

# SETTLEMENT AGREEMENT

## 1. INTRODUCTION

### 1.1 Anthony Held and Hancock Fabrics, Inc.

This Settlement Agreement is entered into by and between Anthony E. Held, Ph.D., P.E (hereinafter "Held") and Hancock Fabrics, Inc. (hereinafter "Hancock"), with Held and Hancock collectively referred to as the "Parties." Held is an individual residing in California who seeks to promote awareness of exposures to toxic chemicals and improve human health by reducing or eliminating hazardous substances contained in consumer products. Hancock employs ten or more persons and is a person in the course of doing business for purposes of Proposition 65.

### 1.2 General Allegations

Held alleges that Hancock has manufactured, distributed and/or sold in the State of California vinyl fabric featuring comic/cartoon characters appealing to children, including, but not limited to, vinyl tablecloths containing di(2ethylhexyl)phthalate ("DEHP"). DEHP is listed pursuant to the Safe Drinking Water and Toxic Enforcement Act of 1986, California Health & Safety Code §§25249.5 *et seq.* ("Proposition 65"), as a chemical known to the State of California to cause birth defects and other reproductive harm. DEHP shall be referred to herein as "Listed Chemical."

### 1.3 Product Description

The products that are covered by this Settlement Agreement are defined, as follows: vinyl fabric, featuring comic/cartoon characters appealing to children, manufactured, imported, distributed and/or sold in California by Hancock, including, but not limited to, vinyl tablecloths which contain the Listed Chemical. All such items shall be referred to herein as the "Products."

#### **1.4 Notices of Violation**

On or about December 23, 2008, Held served Hancock and various public enforcement agencies with a document entitled "60-Day Notice of Violation" (the "Notice") that provided Hancock and such public enforcers with notice that alleged that Hancock was in violation of California Health & Safety Code §25249.6 for failing to warn consumers and customers that the Products exposed users in California to DEHP. No public enforcer has diligently prosecuted the allegations set forth in the Notice served on December 23, 2008.

On April 30, 2009, Held served Hancock, Springs Creative Products Group, LLC, and various public enforcement agencies with another Notice that provided Hancock and such public enforcers with notice that alleged that Hancock was in violation of California Health & Safety Code §25249.6 for failing to warn consumers and customers that the Products exposed users in California to DEHP. If, after July 10, 2009, no public enforcer has begun to diligently prosecute the allegations related to DEHP in the Products referenced in the April 30, 2009 Notice, then this Settlement Agreement shall be amended to include such Products referenced in the April 30, 2009 Notice.

#### **1.5 No Admission**

Hancock denies the material factual and legal allegations contained in Held's Notice and maintains that all products that it has sold and distributed in California, including the Products, have been and are in compliance with all laws. Nothing in this Settlement Agreement shall be construed as an admission by Hancock of any fact, finding, issue of law, or violation of law; nor shall compliance with this Settlement Agreement constitute or be construed as an admission by Hancock of any fact, finding, conclusion, issue of law, or violation of law, such being specifically denied by Hancock. However, this section shall not diminish or otherwise affect the obligations, responsibilities and duties of Hancock under this Settlement Agreement.

**1.6 Effective Date**

For purposes of this Settlement Agreement, the term "Effective Date" shall mean May 22, 2009.

**2. INJUNCTIVE RELIEF: WARNINGS AND REFORMULATION**

**2.1 Reformulation Commitment**

No later than 60 days after the Effective Date, Hancock shall only manufacture, distribute, and/or sell, or cause to be manufactured, distributed, and/or sold, Products for sale in California that are Phthalate Free, as set forth below. For purposes of this Settlement Agreement, "Phthalate Free" Products shall mean Products containing less than or equal to 1,000 parts per million ("ppm") of the Listed Chemical, when analyzed pursuant to Environmental Protection Agency ("EPA") testing methodologies 3580A and 8270C.

Hancock hereby commits that, no later than 60 days after the Effective Date, 100% of the Products that it offers for sale in California shall be Phthalate Free or otherwise be exempt from the warning requirements as set forth in Section 2.5.

