

SETTLEMENT AGREEMENT

1. INTRODUCTION

1.1 Parties

This Settlement Agreement is entered into by and between Laurence Vinocur (“Vinocur”) and Preferred Nation, Inc. (“Preferred Nation”), with Vinocur and Preferred Nation each individually referred to as a “Party” and collectively as the “Parties.” Vinocur is an individual residing in the State of California who seeks to promote awareness of exposures to toxic chemicals, and to improve human health by reducing or eliminating hazardous substances contained in consumer products. Preferred Nation employs ten or more individuals and is a person in the course of doing business for purposes of the Safe Drinking Water and Toxic Enforcement Act of 1986, California Health and Safety Code section 25249.5 et seq. (“Proposition 65”).

1.2 General Allegations

Vinocur alleges that Preferred Nation manufactured, imported, distributed, and/or sold in the State of California vinyl/PVC audio cords that contain di(2-ethylhexyl) phthalate (“DEHP”). DEHP is listed under Proposition 65 as a chemical known to the State of California to cause birth defects or other reproductive harm. Vinocur alleges that Preferred Nation failed to provide consumers and other individuals exposed to DEHP from the vinyl/PVC audio cords it sold in California with a clear and reasonable health hazard warning regarding the reproductive toxicity of DEHP, as required by Proposition 65.

1.3 Product Description

For purposes of this Settlement Agreement “Products” are defined as the vinyl/PVC audio cords containing DEHP that are manufactured, sold, or distributed for sale in California by Preferred Nation as a component of the *G-Tech Speaker Cases, #5214, UPC #0 44759 52143 0*, and the *Preferred Nation Sling Bags, #2406.Blk; 2406, UPC #0 44759 24061 4* as well as “Additional Products” defined as the *Preferred Nation Junior Memo Pad Holders, #P8120, UPC #0 44759 81205 7*.

1.4 Notice of Violation

On April 9, 2018, Vinocur served Preferred Nation, the California Attorney General, and all other requisite public enforcers with a document titled, "Supplemental 60-Day Notice of Violation" ("Notice"), alleging that Preferred Nation violated Proposition 65 by failing to warn its customers and consumers in California of the health risks associated with exposures to DEHP from the Products. No public enforcer has commenced and is diligently prosecuting an action to enforce the violations alleged in the Notice.

1.5 No Admission

Preferred Nation denies the material, factual, and legal allegations in the Notice, and maintains that all of the products that it has manufactured, imported, stored, distributed, shipped, sold and/or offered for sale in California, including the Products and Additional Products, have been, and are, in compliance with all laws. Nothing in this Settlement Agreement shall be construed, nor shall compliance with this Settlement Agreement, constitute or be construed, as an admission by Preferred Nation of any allegation, fact, finding, conclusion, issue of law, or violation of law, such being specifically denied by Preferred Nation. This Section shall not, however, diminish or otherwise affect Preferred Nation's obligations, responsibilities, and duties under this Settlement Agreement.

1.6 Effective Date

For purposes of this Settlement Agreement, the term "Effective Date" shall mean September 15, 2018.

2. INJUNCTIVE RELIEF: REFORMULATION

2.1 Commitment to Reformulate

Commencing no later than the Effective Date and continuing thereafter, Preferred Nation shall only manufacture for sale, purchase for sale, or import for sale in California, Products that are Reformulated Products as defined by Section 2.2, below.

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2.2 Reformulation Standard

For the purposes of this Settlement Agreement, “Reformulated Products” are Products containing DEHP and diisononyl phthalate (“DINP”) in concentrations of less than 0.1 percent (1,000 parts per million) in each accessible vinyl/PVC component when analyzed by a laboratory accredited by the State of California, a federal agency, or a nationally recognized accrediting organization. For purposes of compliance with this reformulation standard, testing samples shall be prepared and extracted using Consumer Product Safety Commission (“CPSC”) methodology CPSC-CH-C1001.09.3 and analyzed using U.S. Environmental Protection Agency (“EPA”) methodology 8270D, or other methodologies utilized by federal or state government agencies to determine phthalate content in a solid substance.

3. MONETARY SETTLEMENT TERMS

3.1 Civil Penalty Payments

Pursuant to Health and Safety Code section 25249.7(b)(2), and in settlement of all claims alleged in the Notice or referred to in this Settlement Agreement, Preferred Nation agrees to pay a total of \$6,000 in civil penalties. The penalty payment will be allocated in accordance with California Health and Safety Code section 25249.12(c)(1) & (d), with 75% of the penalty amount paid to the California Office of Environmental Health Hazard Assessment (“OEHHA”) and the remaining 25% of the penalty amount retained by Vinocur.

Preferred Nation will deliver its payment on or before October 15, 2018 in two checks for the following amounts made payable to: (a) “OEHHA” in the amount of \$4,500; and (b) “Laurence Vinocur, Client Trust Account” in the amount of \$1,500. Vinocur’s counsel shall be responsible for delivering OEHHA’s portion of the penalties paid under this Settlement Agreement.

3.2 Attorneys’ Fees and Costs

The Parties reached an accord on the compensation due to Vinocur and his counsel under general contract principles and the private attorney general doctrine codified at Code

of Civil Procedure section 1021.5 for all work performed in this matter. Preferred Nation agrees to pay \$30,000 to Vinocur and his counsel for all fees and costs incurred investigating, bringing this matter to the attention of Preferred Nation's management, and negotiating a settlement that provides a significant public benefit. Preferred Nation's payment shall be delivered in the form of a check payable to "The Chanler Group" on or before October 15, 2018.

