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20 UNITED STATES DISTRICT COURT  
21 CENTRAL DISTRICT OF CALIFORNIA  
WESTERN DIVISION

22 SETH HUBERMAN, on behalf of  
23 himself and the certified class,  
24 Plaintiffs,

25 vs.

26 TAG-IT PACIFIC, INC., COLIN  
27 DYNE, MARK DYNE, RONDA  
28 FERGUSON and AUGUST F.  
DELUCA,  
Defendants.

Case No. 2:05-cv-07352-R(Ex)

CLASS ACTION

**AMENDED STIPULATION OF SETTLEMENT**

1 This Stipulation of Settlement dated as of July 31, 2009 (the “Stipulation”),  
2 is made and entered into pursuant to Rule 23 of the Federal Rules of Civil  
3 Procedure, subject to the approval of the District Court, by and among all the  
4 parties to the above-entitled case (the “Litigation”), by Lead Plaintiff Seth  
5 Huberman on behalf of himself and each of the Class Members and by Defendants  
6 Tag-It Pacific, Inc. (now known as Talon International, Inc.) (“Tag-It”), Colin  
7 Dyne, Mark Dyne, Ronda Ferguson and August F. DeLuca (collectively,  
8 “Defendants”), by and through their respective counsel of record in this Litigation.  
9 Lead Plaintiff and Defendants are collectively referred to as the “Parties.”

10 WHEREAS:

11 A. Plaintiff filed this securities class action on or about October 12, 2005,  
12 on behalf of purchasers on the open market of Tag-It common stock during the  
13 period March 28, 2003 through August 22, 2005 (“Class Period”) against Tag-It,  
14 and four of its officers and/or directors, Colin Dyne, Mark Dyne, Ronda Ferguson,  
15 and August F. DeLuca (collectively, the “Individual Defendants”).

16 B. On January 24, 2006, the Court granted Lead Plaintiff’s motion  
17 pursuant to §21D(a)(3)(B) of the Securities Exchange Act of 1934, 15 U.S.C.  
18 §78u-4(a)(3)(B), and appointed Seth Huberman to serve as Lead Plaintiff, and  
19 appointed Wolf Popper LLP to serve as Lead Counsel for Plaintiff and Glancy  
20 Binkow & Goldberg LLP to serve as Liaison Counsel for Plaintiff.

21 C. On March 13, 2006, Plaintiff filed his Amended Complaint  
22 (“Complaint”) against Defendants, alleging violations of §§10(b) and 20(a) of the  
23 Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule  
24 10b-5 promulgated thereunder. The Complaint alleges that Defendants engaged in  
25 a scheme to artificially inflate the price of Tag-It’s common stock in order to raise  
26 money to prevent Tag-It from going bankrupt, by, *inter alia*, failing to timely  
27 disclose the loss of business with Tag-It’s largest customers and Tag-It’s  
28 unprofitable manufacturing operations, manipulating inventory and accounts

1 receivable and inflating revenue, understating expenses to hide Tag-It's  
2 deteriorating financial condition, and making false and misleading statements  
3 regarding new customers, gross profit margins, and Tag-It's replacement of  
4 revenue.

5 D. On April 21, 2006, Tag-It and the Individual Defendants filed separate  
6 motions to dismiss the Complaint pursuant to Rule 12(b)(6) of the Federal Rules of  
7 Civil Procedure and the Private Securities Litigation Reform Act of 1995  
8 ("PSLRA").

9 E. On July 17, 2006, Defendants' motions to dismiss were denied by the  
10 Court.

11 F. On August 21, 2006, Defendants served answers to the Complaint in  
12 which they denied the material allegations of the Complaint and asserted various  
13 affirmative defenses thereto. Defendants continue to deny any and all allegations  
14 of wrongdoing, and contend that they were at all times in full compliance with all  
15 applicable laws.

16 G. On October 11, 2006, the Parties filed their Joint Report of Early  
17 Meeting pursuant to Rules 16 and 26 of the Federal Rules of Civil Procedure and  
18 the Local Rules of the Court.

19 H. On October 11, 2006, Plaintiff served his first request for production  
20 of documents. Plaintiff subsequently served additional discovery, including  
21 document requests and interrogatories, and requests for admissions.

22 I. By Order entered on December 27, 2006, the Court set a pre-trial  
23 schedule and imposed a discovery cutoff and other pretrial deadlines of March 19,  
24 2007.

25 J. The Parties engaged in discovery and discovery disputes, including  
26 motion practice with respect to discovery. Defendants produced documents from  
27 January 15, 2007 through February 2007, producing hundreds of thousands of  
28 pages of hard copy documents and a computer hard drive with hundreds of

1 thousands of pages of electronic documents. Plaintiff subpoenaed the production  
2 of documents from Tag-It's present and former independent auditors and several  
3 other third parties. Defendants took the deposition of Plaintiff and Plaintiff took  
4 depositions of the defendants and certain third parties.

5 K. On January 16, 2007, Plaintiff filed a motion for class certification,  
6 which motion was denied on February 20, 2007. Plaintiff moved for  
7 reconsideration and reargument of the denial of class certification, which was  
8 denied by the Court on April 2, 2007.

9 L. With the assistance of the Honorable Daniel Weinstein (Ret.), acting  
10 as the mediator, Lead Plaintiff and Defendants, through their counsel, conducted  
11 independent discussions and arm's length negotiations with respect to a  
12 compromise and settlement of the Litigation.

13 M. On March 1, 2007, the Parties participated in a mediation session in  
14 San Francisco with mediator Honorable Daniel Weinstein (Ret.) of JAMS. In  
15 advance of this mediation, the Parties prepared detailed mediation statements for  
16 the mediator. In their mediation statements and at the mediation, the Parties  
17 presented their respective views regarding the merits of the Litigation as well as  
18 their views concerning available defenses, the evidence and damages analyses.  
19 After extensive arm's-length negotiations, the Parties were unable to reach any  
20 resolution of the Litigation.

21 N. Defendants filed motions for summary judgment on March 12, 2007,  
22 and Plaintiff opposed summary judgment on March 19, 2007.

23 O. The Court granted summary judgment to Defendants on April 2, 2007,  
24 dismissing the Litigation.

25 P. Plaintiff appealed to the United States Court of Appeals for the Ninth  
26 Circuit from, *inter alia*, the grant of summary judgment to Defendants and the  
27 denial of Plaintiff's motion for class certification.

28 Q. On January 16, 2009, the Ninth Circuit Court of Appeals reversed the

1 grant of summary judgment to Defendants and reversed the denial of Plaintiff's  
2 motion for class certification. *Huberman v. Tag-It Pacific, Inc.*, 2009 U.S. App.  
3 Lexis 2780 (9th Cir. Jan. 16, 2009).