**2.2 Product Warnings**

After the Effective Date, Hancock shall not sell, ship, or offer to be shipped for sale in California, Products containing the Listed Chemical unless such Products are shipped with the clear and reasonable warnings set out in Section 2.3 and 2.4 or comply with the reformulation requirements of Phthalate Free Products set out in Section 2.1.

Any warning issued for Products pursuant to Section 2.3 and 2.4, below, shall be prominently placed with such conspicuousness as compared with other words, statements, designs or devices as to render it likely to be read and understood by an ordinary individual under customary conditions before purchase or, for Products shipped directly to an individual in California, before use.

### 2.3 Warnings For Retail Store Sales

(a) **Product Labeling.** Hancock may perform its warning obligation by affixing a warning to the packaging of, labeling to, or, if no label exists, directly on each Product sold in retail outlets in California by Hancock or its agents, that states:

**WARNING:** This product contains DEHP, a phthalate chemical known to the State of California to cause birth defects and other reproductive harm.

(b) **Point-of-Sale Warnings.** Hancock may perform its warning obligations by ensuring that signs are posted at retail outlets in the State of California where the Products are sold. Point-of-sale warnings shall be provided through one or more signs posted in close proximity<sup>1</sup> to the point of display of the Products that states:

**WARNING:** This product contains DEHP, a phthalate chemical known to the State of California to cause birth defects and other reproductive harm.

Where more than one Product is sold in proximity to other like items or to those that do not require a warning (e.g., Phthalate Free as defined in Section 2.1), the following statement must be used:

**WARNING:** The following products contain DEHP, a phthalate chemical known to the State of California to cause birth defects and other reproductive harm:

*[list products for which warning is required]*

2.4 **Warnings For Mail Order Catalog and Internet Sales.** Hancock shall satisfy its warning obligations for Products sold via mail order catalog or the Internet to California

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<sup>1</sup> For purposes of this Settlement Agreement, "sold in proximity to other like items" shall mean that the Product and another product are offered for sale close enough to each other so that the consumer, under customary conditions of purchase, could not reasonably determine which of the two products is subject to the warning sign.

residents by providing a warning: (i) in the mail order catalog; or (ii) on the website. Warnings given in the mail order catalog or on the website shall identify the specific Product to which the warning applies as further specified in subsections (a) and (b) below.

**(a) Mail Order Catalog Warning.** Any warning provided in a mail order catalog must be in the same type size or larger than the Product description text within the catalog. The following warning shall be provided on the same page and in the same location as each display of the Product:

**WARNING:** This product contains DEHP, a phthalate chemical known to the State of California to cause birth defects and other reproductive harm.

Where it is impracticable to provide the warning on the same page and in the same location as the display of the Product, Hancock may utilize a designated symbol (▲) to cross reference the applicable warning and shall define the term "designated symbol" with the following language on the inside of the front cover of the catalog and on the same page as any order form for the Product(s):

**WARNING:** Certain products identified with this symbol ▲ and offered for sale in this catalog contain DEHP, a phthalate chemical known to the State of California to cause birth defects and other reproductive harm.

The designated symbol must appear on the same page and in close proximity to the display or description of the Product on such page. On each page where the designated symbol appears, Hancock must provide a reference directing the consumer to the warning language and definition of the designated symbol.

If Hancock elects to sell one or more Products to consumers via mail order catalog after the Effective Date, then the warnings must be included in all catalogs containing the Products which are distributed in California as of the Effective Date.

(b) **Internet Website Warning.** A warning may be given in conjunction with the sale of the Product to a California consumer via the Internet, provided it appears either: (a) on the same web page on which the Product is displayed; (b) on the same web page as the order form for the Product; (c) on the same page as the price for any Product; or (d) on one or more web pages displayed to a purchaser during the checkout process. The following warning statement shall be used and shall appear in any of the above instances adjacent to or immediately following the display, description, or price of the Product for which it is given in the same type size or larger than the Product description text:

**WARNING:** This product contains DEHP, a phthalate chemical known to the State of California to cause birth defects and other reproductive harm.

Alternatively, the designated symbol (▲) may appear adjacent to or immediately following the display, description, or price of the Product for which a warning is being given, provided that the following warning statement also appears elsewhere on the same web page, as follows:

**WARNING:** Products identified on this page with the following symbol ▲ contain DEHP, a phthalate chemical known to the State of California to cause birth defects and other reproductive harm.

