, of the Insurance Coverage Action as to Federal; . (b) the Parties acknowledge that the Court sustained the demurrer to Federal's cross-complaint with leave to amend. (1) Federal agrees that it will not file an amended cross-complaint against AMS; and (2) Federal further agrees that it will not file an amended cross-complaint

against those persons who may be insureds under the Policy, but expressly reserves its rights in accordance with paragraph 6.8 below.

6. RELEASE AND DISCHARGE

6.1 Except for the matters described in this Agreement and the obligations created herein, AMS, on the one hand, and Federal, on the other hand, do hereby fully release and forever discharge each other and their respective members, corporate parents, subsidiaries, affiliates, divisions, successors and predecessors, and their respective directors, officers, employees, agents, counselors, attorneys, partners, joint venturers, and trustees, of and from any and all losses, obligations, duties, debts, costs, causes of action, demands, claims, liabilities, expenses and damages of any nature or kind whatsoever (including punitive or exemplary damages, attorneys' fees or other relief of any kind or character), whether known or unknown, asserted or unasserted, direct or derivative, whether at law or in equity, and whether past, present or future, arising from or based upon the Underlying Matters or anything that has been asserted, or could have been asserted, in the Insurance Coverage Action, except

that Federal does not release any person (other than AMS) who could, has or ever does claim to be an insured presenting claims under or pursuant to the Policy (the "Release"). As to AMS' release of Federal, such release is made by AMS on its behalf and, to the extent legally allowed, on behalf of any person who could, has or ever does, claim to be an insured pursuant to the Policy. This Release, as to Federal, shall include, without limitation, the release of any and all claims respecting the manner in which Federal investigated, responded to, handled and resolved any claims under the Policy (including without limitation all claims of unfair claims handling practices or settlement practices, and breach of the implied covenant of good faith and fair dealing, whether pursuant to specific federal or state statutes or regulations, or at common law), and any and all claims for reimbursement of monies paid by AMS.

6.2 The Parties agree that the Release contained in this Settlement Agreement is a full release of the Policy, and not solely a release of claims made in the Insurance Coverage Action. AMS acknowledges that this is a full and final release of the Policy and that no sums of money, except as expressed in this Agreement, will be paid by Federal to AMS or any other person claiming to be an insured under the Policy, as a result of the Insurance Coverage Action, or as a result of any other claim, known or unknown, past, present or future, that might arise under the Policy. The Parties agree that the Policy will be deemed null and void for no additional consideration paid to the insureds.

6.3 It is expressly understood and agreed that there are other policies of insurance, other than the Policy, which have been issued to AMS, from time to time, by Federal. It is the intention of the Parties that the Release shall not apply to any other policies of insurance except for any claims which are being released pursuant to Paragraph 6.1.

6.4 The claims and matters released in this Paragraph 6 shall be collectively referred to herein as the "Released Matters."

6.5 Waiver of Civil Code Section 1542. Except as otherwise expressly provided in this Settlement Agreement, this Settlement Agreement extends to all Released Matters whether or not claimed or suspected by the Parties hereto, which exist or existed up to and including the date of execution hereof. The Parties acknowledge and agree that they are aware of, and understand the meaning and effect of, California Civil Code Section 1542, which reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

The Parties agree to assume the risk of any and all unknown, unanticipated or misunderstood defenses, claims, causes of action, contracts, liabilities and obligations arising out of the Released Matters, and hereby waive, release and forever discharge all rights and benefits that such Party has or might have under Section 1542 of the California Civil Code (and any statute, rule or legal doctrine of any other jurisdiction of similar import) regarding such unknown, unanticipated or misunderstood defenses, claims, causes of action, contracts, liabilities, indentures and obligations as to the Released Matters. Each Party understands and accepts the risk that it may have substantial claims or damages that have not yet manifested, or that are presently unknown, or that have not yet been identified, and each Party nonetheless intends to and does voluntarily and deliberately release these possible claims and defenses.

6.6 It is expressly understood and agreed by each Party herein that the facts with respect to which this Settlement Agreement are given may hereinafter turn out to be other than, or different from, the facts now known or believed by the Party to be true, and that each Party expressly assumes a risk of the facts turning out to be so different, and agrees that this Settlement Agreement shall be in all respects effective and not subject to termination or rescission by reason of any difference in the facts. Each Party hereto understands and acknowledges the significance and consequence of such specific waiver of unknown claims and hereby assumes full responsibility for any injuries, damages, losses or liabilities that they hereinafter incur or may incur from the waiver of these unknown claims.

6.7 The Parties have entered into this Settlement Agreement as a means of finally compromising, settling and resolving all disputes, controversies, questions and issues among them relating to the injuries alleged in the Insurance Coverage Action. Nothing herein shall be construed or interpreted as a concession or admission by the Parties with respect to any issue or claim in dispute between them or with respect to any dispute either of them may have now or in the future. Neither this Settlement Agreement, nor anything in this Settlement Agreement, nor any part of the negotiations had in connection herewith, may be used for any purpose or in any manner by either Party in any suit or proceeding of any kind, except as may be necessary to enforce the terms of this Settlement Agreement. This Settlement Agreement constitutes the entire Settlement Agreement and understanding between the Parties hereto, and this Settlement Agreement replaces, cancels and supersedes any and all other understandings or undertakings of the Parties, if any, which may have been made.