4 R. On March 27, 2009, the Parties resumed mediation with mediator  
5 Honorable Daniel Weinstein (Ret.) of JAMS. The Parties prepared additional  
6 mediation statements for the mediator, including with respect to damages. After  
7 extensive arm's-length negotiations, the Parties were unable to reach a resolution  
8 of the Litigation, but the Parties agreed to continue negotiations. The mediator  
9 appointed Chad Coffman of Winnemac Consulting, LLC to review the Parties'  
10 mediation submissions with respect to damages and to prepare a confidential and  
11 privileged report for the mediator and the Parties, which was submitted in May  
12 2009.

13 S. On June 15, 2009, the Court entered a pretrial schedule, setting a  
14 discovery cutoff of July 30, 2009, and trial to commence on September 29, 2009.

15 T. On June 19, 2009, the Court certified the case to proceed as a class  
16 action on behalf of the following class:

17 All persons and entities who purchased or otherwise acquired Tag-It  
18 common stock on the open market between March 28, 2003 and  
19 August 22, 2005, inclusive and who were damaged thereby, excluding  
20 (i) Defendants; (ii) members of the immediate family of each of the  
21 Individual Defendants; (iii) any subsidiary or affiliate of Tag-It; (iv)  
22 the directors, officers, managing directors, principals and partners of  
23 Tag-It; (v) any entity in which any excluded person has a controlling  
24 interest; and (vi) the legal representatives, heirs, successors and  
25 assigns of any such excluded person.

26 The Court certified Lead Plaintiff as the representative of the Class; and appointed  
27 Wolf Popper LLP as Class Counsel and Glancy Binkow & Goldberg LLP as  
28 Liaison Counsel for the Class.

1 U. The Parties continued mediation through the Honorable Daniel  
2 Weinstein and ultimately reached agreement on the terms of a proposed  
3 Settlement, as set forth herein.

4 V. Based upon their investigation and pretrial discovery, including the  
5 discovery set forth above, the Class Representative and his counsel have concluded  
6 that the terms and conditions of this Stipulation are fair, reasonable and adequate to  
7 the Class and are in their best interests, and the Lead Plaintiff has agreed to settle  
8 the claims raised in the Litigation pursuant to the terms and provisions of this  
9 Stipulation, after considering the benefits that the members of the Class will  
10 receive from settlement of the Litigation, the attendant risks of further litigation,  
11 and the desirability of having the Settlement consummated as provided for in this  
12 Stipulation.

13 NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by  
14 and among Lead Plaintiff (for himself and each of the respective Class Members)  
15 and Defendants, by and through their respective counsel or attorneys of record,  
16 that, subject to the approval of the Court, the Litigation and the Released Claims  
17 shall be finally and fully compromised, settled and released, and the Litigation  
18 shall be dismissed with prejudice, as to all Parties, upon and subject to the terms  
19 and conditions of the Stipulation, as follows:

20 1 Definitions

21 As used in the Stipulation the following terms have the meanings specified  
22 below:

23 1.1 “Authorized Claimant” means any Class Member whose claim for  
24 recovery has been allowed pursuant to the terms of the Stipulation.

25 1.2 “CAFA Notice” means a notice of the proposed settlement in  
26 compliance with the requirements of the Class Action Fairness Act, 28 U.S.C.  
27 §1711 *et seq.* to be served upon the appropriate State official of each State and the  
28 Attorney General of the United States.

1 1.3 “Claims Administrator” means the firm selected by Lead Counsel to  
2 provide Notice and to administer the claims process.

3 1.4 “Class” means all Persons who purchased or otherwise acquired Tag-  
4 It common stock on the open market between March 28, 2003 and August 22,  
5 2005, inclusive and who were damaged thereby, excluding (i) Defendants; (ii)  
6 members of the immediate family of each of the Individual Defendants; (iii) any  
7 subsidiary or affiliate of Tag-It; (iv) the directors, officers, managing directors,  
8 principals and partners of Tag-It; (v) any entity in which any excluded person has a  
9 controlling interest; and (vi) the legal representatives, heirs, successors and assigns  
10 of any such excluded person. Also excluded from the Class are those Persons who  
11 timely and validly request exclusion from the Class pursuant to the terms of the  
12 Notice of Pendency and Proposed Settlement of Class Action and Settlement  
13 Hearing.

14 1.5 “Class Member” means a member of the Class who does not submit a  
15 valid request for exclusion.

16 1.6 “Class Period” means the period from March 28, 2003 through  
17 August 22, 2005, inclusive.

18 1.7 “Court” means the United States District Court for the Central District  
19 of California.

20 1.8 “Defendants” means Tag-It (now known as Talon International, Inc.),  
21 Colin Dyne, Mark Dyne, Ronda Ferguson and August F. DeLuca.

22 1.9 “Effective Date” means the first date by which all of the events and  
23 conditions specified in ¶10 of the Stipulation have been met and have occurred.

24 1.10 “Escrow Agent” means Signature Bank, Signature Bank, 261 Madison  
25 Avenue, New York, NY 10016.

26 1.11 “Final” means when the last of the following with respect to the  
27 Judgment approving the Stipulation, substantially in the form of Exhibit B attached  
28 hereto, shall occur: (i) the expiration of three (3) business days after the time to file

1 a motion to alter or amend the Judgment under Federal Rule of Civil Procedure  
2 59(e) has passed without any such motion having been filed; (ii) the expiration of  
3 three (3) business days after the time in which to appeal the Judgment has passed  
4 without any appeal having been taken (which date shall be deemed to be  
5 thirty-three (33) days following the entry of the Judgment, unless the date to take  
6 such an appeal shall have been extended by Court order or otherwise, or unless the  
7 thirty-third (33rd) day falls on a weekend or a Court holiday, in which case the  
8 date for purposes of this Stipulation shall be deemed to be the next business day  
9 after such thirty-third (33rd) day); and (iii) if such motion to alter or amend is filed  
10 or if an appeal is taken, three (3) business days after the appellate court's  
11 determination of that motion or appeal (including any petition for writ of certiorari  
12 and any review following a grant of certiorari) so that it is no longer subject to any  
13 further judicial review or appeal whatsoever and in such a manner as to permit the  
14 consummation of the settlement substantially in accordance with the terms and  
15 conditions of this Stipulation. For purposes of this paragraph, an "appeal" shall not  
16 include any appeal that concerns only the issue of attorneys' fees or reimbursement  
17 of time and expenses or the Plan of Allocation of the Settlement Fund. Any  
18 proceeding or order, or any appeal or petition for a writ of certiorari pertaining  
19 solely to any plan of distribution and/or application for attorneys' fees or  
20 reimbursement of time, costs or expenses, shall not in any way delay or preclude  
21 the Judgment from becoming Final.