## 2.5 **Exceptions To Warning Requirements**

The warning requirements set forth in Sections 2.2 through 2.4 shall not apply to:

- (i) Any Products received by Hancock prior to receipt of the Notice, provided that Hancock does not have actual knowledge, or reason from communications with its suppliers of the Products to believe, that the Listed Chemical is present in such Products in concentrations exceeding 1,000 ppm each; or
- (ii) Phthalate Free Products (as defined in Section 2.1).

3. **PENALTIES PURSUANT TO HEALTH & SAFETY CODE §25249.7(b)**

In settlement of all the claims referred to in this Settlement Agreement against it, Hancock shall pay \$9,000.00 in civil penalties to be apportioned in accordance with California Health & Safety Code § 25192, with 75% of these funds remitted to the State of California's Office of Environmental Health Hazard Assessment and the remaining 25% of these penalty monies remitted to Held as provided by California Health & Safety Code § 25249.12(d). Hancock shall issue two separate checks for the penalty payment: (a) one check made payable to Hirst & Chanler LLP in Trust for the State of California's Office of Environmental Health Hazard Assessment ("Hirst & Chanler LLP in Trust for OEHHA") in the amount of \$6,750.00, representing 75% of the total penalty and (b) one check to "Hirst & Chanler LLP in Trust for A. Held" in the amount of \$2,250.00, representing 25% of the total penalty. Two separate 1099s shall be issued for the above payments: The first 1099 shall be issued to OEHHA, P.O. Box 4010, Sacramento, CA 95814 (EIN: 68-0284486) in the amount of \$6,750.00. The second 1099 shall be issued to Held in the amount of \$2,250.00, whose address and tax identification number shall be furnished, upon request, at least five calendar days before payment is due. The payments shall be delivered on or before ten days after the Effective Date, at the following address:

HIRST & CHANLER LLP  
Attn: Proposition 65 Controller  
2560 Ninth Street  
Parker Plaza, Suite 214  
Berkeley, CA 95710

4. **REIMBURSEMENT OF FEES AND COSTS**

The parties reached an accord on the compensation due to Held and his counsel under the private attorney general doctrine and principles of contract law. Under these legal principles,

Hancock shall reimburse Held's counsel for fees and costs, incurred as a result of investigating, bringing this matter to Hancock's attention, and negotiating a settlement in the public interest. Hancock shall pay Held and his counsel \$29,000.00 for all attorney fees, expert and investigation fees, and related costs. The payment shall be issued in a third separate check made payable to "Hirst & Chanler LLP" and shall be delivered on or before ten days after the Effective Date, at the following address:

HIRST & CHANLER LLP  
Attn: Proposition 65 Controller  
2560 Ninth Street  
Parker Plaza, Suite 214  
Berkeley, CA 95710

Hancock shall issue a separate 1099 for fees and cost paid in the amount of \$29,000.00 to Hirst & Chanler LLP, 2560 Ninth Street, Parker Plaza, Suite 214, Berkeley, CA 95710 (EIN: 20-3929984).

**5. RELEASE OF ALL CLAIMS**

**5.1 Held's Release of Hancock**

In further consideration of the promises and agreements herein contained, and for the payments to be made pursuant to Sections 3 and 4 above, Held, on behalf of himself, his past and current agents, representatives, attorneys, successors and/or assignees, and in the interest of the general public, hereby waives all rights to institute or participate in, directly or indirectly, any form of legal action and releases all claims, including, without limitation, all actions, and causes of action, in law or in equity, suits, liabilities, demands, obligations, damages, costs, fines, penalties, losses or expenses (including, but not limited to, investigation fees, expert fees and attorneys' fees) of any nature whatsoever, whether known or unknown, fixed or contingent (collectively "Claims"), against Hancock and each of its suppliers (including Springs Creative Products Group, LLC ("Springs Creative") and provided that Springs Creative agrees to the mutual release in § 5.2 as indicated by its signature below in § 12 below ), and each of its



downstream distributors, wholesalers, licensors, licensees, auctioneers, retailers, franchisees, dealers, customers, owners, purchasers, users, parent companies, corporate affiliates, subsidiaries, and their respective officers, directors, attorneys, representatives, shareholders, agents, and employees, and sister and parent entities (collectively "Releasees"). This release is limited to those claims that arise under Proposition 65, as such claims relate to Hancock's alleged failure to warn about exposures to or identification of DEHP contained in the Products.