6.8 Although the Released Matters do not include a release by Federal of any person (other than AMS) who could, has or ever does claim to be an insured pursuant to the Policy, Federal hereby agrees, represents and warrants that it will not bring litigation against such a person which relates to the Policy, unless and until such a person first either: a) brings litigation against Federal which relates to the Policy; or, b) asserts a claim against Federal which relates to the Policy and refuses to withdraw that claim within 10 days after AMS has been notified, by Federal, of such assertion.

6.9 Subject to the restrictions in Section 6.8, AMS agrees to defend, indemnify and hold Federal harmless against or in connection with any claim, liabilities, damages, attorneys' fees, costs or expenses, incurred by Federal resulting from any claims made by any person who is not a signatory to this Settlement Agreement and who claims to be an insured under or pursuant to the Policy. AMS shall have the right to settle any such matter in any manner which it deems appropriate, to the extent that it does not require financial contribution and/or any waiver of rights by Federal (other than a mutual release between Federal and the claimant), all subject to Federal's consent, which shall not be unreasonably withheld. In providing a defense, AMS shall not have the right to select counsel or to control the defense in any manner, except that AMS shall have the right to associate counsel for the purpose of monitoring the matter and for the provision of strategic advice to AMS and Federal. Federal shall have the right to retain counsel of its own selection, to incur fees and costs as is reasonably necessary to defend any claims and to settle any such claims, but only after such counsel and billing arrangements have been approved in writing by AMS, all subject to AMS' review and consent, which shall not be unreasonably withheld. Such counsel shall be counsel typically retained in such matters and with billing rates and policies that are consistent with Cumis rate limitations.

7. REPRESENTATIONS AND WARRANTIES.

Each Party represents and warrants as follows:

7.1 Each Party and its attorneys have made such investigation of the facts pertaining to this settlement and this Settlement Agreement, and all of the matters pertaining thereto, as they deem necessary.

7.2 Except as expressly stated in this Settlement Agreement, no Party has made any statement or representation to any other Party regarding any fact relied upon by any other Party in entering into this Settlement Agreement, and each Party specifically does not rely upon any statement, representation or promise of any other Party in executing the Settlement Agreement, or in making the settlement provided for herein.

7.3 The terms of this Settlement Agreement are contractual, not a mere recital, and are the result of negotiation among the Parties.

7.4 Each Party relies on the finality of this Settlement Agreement as a material factor inducing the Party's execution of this Settlement Agreement, and the payments and obligations assumed by this Settlement Agreement.

7.5 Each Party agrees that such Party will not take any action which would interfere with the performance of the Settlement Agreement by any other Party hereto or which would adversely affect any of the rights provided for herein.

7.6 Each person executing this Settlement Agreement represents and warrants that he or she has taken all actions and obtained all authorizations, consents and approvals as are conditions precedent to his or its authority to execute this Settlement Agreement.

7.7 Each Party represents and warrants to the other that they are not aware of any assignment, hypothecation, or other transfer of any interest in the claim or claims which are the subject of this Settlement Agreement.

8. CONFIDENTIALITY

8.1 The Parties acknowledge that AMS has disclosure obligations relating to this Agreement such that general confidentiality may be impractical and/or impossible. However, the Parties agree to confidentiality of specific information as set forth below.

8.2 AMS is also entering into a settlement agreement with CNA and Liberty Mutual which is a separate transaction and forms no part of this Agreement. Subject to the provisions of section 8.3, the Parties agree that the separate dollar amount of payment by CNA, by Liberty Mutual and/or by Federal, will be treated as confidential and not disclosed. Specifically, it is understood and agreed that the total dollar amount of the settlement payments, in the aggregate (\$10,150,000) will not be confidential, but the amount of contribution by any individual insurer is confidential.

8.3 The Parties may disclose the confidential information: (1) as required by a Court Order (subject to Section 8.4); (2) in an action or other proceeding among the Parties, or any of them, regarding enforcement of the terms of this Agreement; (3) by agreement, in writing, among the Parties to this Agreement; (4) to their counsel, auditors, accountants, reinsurers and agents; (5) to any governmental agency, if such disclosure is required by law, while exercising all reasonably available options to preserve confidentiality on such disclosure; (6) publicly, if the Party is advised by legal counsel that such disclosure is required by law.

8.4 All Parties hereto shall cooperate to protect the confidential information from disclosure. If any Party to this Agreement is served with a demand or request to produce such confidential information such Party shall give written notice to the other Parties. Such notice shall be given as soon as reasonably practicable, but not later than ten days after receipt of such disclosure demand or request.

9. GOOD FAITH NEGOTIATIONS

9.1 The Parties agree and acknowledge that all negotiations by them and their representatives in connection with the matter set forth within this Settlement Agreement have been conducted in complete good faith and without any collusion, unfair practices, or tortious conduct of any kind.