22 1.12 "Individual Defendants" means defendants Colin Dyne, Mark Dyne,  
23 Ronda Ferguson and August F. DeLuca.

24 1.13 "Judgment" means the judgment to be rendered by the Court,  
25 substantially in the form attached hereto as Exhibit B.

26 1.14 "Lead Counsel" means Wolf Popper LLP and "Liaison Counsel"  
27 means Glancy, Binkow & Goldberg LLP.

28 1.15 "Lead Plaintiff" means Plaintiff Seth Huberman.

1 1.16 “Net Settlement Fund” has the meaning defined in ¶4, hereof.

2 1.17 “Notice” means the Notice of Pendency and Proposed Settlement of  
3 Class Action and Settlement Hearing, which is to be sent to members of the Class,  
4 substantially in the form attached hereto as Exhibit A-1.

5 1.18 “Person” means an individual, corporation, partnership, limited  
6 partnership, limited liability company, association, joint stock company, estate,  
7 legal representative, trust, unincorporated association, government or any political  
8 subdivision or agency thereof, and any business or legal entity and their spouses,  
9 heirs, predecessors, successors, representatives, or assignees.

10 1.19 “Plaintiff’s Counsel” means collectively Wolf Popper LLP and  
11 Glancy, Binkow & Goldberg LLP.

12 1.20 “Plan of Allocation” means a plan or formula of allocation of the  
13 Settlement Fund whereby the Settlement Fund shall be distributed to Authorized  
14 Claimants after payment of expenses of notice and administration of the  
15 settlement, Taxes and Tax Expenses, reimbursement to the Lead Plaintiff for his  
16 time and expenses as awarded by the Court, and such attorneys’ fees, costs,  
17 expenses and interest as may be awarded by the Court. Any Plan of Allocation is  
18 not part of the Stipulation, and Defendants and their Related Parties shall have no  
19 responsibility therefor or liability with respect thereto.

20 1.21 “Preliminary Approval Order” means the proposed order,  
21 substantially in the form attached hereto as Exhibit A, preliminarily approving the  
22 proposed Settlement and directing notice thereof to be sent to the Class.

23 1.22 “Proof of Claim” means the Proof of Claim and Release form  
24 substantially in the form attached hereto as Exhibit A-2.

25 1.23 “Related Parties” means, with respect to each Defendant, the  
26 immediate family members, heirs, executors, administrators, successors, assigns,  
27 present and former employees, officers, directors, attorneys, auditors, accountants,  
28 legal representatives, insurers, reinsurers, and agents of each of them, and any

1 person or entity which is or was related to or affiliated with any Defendant or in  
2 which any Defendant has or had a controlling interest and the present and former  
3 parents, subsidiaries, divisions, affiliates, predecessors, successors, employees,  
4 officers, directors, attorneys, assigns, legal representatives, insurers, reinsurers, and  
5 agents of each of them.

6 1.24 “Released Claims” means all rights, demands, liabilities, claims  
7 (including “Unknown Claims” as defined in ¶1.30) and causes of action of every  
8 nature and description whatsoever, at law or in equity, accrued or unaccrued,  
9 whether known or unknown, whether or not concealed or hidden, whether fixed or  
10 contingent, liquidated or un-liquidated, matured or unmatured, whether class or  
11 individual in nature and whether arising under federal, state, common or foreign  
12 law, including, without limitation, claims for negligence, gross negligence,  
13 recklessness, breach of duty of care and/or breach of duty of loyalty, fraud,  
14 misrepresentation, mismanagement, breach of fiduciary duty, that Lead Plaintiff or  
15 any member of the Class asserted, or could have asserted, arising out of, or relating  
16 to, directly or indirectly, the purchase or acquisition of Tag-It common stock on the  
17 open market during the Class Period, and the facts, matters, allegations,  
18 transactions, events, disclosures, statements, acts or omissions which were alleged  
19 or that could have been alleged in the Complaint.

20 1.25 “Released Persons” means each and all of Defendants and each and  
21 all of their Related Parties.

22 1.26 “SEC” means the Securities and Exchange Commission.

23 1.27 “Settlement Fund” means the principal amount of Five Million Seven  
24 Hundred and Fifty Thousand Dollars (\$5,750,000.00) to be paid pursuant to ¶4 of  
25 this Stipulation, plus all interest earned thereon.

26 1.28 “Summary Notice” means the Summary Notice of Pendency and  
27 Proposed Settlement of Class Action and Settlement Hearing substantially in the  
28 form attached hereto as Exhibit A-3.

1 1.29 “Tag-It” means Tag-It Pacific, Inc. (now known as Talon  
2 International, Inc.), its predecessors, successors, subsidiaries, and affiliates.

3 1.30 “Taxes” means (i) any and all applicable taxes, duties and similar  
4 charges imposed by a government authority (including any estimated taxes, interest  
5 or penalties) arising in any jurisdiction, if any, with respect to the income or gains  
6 earned by or in respect of the Settlement Fund for any period, by way of  
7 withholding as required by applicable law on any distribution by the Lead Counsel  
8 or the Claims Administrator of any portion of the Settlement Fund to Authorized  
9 Claimants and other persons entitled hereto pursuant to this Stipulation; and (ii)  
10 any and all expenses, liabilities and costs incurred in connection with the taxation  
11 of the Settlement Fund (including without limitation, expenses of tax attorneys and  
12 accountants).

13 1.31 “Unknown Claims” means all claims, demands, rights, liabilities, and  
14 causes of action of every nature and description which Lead Plaintiff and/or any  
15 Class Member does not know or suspect to exist in his, her or its favor at the time  
16 of the release of the Released Persons which, if known by him, her or it, might  
17 have affected his, her or its settlement with and release of the Released Persons, or  
18 might have affected his, her or its decision not to object to this settlement. With  
19 respect to any and all Released Claims, the Parties stipulate and agree that, upon  
20 the Effective Date, the Lead Plaintiff shall expressly waive, and each of the Class  
21 Members shall be deemed to have waived, and by operation of the Judgment shall  
22 have waived, the provisions, rights and benefits of California Civil Code §1542,  
23 which provides:

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

1 WITH THE DEBTOR.

2 The Lead Plaintiff shall expressly waive and each of the Class Members shall be  
3 deemed to have waived, and by operation of the Judgment shall have expressly  
4 waived, any and all provisions, rights and benefits conferred by any law of any  
5 state or territory of the United States, or principle of common law, which is similar,  
6 comparable or equivalent to California Civil Code §1542. Lead Plaintiff and /or  
7 any Class Members may hereafter discover facts in addition to or different from  
8 those which he, she or it now knows or believes to be true with respect to the  
9 subject matter of the Released Claims, but the Lead Plaintiff shall expressly fully,  
10 finally and forever settle and release, and each Class Member, upon the Effective  
11 Date, shall be deemed to have, and by operation of the Judgment shall have, fully,  
12 finally, and forever settled and released, any and all Released Claims, known or  
13 unknown, suspected or unsuspected, contingent or non-contingent, whether or not  
14 concealed or hidden, which now exist, or heretofore have existed, upon any theory  
15 of law or equity now existing or coming into existence in the future, including, but  
16 not limited to, conduct which is negligent, intentional, with or without malice, or a  
17 breach of any duty, law or rule, without regard to the subsequent discovery or  
18 existence of such different or additional facts. The Lead Plaintiff acknowledges,  
19 and the Class Members shall be deemed by operation of the Judgment to have  
20 acknowledged, that the foregoing waiver was separately bargained for and a key  
21 element of the settlement of which this release is a part.