In addition to the foregoing, Held, on behalf of himself, his past and current agents, representatives, attorneys, and successors and/or assignees, and not in his representative capacity hereby waives all rights to institute or participate in, directly or indirectly, any form of legal action and releases all Claims against Hancock and each of its Releasees. This additional release, which Held is providing in his individual capacity, is limited to those Claims that arise with respect to Proposition 65, as such Claims relate to Hancock's alleged failure to warn about exposures to or identification of toxic chemicals in addition to the Listed Chemical contained in the Products.

The Parties further understand and agree that the above releases shall not extend upstream to any entities that manufactured the Products or any component parts thereof, or any distributors or suppliers who sold the Products or any component parts thereof to Hancock.

#### **5.2 Hancock's and Springs Creative's Release of Held**

Hancock and Springs Creative, and each of them, waive any and all claims against Held, his attorneys and other representatives, for any and all actions taken or statements made (or those that could have been taken or made) by Held and his attorneys and other representatives, whether in the course of investigating claims or otherwise seeking enforcement of Proposition 65 against one or both of them in this matter, and/or with respect to the Products.

#### **6. SEVERABILITY**

If, subsequent to the execution of this Settlement Agreement, any of the provisions of this Settlement Agreement are held by a court to be unenforceable, the validity of the enforceable

provisions remaining shall not be adversely affected.

**7. GOVERNING LAW**

The terms of this Settlement Agreement shall be governed by the laws of the State of California and apply within the State of California. In the event that Proposition 65 is repealed or is otherwise rendered inapplicable by reason of law generally, or as to the Products, then Hancock shall provide written notice to Held of any asserted change in the law, and shall have no further obligations pursuant to this Settlement Agreement with respect to, and to the extent that, the Products are so affected.

**8. NOTICES**

Unless specified herein, all correspondence and notices required to be provided pursuant to this Settlement Agreement shall be in writing and personally delivered or sent by: (i) first-class, (registered or certified mail) return receipt requested; or (ii) overnight courier on any party by the other party at the following addresses:

For Hancock:

Robert M. Steele  
Baker, Donelson, Bearman, Caldwell & Berkowitz, PC  
Commerce Center, Suite 1000  
211 Commerce Street  
Nashville, TN 37201

For Held:

Proposition 65 Coordinator  
Hirst & Chanler, LLP  
2560 Ninth Street  
Parker Plaza, Suite 214  
Berkeley, CA 94710-2565

Any party, from time to time, may specify in writing to the other party a change of address to which all notices and other communications shall be sent.

**9. COUNTERPARTS; FACSIMILE SIGNATURES**

This Settlement Agreement may be executed in counterparts and by facsimile, each of which shall be deemed an original, and all of which, when taken together, shall constitute one and the same document.

**10. COMPLIANCE WITH HEALTH & SAFETY CODE § 25249.7(f)**

Held agrees to comply with the reporting form requirements referenced in Health & Safety Code § 25249.7(f).

**11. MODIFICATION**

This Settlement Agreement may be modified only by a written agreement of the Parties.

**12. AUTHORIZATION**

The undersigned are authorized to execute this Settlement Agreement on behalf of their respective Parties and have read, understood and agree to all of the terms and conditions of this Settlement Agreement.

<b>AGREED TO:</b>	<b>AGREED TO:</b>
Date: <b>APPROVED</b> By Anthony E Held at 11:04 am, 5/26/09	Date: <u>5/27/09</u>
By: <u>Anthony E Held</u> Anthony Held	By: <u>[Signature]</u> Hancock Fabrics, Inc..

AGREED AS TO THE MUTUAL RELEASE IN §§ 5.1 and 5.2 ABOVE

Dated: \_\_\_\_\_

SPRINGS CREATIVE PRODUCTS GROUP,  
LLC

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

DeRick Close  
President