10. UNDERLYING FACTS AND LAW

10.1 The law or facts on which this Settlement Agreement is based may hereafter turn out to be other than or different from those now known or believed by the Parties to be true. The Parties have assumed the risk of the law or facts turning out to be different and/or being changed by subsequent judicial and/or legislative action. This Settlement Agreement shall be in all respects effective and not subject to termination or rescission by reason of any such difference in the law or facts.

11. ENTIRE AGREEMENT AND CONSTRUCTION

11.1 The terms of this Settlement Agreement are intended by the Parties as a final expression of their agreement with respect to such terms and may not be contradicted by evidence of any prior or contemporaneous agreement. The language in all parts of this Settlement Agreement shall in all cases be construed simply, according to its fair meaning, and not strictly for or against any of the Parties hereto. This Settlement Agreement was the subject of negotiation and revision between Parties represented by counsel. It is agreed that for the

purposes of interpreting this Settlement Agreement each and every provision is assumed to have been jointly drafted.

12. MODIFICATIONS, AMENDMENTS, WAIVERS AND EXTENSIONS

12.1 This Settlement Agreement may not be modified, changed or supplemented, nor may any obligations hereunder be waived or extensions of time for performance granted, except by written instrument signed by the Party to be charged or by its agent duly authorized in writing or as otherwise expressly permitted herein. No waiver of any breach of any agreement or provision herein contained shall be deemed a waiver of any preceding or succeeding breach thereof or of any other agreement or provision herein contained. No extension of time for performance of any obligations or acts shall be deemed an extension of the time for performance of any other obligations or acts.

13. ASSIGNMENTS

13.1 This Settlement Agreement and the rights, duties, and obligations hereunder may not be assigned or delegated by any Party without the prior written consent of the other Party. Any assignment of rights or delegation of duties or obligations hereunder made without the written consent of the other Party hereto shall be void and be of no effect.

14. COOPERATION

14.1 The Parties shall cooperate fully and execute and deliver any and all supplementary documents and take any and all additional actions which may be necessary or appropriate to give full force and effect to this Settlement Agreement.

15. RELATIONSHIP BETWEEN PARTIES

15.1 This Settlement Agreement creates no agency relationship between the Parties hereto, and nothing herein contained shall be construed to place the Parties in the relationship of partners or joint venturers.

16. AUTHORITY

16.1 Each Party represents and warrants that it is duly authorized to execute and deliver this Settlement Agreement and that this Settlement Agreement is binding upon and enforceable against said Party in accordance with its terms.

17. GOVERNING LAW AND VENUE

17.1 This Settlement Agreement shall be governed by, interpreted under, construed and enforced in accordance with the substantive and procedural laws of the State of California. The Parties agree that the courts (whether state or federal) of San Diego, California, shall have sole and exclusive jurisdiction over any dispute, whether between the Parties, or between one or more of the Parties and any Party claiming to be an intended beneficiary, whether such dispute relates to the formation, interpretation and/or enforcement of this Settlement Agreement, and/or any alleged tort claims relating thereto, and the Parties consent to the jurisdiction of such courts.

18. ADVICE OF COUNSEL

18.1 Each Party has received independent legal advice from attorneys of their choice with respect to entering into this Settlement Agreement. This

Settlement Agreement has been carefully read by each Party and is signed freely by each Party.

19. JOINT PREPARATION

19.1 This Settlement Agreement shall be deemed to have been jointly prepared by the Parties, and any uncertainty or ambiguity contained herein shall not be interpreted more strongly against either of them as the "drafter" of this Settlement Agreement.

20. COUNTERPARTS

20.1 This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute but one and the same instrument. Facsimile and PDF signatures shall be acceptable.

21. HEADINGS

21.1 The section and paragraph headings contained herein are for convenience only and are not intended to define, limit or describe the scope or intent of any provision of this Settlement Agreement.

22. MISCELLANEOUS

22.1 Notices. All notices, demands, invoices, requests, consents, approvals or other communications (collectively the "Notices") given with respect to this Settlement Agreement shall be in writing and may be personally served, sent by telephone facsimile ("fax"), or may be deposited in the United States mail, addressed as follows:

If to AMS: Steven Brower
Stephan, Oringer, Richman, Theodora & Miller
535 Anton Boulevard, Ninth Floor
Costa Mesa, California 92626
Telephone: (714) 549-5150
Email: sbrower@sortm.com

If to Federal: Michael F. Perlis
Stroock & Stroock & Lavan LLP
2029 Century Park East, Suite 1800
Los Angeles, CA 90067-3086

or to such other address as such Party shall have specified most recently by written notice. Notice shall be deemed given on the date of service if personally served or on the date of telexing, telecopying, faxing, or e-mail if telexed, telecopied, or sent by fax or e-mail. Notice mailed as provided herein shall be deemed given on the tenth business day following

the date so mailed.

IN WITNESS HEREOF, the Parties have executed this Settlement Agreement effective as of the date first above written. Advanced Marketing Services, Inc.

/s/ Gary M. Rautenstrauch

By Gary M. Rautenstrauch

It's President and CEO

Federal Insurance Company

/s/ Allison Rose

By Allison Rose

It's Sr. Specialty Claims Examiner

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