22 2 Defendants' Denials of Wrongdoing and Liability

23 2.1 Defendants deny any wrongdoing whatsoever and this Stipulation and  
24 Settlement shall in no event be construed or deemed to be evidence of or an  
25 admission or concession on the part of any Defendant with respect to any claim or  
26 any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the  
27 contentions and defenses that Defendants have asserted. Defendants expressly have  
28 denied and continue to deny all charges of wrongdoing or liability against them

1 arising out of any of the conduct, statements, acts or omissions alleged, or that  
2 could have been alleged, in the Litigation and continue to believe the claims  
3 asserted against them in the Complaint are without merit. Defendants have also  
4 denied and continue to deny, *inter alia*, the allegations that the Lead Plaintiff  
5 and/or the Class has suffered damages, that the price of Tag-It common stock was  
6 artificially inflated by any reasons of alleged misrepresentations and omissions,  
7 and that Lead Plaintiff and/or the Class was harmed by the conduct alleged in the  
8 Complaint. Defendants believe that the evidence developed to date supports their  
9 position.

10 2.2 Notwithstanding these denials, Defendants have concluded that  
11 further conduct of the Litigation would be protracted and expensive and that it is  
12 desirable that the Litigation and any Released Claims (including Unknown Claims)  
13 be fully and finally settled in the manner and upon the terms and conditions set  
14 forth in this Stipulation. In determining to enter into this Stipulation, Defendants  
15 have considered the uncertainty and risk inherent in any litigation, especially  
16 complex litigation like this securities lawsuit.

### 17 3 Claims of the Lead Plaintiff and Benefits of Settlement

18 3.1 Lead Plaintiff believes that the claims asserted in the Litigation have  
19 merit and that the evidence developed to date supports those claims. This  
20 Stipulation and Settlement shall in no event be construed or deemed to be evidence  
21 of or an admission or concession on the part of Lead Plaintiff with respect to any  
22 claim whatsoever, that there is any infirmity in the claim or liability of Defendants  
23 or any merit whatsoever to any of the contentions and defenses that Defendants  
24 have asserted. Lead Plaintiff also believes that he and the Class have suffered  
25 damages, and that the price of Tag-It common stock was artificially inflated by  
26 reason of alleged misrepresentations and omissions by Defendants, and that Lead  
27 Plaintiff and the Class were harmed by the conduct alleged in the Complaint.

28 3.2 However, Lead Plaintiff recognizes and acknowledges the expense

1 and length of continued proceedings necessary to prosecute the Litigation against  
2 Defendants through trial and through appeals. The Lead Plaintiff also has taken  
3 into account the age of the case, the uncertain outcome and the risk of any  
4 litigation, especially in complex actions such as this Litigation in this Court, as  
5 well as the difficulties and delays inherent in such litigation. Lead Plaintiff is also  
6 mindful of the inherent difficulties of proof under and possible defenses to the  
7 securities law violations asserted in the Litigation. The Lead Plaintiff and his  
8 counsel believe that the settlement set forth in the Stipulation confers substantial  
9 benefits upon the Class and is in the best interests of the Class.

10 4 The Settlement

11 4.1 The Settlement Fund:

12 (a) Within ten (10) business days after the Court's entry of the  
13 Preliminary Approval Order and receipt by Defendants of wire instructions by e-  
14 mail from Lead Counsel, Defendants shall cause their insurers to pay the sum of  
15 \$5,750,000 to be transferred into an escrow account maintained and controlled by  
16 the Escrow Agent. The \$5,750,000 plus any accrued interest shall constitute the  
17 Settlement Fund.

18 (b) The Settlement Fund may be invested in instruments backed by  
19 the full faith and credit of the United States Government or fully insured by the  
20 United States Government or an agency thereof and shall reinvest the proceeds of  
21 these instruments as they mature in similar instruments at their then-current market  
22 rates. The Settlement Fund shall bear all risks related to investment of the  
23 Settlement Fund.

24 (c) Plaintiff's Lead Counsel shall not disburse the Settlement Fund  
25 except as provided in the Stipulation, by an order of the Court, or with the written  
26 agreement of counsel for the Parties.

27 (d) Subject to further order and/or direction as may be made by the  
28 Court, Lead Counsel is authorized to execute such transactions on behalf of the

1 Class as are consistent with the terms of the Stipulation. In no event shall the  
2 Defendants have any responsibility for or liability with respect to the escrow  
3 account or the Settlement Fund.

4 (e) All funds held by Lead Counsel shall be deemed and  
5 considered to be *in custodia legis* of the Court, and shall remain subject to the  
6 jurisdiction of the Court, until such time as such funds shall be distributed pursuant  
7 to the Stipulation and/or further order(s) of the Court.

#### 8 4.2 Administration

9 (a) The Claims Administrator shall administer the Settlement  
10 subject to the jurisdiction of the Court for the Class Members. To the extent  
11 necessary to effectuate the terms of the Settlement, Tag-It and/or its successors  
12 shall provide to the Claims Administrator, without charge, all reasonably available  
13 information from the records of Tag-It's transfer agent concerning the identity of  
14 Class Members and their transactions. To the extent practicable, such transfer  
15 information shall be in electronically readable form as specified by the Claims  
16 Administrator.

17 (b) Subject to approval by the Court, the Escrow Agent may  
18 advance from the Settlement Fund without further consent of Defendants the costs  
19 and expenses up to the amount of \$250,000 reasonably and actually incurred in  
20 connection with providing notice to the Class, locating Class Members, soliciting  
21 claims, assisting with the filing of claims, administering and distributing the  
22 Settlement Fund to Authorized Claimants, processing Proof of Claim and Release  
23 forms, and paying escrow fees and costs, if any, including, without limitation, the  
24 costs of printing and mailing the Notice and Proof of Claim, publication of the  
25 Summary Notice, reimbursements to nominee owners for forwarding the Notice  
26 and Proof of Claim to their beneficial owners, and the administrative expenses  
27 incurred and fees charged by the Claims Administrator in connection with  
28 providing Notice and processing the claim.