3.3 Payment Address

All payments required by this Settlement Agreement shall be delivered to:

The Chanler Group
Attn: Proposition 65 Controller
2560 Ninth Street
Parker Plaza, Suite 214
Berkeley, CA 94710

Preferred Nation shall be liable for payment of interest, at a rate of 10% simple interest, for all amounts due and owing under Sections 3.1 and 3.2 not received by the due date.

4. CLAIMS COVERED AND RELEASED

4.1 Vinocur's Release of Preferred Nation

This Settlement Agreement is a full, final, and binding resolution between Vinocur, in his individual capacity and not on behalf of the public and Preferred Nation, of any violation of Proposition 65 that was or could have been asserted by Vinocur, on his own behalf, or on behalf of his past and current agents, principals, employees, insurers, accountants, entities under his ownership or direction, representatives, attorneys, predecessors, successors, assignees and heirs, against Preferred Nation, its parents, subsidiaries, affiliated entities under common ownership, directors, officers, employees, agents, principals, insurers, accountants, representatives, attorneys, predecessors, successors, assignees, and each entity to whom Preferred Nation directly or indirectly distributes, ships or sells Products, including, but not limited to, its downstream distributors, wholesalers, customers, retailers, franchisees, cooperative members, and licensees and their owners, directors, officers, employees, agents, principals, insurers,

accountants, representatives, attorneys, predecessors, successors, and assignees (collectively, "Releasees"), for any and all claims based on the alleged or actual failure to warn about exposures to DEHP in Products and Additional Products manufactured, sold, or distributed for sale before the Effective Date in California by Preferred Nation, as alleged in the Notice. Products except for the *G-Tech Speaker Cases, #5214, UPC #0 44759 52143 0* and Additional Products sold by GoodHope Bags Industries Inc. (USA) are excluded from this release.

In further consideration of the promises and agreements herein contained, Vinocur, in his individual capacity and not on behalf of the public, and on behalf of his past and current agents, principals, employees, insurers, accountants, entities under his ownership or direction, representatives, attorneys, predecessors, successors, assignees and heirs hereby waives any and all rights that he may have to institute or participate in, directly or indirectly, any form of legal action, and releases all claims against Preferred Nation and Releasees including, without limitation, all actions and causes of action, suits, liabilities, demands, obligations, damages, costs, fines, penalties, losses, expenses, investigation fees, expert fees, and attorneys' fees for any and all claims arising under Proposition 65, regarding the alleged or actual failure to warn about exposures to DEHP and DINP in Products and Additional Products manufactured, sold, or distributed for sale before the Effective Date by Preferred Nation. Products except for the *G-Tech Speaker Cases, #5214, UPC #0 44759 52143 0* and Additional Products sold by GoodHope Bags Industries Inc. (USA) are excluded from this release.

The releases provided by Vinocur under this Settlement Agreement are provided solely on Vinocur's behalf and are not releases on behalf of the public in California.

4.2 Preferred Nation's Release of Vinocur

Preferred Nation, on its own behalf and on behalf of its past and current agents, representatives, attorneys, successors, and assignees, hereby waives any and all claims against Vinocur, Vinocur's attorneys, and other representatives, for any and all actions

taken or statements made, whether in the course of investigating claims, seeking to enforce Proposition 65 against Preferred Nation in this matter, or with respect to the Products.

5. SEVERABILITY

If, subsequent to the execution of this Settlement Agreement, any provision of this Settlement Agreement is held by a court to be unenforceable, the validity of the remaining provisions shall not be adversely affected.

6. 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 otherwise rendered inapplicable by reason of law generally, or as applied to the Products, then Preferred Nation may provide written notice to Vinocur of the asserted change in the law and shall have no further injunctive obligations pursuant to this Settlement Agreement with respect to the Products, to the extent that the Products are so affected.

7. NOTICE

Unless specified herein, all correspondence and notice required by this Settlement Agreement shall be in writing and sent by: (a) personal delivery; (b) first-class, registered or certified mail, return receipt requested; or (c) a recognized overnight courier on any Party by the other at the following addresses:

For Preferred Nation:

Mark Brutzkus, Esq.
Brutzkus Gubner Rozansky Seror Weber LLP
21650 Oxnard St., Suite 500
Woodland Hills, CA 91367-4911
mbrutzkus@bg.law

For Vinocur:

The Chanler Group
Attn: Prop 65 Coordinator
2560 Ninth Street
Parker Plaza, Suite 214
Berkeley, CA 94710

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

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8. COUNTERPARTS; FACSIMILE SIGNATURES

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

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

Vinocur and his attorneys agree to comply with the reporting form requirements referenced in California Health and Safety Code section 25249.7(f).

10. MODIFICATION

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

11. ENFORCEMENT OF SETTLEMENT AGREEMENT

Any party may file suit in a Superior Court of the State of California to enforce the terms and conditions contained in this Settlement Agreement. The prevailing party shall be entitled to its reasonable attorneys' fees and costs associated with such enforcement.

12. AUTHORIZATION

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

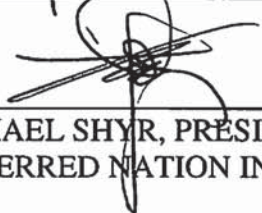
AGREED TO:

Date: September 18, 2018

By: 
LAURENCE VINO CUR

AGREED TO:

Date: SEP 12, 2018

By: 
MICHAEL SHYR, PRESIDENT
PREFERRED NATION INC.