1 (c) The Escrow Agent, may rely upon any notice, certificate,  
2 instrument, request, paper or other document reasonably believed by it to be  
3 genuine and to have been made, sent or signed by an authorized signatory in  
4 accordance with this Stipulation, and shall not be liable for (and will be  
5 indemnified from the Settlement Fund and held harmless from and against) any  
6 and all claims, actions, damages, costs (including reasonable attorneys' fees) and  
7 expenses claimed against or incurred by the Escrow Agent for any action taken or  
8 omitted by it, consistent with the terms hereof and those of any separate escrow  
9 agreements concerning the Settlement Fund, in connection with the performance  
10 by it of its duties pursuant to the provisions of this Stipulation or order of the  
11 courts, except for its negligence, gross negligence or willful misconduct. In the  
12 event the Settlement is terminated, as provided for herein, indemnified amounts  
13 and expenses incurred by the Escrow Agent in connection with this paragraph shall  
14 not be returned to the persons who paid or contributed to the Settlement.

#### 15 4.3 Taxes

16 (a) The Parties agree to treat the Settlement Fund as being at all  
17 times a "qualified settlement fund" within the meaning of Treas. Reg. §1.468B-1.  
18 In addition, the Parties or the Escrow Agent shall timely make such elections as  
19 necessary or advisable to carry out the provisions of ¶4.3 , including, if necessary,  
20 the "relation-back election" (as defined in Treas. Reg. §1.468B-1(j)(2)) back to the  
21 earliest permitted date. Such elections shall be made in compliance with the  
22 procedures and requirements contained in such Treasury regulations promulgated  
23 under §1.468B of the Internal Revenue Code of 1986, as amended (the "Code"). It  
24 shall be the responsibility of the Lead Counsel to cause the timely and proper  
25 preparation and delivery of the necessary documentation for signature by all  
26 necessary parties, and thereafter to cause the appropriate filing to occur;

27 (b) For the purpose of §1.468B of the Code and the Treasury  
28 regulations thereunder, the Escrow Agent shall be designated as the

1 “administrator” of the Settlement Fund. The Escrow Agent shall cause to be timely  
2 and properly filed all informational and other tax returns necessary or advisable  
3 with respect to the Settlement Fund (including, without limitation, the returns  
4 described in Treas. Reg. §1.468B-2(k)). Such returns (as well as the election  
5 described in ¶4.3(a) hereof) shall be consistent with ¶4.3(c) and in all events shall  
6 reflect that all Taxes (including any estimated Taxes, interest or penalties) on the  
7 income earned by the Settlement Fund shall be paid out of the Settlement Fund as  
8 provided in ¶4.3 hereof;

9 (c) All: (a) Taxes (including any estimated Taxes, interest or  
10 penalties) arising with respect to the income earned by the Settlement Fund,  
11 including any Taxes or tax detriments that may be imposed upon Defendants or  
12 their Related Parties with respect to any income earned by the Settlement Fund for  
13 any period during which the Settlement Fund does not qualify as a “qualified  
14 settlement fund” for federal or state income tax purposes (“Taxes”); and (b)  
15 expenses and costs incurred in connection with the operation and implementation  
16 of this ¶4.3(b) (including, without limitation, expenses of tax attorneys and/or  
17 accountants and mailing and distribution costs and expenses relating to filing (or  
18 failing to file) the returns described in this ¶4.3(b)) (“Tax Expenses”), shall be paid  
19 out of the Settlement Fund.

20 (d) In no event shall Defendants or their Related Parties have any  
21 responsibility for or liability with respect to the Taxes or the Tax Expenses. The  
22 Settlement Fund shall indemnify and hold each of Defendants and their Related  
23 Parties harmless for Taxes and Tax Expenses (including, without limitation, Taxes  
24 payable by reason of any such indemnification). Taxes and Tax Expenses shall be  
25 treated as, and considered to be, a cost of administration of the Settlement Fund  
26 and shall be timely paid or caused to be paid out of the Settlement Fund without  
27 further consent of Defendants, or prior order from the Court, and the Escrow Agent  
28 shall be obligated (notwithstanding anything herein to the contrary) to withhold

1 from distribution to Authorized Claimants any funds necessary to pay such  
2 amount, including the establishment of adequate reserves for any Taxes and Tax  
3 Expenses (as well as any amounts that may be required to be withheld under Treas.  
4 Reg. §1.468B-2(1)(2)); neither the parties nor any Related Parties are responsible  
5 therefor nor shall they have any liability with respect thereto. The Parties hereto  
6 agree to cooperate with the Escrow Agent, each other, and their tax attorneys and  
7 accountants to the extent reasonably necessary to carry out the provisions of this  
8 ¶4.3;

9 4.4 Termination of the Settlement:

10 In the event that the Stipulation is not approved, or is terminated, canceled,  
11 or fails to become effective for any reason, the Settlement Fund (including interest  
12 accrued), less expenses due and owing in connection with the notice,  
13 administration of the settlement, and taxes and tax expenses incurred or due and  
14 owing in connection with the Settlement provided for herein shall be refunded to  
15 Defendants' insurers within 10 business days as provided in ¶10.4 below. In such  
16 event, any tax refund owing to the Settlement Fund shall also be refunded to  
17 Defendants' insurers.

18 5 Submission of the Settlement to Court for Approval

19 5.1 As soon as practicable after execution of the Stipulation, the Parties  
20 shall submit the Stipulation together with its exhibits to the Court and shall apply  
21 for entry of the Preliminary Approval Order, substantially in the form of Exhibit A  
22 attached hereto. This application shall request, *inter alia*, (a) the preliminary  
23 approval of the Settlement set forth in the Stipulation; (b) approval for mailing the  
24 Notice and Proof of Claim substantially in the form of Exhibits A-1 and A-2  
25 attached hereto; and (c) publication of a Summary Notice substantially in the form  
26 of Exhibit A-3 attached hereto. The Notice shall include the general terms of the  
27 Settlement set forth in the Stipulation, the Plan of Allocation, and the date of a  
28 hearing (the "Settlement Hearing") for final approval of the Settlement of the

1 Litigation as set forth herein.

2 5.2 Within ten (10) business days following the Court's entry of the  
3 Preliminary Approval Order and pursuant thereto, Defendants shall cause to be  
4 served upon the appropriate State official of each State and the Attorney General of  
5 the United States a notice of the proposed Settlement in compliance with the  
6 requirements of the Class Action Fairness Act ("CAFA"), 28 U.S.C. § 1711 *et seq.*,  
7 substantially in the form of Exhibit C attached hereto. The Claims Administrator  
8 shall fulfill the CAFA notice requirements.

9 5.3 At or after the Settlement Hearing, Lead Counsel will also request  
10 approval of the Plan of Allocation and Plaintiff's Counsel's application for an  
11 award of attorneys' fees and the reimbursement of expenses, and the application  
12 for reimbursement for time and expenses of the Lead Plaintiff.

13 5.4 Tag-It or its transfer agent shall provide the Claims Administrator  
14 with shareholder information to the extent reasonably available in the records of  
15 Tag-It or its transfer agent, providing the identity of class members or record  
16 holders of the common stock of Tag-It during the Class Period. To the extent  
17 available, this information shall be in computer readable form and shall contain the  
18 names and addresses of such persons. Tag-It shall bear all costs or expenses  
19 reasonably associated with providing the Claims Administrator with the above-  
20 described shareholder information from its or its agents' records, and Tag-It shall  
21 not seek to recover any of its costs and expenses in assisting the Claims  
22 Administrator.

23 6 Releases, Judgment Credit and Covenant Not to Sue

24 6.1 Upon the Effective Date, as defined in ¶10 hereof, Lead Plaintiff and  
25 each of the Class Members shall be deemed to have, and by operation of the  
26 Judgment shall have, fully, finally, and forever released, relinquished and  
27 discharged all Released Claims (including Unknown Claims) against each and all  
28 the Released Persons, whether or not such Class Member executes and delivers a

1 Proof of Claim and Release form.

2 6.2 The Proof of Claim and Release to be executed by Class Members  
3 shall release all Released Claims (including Unknown Claims) against the  
4 Released Persons.

5 6.3 Upon the Effective Date, as defined in ¶10 hereof, each of the  
6 Released Persons shall be deemed to have, and by operation of the Judgment shall  
7 have, fully, finally, and forever released, relinquished, and discharged the Lead  
8 Plaintiff, each and all of the Class Members and Plaintiff's Counsel from all claims  
9 (including Unknown Claims) arising out of, relating to, or in connection with the  
10 institution, prosecution, assertion, settlement or resolution of the Litigation or this  
11 Stipulation.

12 6.4 Upon the Effective Date, Lead Plaintiff, each of the Class Members,  
13 and anyone claiming through or on behalf of any of them, agree and covenant not  
14 to commence, institute, prosecute, or continue to prosecute any action or other  
15 proceeding in any court of law or equity, arbitration tribunal, or administrative  
16 forum, asserting any Released Claims against any of the Released Persons.

17 6.5 Upon the Effective Date, Defendants, the Released Persons and their  
18 counsel, and anyone claiming through or on behalf of any of them, agree and  
19 covenant not to commence or institute any action or other proceeding in any court  
20 of law or equity, arbitration tribunal, or administrative forum, against Lead  
21 Plaintiff, Plaintiff's Counsel or any Class Member arising out of, or relating to,  
22 directly or indirectly, the institution, prosecution, assertion, settlement or resolution  
23 of the Litigation or the Released Claims (including Unknown Claims).

24 6.6 Upon the Effective Date, all claims against any Defendants or  
25 Released Persons sounding in contribution or equitable indemnification arising out  
26 of, relating to, or in connection in any way with (i) the purchase or acquisition of  
27 Tag-It common stock on the open market during the Class Period; (ii) the facts,  
28 transactions, events, occurrences, acts, disclosures, statements, omissions or

1 failures to act which were, or could have been alleged, in the Litigation or any  
2 other forum, based upon, relating to or arising from the facts which were or could  
3 have been alleged in the Litigation; and (iii) the Complaint are hereby forever  
4 barred, enjoined or discharged pursuant to, *inter alia*, 15 U.S.C. §78u-4(f)(7) and,  
5 as a settlement made in good faith, pursuant to, *inter alia*, Cal. Civ. Proc. Code  
6 §877.6.

7 6.7 The Parties agree that, if the settlement does not become Final, the  
8 period of time between the date of this Stipulation and the Effective Date shall not  
9 be counted for purposes of any defense based on passage of time.

10 7. Administration, Supervision, and Distribution of Settlement Fund

11 7.1 The Claims Administrator, acting on behalf of the Class, and subject  
12 to such supervision and direction as necessary by Lead Counsel and the Court,  
13 shall administer and calculate the claims submitted by Class Members.

14 7.2 The Settlement Fund shall be applied as follows: (a) to pay all the  
15 costs and expenses reasonably and actually incurred in connection with providing  
16 notice, locating Class Members, soliciting Class claims, assisting with the filing of  
17 claims, administering and distributing the Net Settlement Fund to Authorized  
18 Claimants, processing Proof of Claim and Release forms, and paying escrow fees  
19 and costs, if any, pursuant to ¶4.2; (b) to pay the Taxes and Tax Expenses  
20 described in ¶4.3 hereof; (c) to pay Plaintiff's Counsel's attorneys' fees and  
21 expenses with interest thereon (the "Fee and Expense Award") and Lead Plaintiff's  
22 time and expenses, as awarded by the Court; and (d) to distribute the balance of the  
23 Settlement Fund (the "Net Settlement Fund") to Authorized Claimants as allowed  
24 by the Stipulation, the Plan of Allocation, or the Court.

25 7.3 Upon the Effective Date and thereafter, and in accordance with the  
26 terms of the Stipulation, the Plan of Allocation, or such further approval and  
27 further order(s) of the Court as may be necessary or as circumstances may require,  
28

1 the Net Settlement Fund shall be distributed to Authorized Claimants, subject to  
2 and in accordance with the terms of this Stipulation.

3 7.4 Within one hundred twenty (120) days after such time as set by the  
4 Court to mail Notice to the Class, each Person claiming to be an Authorized  
5 Claimant shall be required to submit to the Claims Administrator a completed  
6 Proof of Claim and Release form, substantially in a form approved by the Court,  
7 signed under penalty of perjury and supported by such documents as are specified  
8 in the Proof of Claim and Release form and as are reasonably available to the  
9 Authorized Claimant.

10 7.5 All Proof of Claim forms must be submitted by the date specified in  
11 the Notice unless such period is extended by the Court. A Proof of Claim shall be  
12 deemed to have been submitted when posted if received with a postmark indicated  
13 on the envelope and if mailed by first-class mail and addressed in accordance with  
14 the instructions thereon. In all other cases, the Proof of Claim shall be deemed to  
15 have been submitted when actually received by the Claims Administrator.

16 7.6 Proof of Claim forms that do not meet the submission requirements  
17 may be rejected. Prior to rejection of a Proof of Claim, the Claims Administrator  
18 may communicate with the claimant in order to attempt to remedy the curable  
19 deficiencies in the Proof of Claim submitted. The Claims Administrator shall  
20 notify, in a timely fashion and in writing, each claimant whose Proof of Claim they  
21 propose to reject in whole or in part, setting forth the reasons therefore, and shall  
22 indicate in such notice that the claimant whose claim is to be rejected has the right  
23 to a review by the Court if the claimant so desires and complies with the  
24 requirements of ¶7.7.

25 7.7 If any claimant whose claim has been rejected in whole or in part  
26 desires to contest such rejection, the claimant must, within twenty (20) days after  
27 the date of mailing of the notice required in ¶7.6 above, serve upon the Claims  
28 Administrator a notice and statement of reasons indicating the claimant's grounds

1 for contesting the rejection along with any supporting documentation, and  
2 requesting a final review thereof by the Court. If a dispute concerning a claim  
3 cannot be otherwise resolved, Lead Counsel shall thereafter present the request for  
4 review to the Court.

5 7.8 Except as otherwise ordered by the Court, all Class Members who fail  
6 to timely submit a Proof of Claim form within such period, or such other period as  
7 may be ordered by the Court, or otherwise allowed, shall be forever barred from  
8 receiving any payments pursuant to the Stipulation and the settlement set forth  
9 herein, but will in all other respects be subject to and bound by the provisions of  
10 the Stipulation, the releases contained herein, and the Judgment. Notwithstanding  
11 the foregoing, Plaintiff's Counsel may, in their discretion, accept for processing  
12 late submitted claims so long as the distribution of the Net Settlement Fund to  
13 Authorized Claimants is not materially delayed.

14 7.9 The Net Settlement Fund shall be distributed to the Authorized  
15 Claimants substantially in accordance with a Plan of Allocation to be described in  
16 the Notice and approved by the Court. Subject to the approval of the Court, if  
17 there is any balance remaining in the Net Settlement Fund after six (6) months  
18 from the date of distribution of the Net Settlement Fund (whether by reason of tax  
19 refunds, uncashed checks or otherwise), Lead Counsel shall, if feasible, reallocate  
20 such balance among Authorized Claimants who deposited the checks sent in the  
21 initial distribution in an equitable and economic fashion. Thereafter, any balance  
22 which still remains in the Net Settlement Fund shall be donated to a secular §  
23 501(c)(3) organization approved by the Court.

24 7.10 This is not a claims-made settlement. Accordingly, once all conditions  
25 of the Stipulation are satisfied and the settlement becomes Final, no portion of the  
26 Settlement Fund will be returned to Defendants or their insurers. The Released  
27 Persons or their counsel shall have no responsibility for, interest in, or liability  
28 whatsoever with respect to the Settlement Fund, including, but not limited to, (i)

1 the investment or distribution of the Settlement Fund; (ii) the Plan of Allocation or  
2 payments due to be made pursuant thereto; (iii) the determination, administration,  
3 or calculation of any claims; (iv), the payment or withholding of Taxes or Tax  
4 Expenses; (v) or any losses incurred in connection with any of the foregoing. No  
5 Person shall have any claim of any kind against the Released Persons or their  
6 counsel, Lead Plaintiff, Plaintiff's counsel, or the Claims Administrator with  
7 respect to the matters set forth in ¶7 or any of its subparts.

8 7.11 No Person shall have any claim against Lead Plaintiff, either of  
9 Plaintiff's Counsel, Defendants, the Claims Administrator or other entity  
10 designated by Lead Counsel based on distributions made substantially in  
11 accordance with the Stipulation and the settlement contained herein, a  
12 Court-approved Plan of Allocation, or further order(s) of the Court.

13 7.12 It is understood and agreed by the Parties that any proposed Plan of  
14 Allocation of the Net Settlement Fund including, but not limited to, any  
15 adjustments to an Authorized Claimant's claim set forth therein, is not a part of the  
16 Stipulation and is to be considered by the Court separately from the Court's  
17 consideration of the fairness, reasonableness and adequacy of the Settlement set  
18 forth in the Stipulation, and any order or proceeding relating to the Plan of  
19 Allocation shall not operate to terminate or cancel the Stipulation or affect the  
20 finality of the Court's Judgment approving the Stipulation and the Settlement set  
21 forth therein, including, but not limited to, the release, discharge, and  
22 relinquishment of the Released Claims against the Released Persons, or any other  
23 orders entered pursuant to the Stipulation.

24 8. Exclusion from the Class

25 8.1 Any Person may seek to be excluded from the Class and the  
26 Settlement provided for in this Stipulation by submitting a written request for  
27 exclusion in the manner and form set forth in the Notice. Any request for  
28 exclusion must be mailed to the address indicated in the Notice (*see* Exhibit A-1)

1 and postmarked by the date set forth in the Notice. Any Class Members so  
2 excluded shall not be bound by the terms of the Stipulation, or be entitled to any of  
3 its benefits, and shall not be bound by the Judgment and/or other order of the Court  
4 herein.

5 8.2 To retract or withdraw a request for exclusion, a Class Member must  
6 file a written notice with the Court, by the deadline set forth in the Notice, stating  
7 the Person's desire to retract or withdraw his, her, or its request for exclusion and  
8 that Person's desire to be bound by any judgment or Settlement in this Action;  
9 provided, however, that the filing of such written notice may be effected by Lead  
10 Counsel and Lead Counsel shall promptly notify Defendants' counsel of any  
11 retraction or withdrawal of a request for exclusion.

12 8.3 Any Class Member who does not exclude himself, herself or itself  
13 from the Class and the Settlement shall have the right, at his, her, or its own  
14 expense, to appear or submit written objections concerning any matter to be  
15 considered at the Settlement Hearing, as long as they comply with the schedule and  
16 procedures set forth in the Notice.

17 9 Plaintiff's Counsel's Attorneys' Fees and Expenses

18 9.1 Plaintiff's Counsel may submit an application or applications (the  
19 "Fee and Expense Application") for distributions to them from the Settlement Fund  
20 for: (a) an award of reasonable attorneys' fees from the Settlement Fund; plus (b)  
21 payment of expenses incurred in the Litigation, including but not limited to the  
22 fees of any experts or consultants, incurred in connection with prosecuting the  
23 Litigation, plus any interest on such attorneys' fees and expenses at the same rate  
24 and for the same periods as earned by the Settlement Fund (until paid); and (c)  
25 reimbursement for the time and expenses of Lead Plaintiff pursuant to 15 U.S.C.  
26 §78u-4(a)(4).

27 9.2 The attorneys' fees and expenses, as awarded by the Court, plus  
28 interest accrued thereon at the same rate as earned by the Settlement Fund, shall be

1 paid to Lead Counsel from the Settlement Fund upon the Effective Date, i.e., after  
2 all appeals have been exhausted or the time to appeal having expired without  
3 having any appeal filed so that it is no longer subject to any further judicial review  
4 or appeal whatsoever. Lead Counsel shall thereafter allocate the attorneys' fees in  
5 a manner in which they in good faith believe reflects the contributions of Plaintiff's  
6 Counsel to the prosecution and settlement of the Litigation. In the event the  
7 Judgment or the order making the Fee and Expense Award is reversed or modified,  
8 or the Stipulation is canceled or terminated for any other reason, and in the event  
9 that the Fee and Expense Award has been paid to any extent, then Plaintiff's  
10 Counsel shall within five (5) business days from receiving notice from Defendants'  
11 Counsel or from a court of appropriate jurisdiction, refund to the Settlement Fund  
12 the fees and expenses previously paid to them from the Settlement Fund plus  
13 interest actually earned thereon. Each such Plaintiff's Counsel's law firm, as a  
14 condition of receiving such fees and expenses, on behalf of itself and each partner  
15 of it, agrees that the law firm and its partners and/or shareholders are subject to the  
16 jurisdiction of the Court for the purpose of enforcing the provisions of this  
17 paragraph.

18 9.3 The procedure for and the allowance or disallowance by the Court of  
19 any applications by Plaintiff's Counsel for attorneys' fees and expenses, including  
20 the fees of experts and consultants, to be paid out of the Settlement Fund, are not  
21 part of the settlement set forth in the Stipulation, and are to be considered by the  
22 Court separately from the Court's consideration of the fairness, reasonableness,  
23 and adequacy of the settlement set forth in the Stipulation, and any order or  
24 proceeding relating to the Fee and Expense Application, or any appeal from any  
25 order relating thereto or reversal or modification thereof, shall not operate to  
26 terminate or cancel the Stipulation, or affect or delay the finality of the Judgment  
27 approving the Stipulation and the settlement of the Litigation set forth therein.

28 9.4 The Released Persons and their counsel in this Litigation shall have

1 no responsibility for or liability whatsoever with respect to any payment to  
2 Plaintiff's Counsel from the Settlement Fund that may occur.

3 9.5 The Released Persons and their counsel shall have no responsibility  
4 for or liability whatsoever with respect to the allocation of any Fee and Expense  
5 Award among Plaintiff's Counsel, and/or any other Person who may assert some  
6 claim thereto, or any Fee and Expense Awards that the Court may make in the  
7 Litigation, which shall be payable from the Settlement Fund. Defendants shall not  
8 oppose either (a) Plaintiff's Counsel request for attorneys' fees or the  
9 reimbursement of expenses, or (b) any application for any award to Lead Plaintiff  
10 for the reimbursement for the time and expenses of Lead Plaintiff pursuant to §  
11 78u-4(a)(4).

12 10 Conditions of Settlement, Effect of Disapproval, Cancellation or  
13 Termination

14 10.1 The Effective Date of the Stipulation shall be conditioned on the  
15 occurrence of all of the following events:

- 16 (a) the contribution to the Settlement Fund as required by ¶ 4.1 hereof;  
17 (b) Defendants have not exercised their option to terminate the  
18 Stipulation pursuant to ¶ 10.7;  
19 (c) the Court has entered the Preliminary Approval Order;  
20 (d) the Court has entered the Judgment, or a judgment substantially in the  
21 form of Exhibit B attached hereto; and  
22 (e) the Judgment has become Final.

23 10.2 Upon the occurrence of all of the events referenced in ¶10.1 hereof,  
24 any and all remaining interest or right of Defendants in or to the Settlement Fund,  
25 if any, shall be absolutely and forever extinguished. If all of the conditions  
26 specified in ¶10.1 hereof are not met, then the Stipulation shall be canceled and  
27 terminated subject to ¶10 hereof unless Lead Counsel and counsel for Defendants  
28 mutually agree in writing to proceed with the Stipulation.

1           10.3 Neither a modification nor a reversal on appeal of any Plan of  
2 Allocation or of any amount of attorneys' fees, costs, expenses and interest  
3 awarded by the Court to any of the Plaintiff's Counsel shall constitute a condition  
4 to the Effective Date or grounds for cancellation and termination of the Stipulation.  
5 If any of the conditions specified in ¶10.1, above are not met, then any party shall  
6 have the right to terminate the Settlement and this Stipulation by providing written  
7 notice of its election to do so to all other Parties hereto within thirty (30) calendar  
8 days of any of the following: (a) the Court's declining to enter the Preliminary  
9 Approval Order in any material respect; (b) the Court's refusal to approve this  
10 Stipulation or any material part of it; (c) the Court's declining to enter the  
11 Judgment in any material respect; or (d) the date upon which the Judgment is  
12 modified or reversed in any material respect by the Court of Appeals or the  
13 Supreme Court.

14           10.4 Unless otherwise ordered by the Court, in the event the Stipulation  
15 shall terminate, or be canceled, or shall not become effective for any reason, within  
16 five (5) business days after written notification of such event is sent by counsel for  
17 Defendants or Lead Counsel to Lead Counsel, the Settlement Fund (including  
18 accrued interest), less expenses and any costs which have either been disbursed or  
19 accrued pursuant to ¶7 hereof or are chargeable to Settlement Fund, including  
20 Taxes and Tax Expenses, shall be refunded to Defendants' insurers based upon  
21 written instructions from Defendants' Counsel. At the request of counsel for  
22 Defendants, Lead Counsel or its designee shall apply for any refund owed on the  
23 Settlement Fund and pay the proceeds, after deduction of expenses and any costs  
24 which have either been disbursed or accrued pursuant to ¶7 hereof or are  
25 chargeable to Settlement Fund, for refund to Defendants' insurers. Any refund will  
26 be returned directly to the insurers who made the contributions in the same  
27 proportion as their contributions.

1           10.5 In the event that the Stipulation is not approved by the Court or the  
2 Settlement set forth in the Stipulation is terminated or fails to become effective in  
3 accordance with its terms, this Stipulation and all negotiations and proceedings  
4 relating hereto shall be without prejudice to any or all Parties who shall be restored  
5 to their respective positions in the Litigation as of June 22, 2009. In such event,  
6 the terms and provisions of the Stipulation, with the exception of ¶¶ 4.4, 6.7, 7.11,  
7 9.4., 10.5, 10.6, 10.7, 10.8, 11.1, 12.4, 12.19 hereof, shall have no further force and  
8 effect with respect to the Parties and shall not be used in the Litigation or in any  
9 other proceeding for any purpose, and any judgment or order entered by the Court  
10 in accordance with the terms of the Stipulation shall be treated as vacated, *nunc*  
11 *pro tunc*. No order of the Court or modification or reversal on appeal of any order  
12 of the Court concerning the Plan of Allocation or the amount of any attorneys'  
13 fees, costs, expenses and interest awarded by the Court to Plaintiff's Counsel shall  
14 constitute grounds for cancellation or termination of the Stipulation.

15           10.6 If the Effective Date does not occur, or if the Stipulation is terminated  
16 pursuant to its terms, neither the Lead Plaintiff nor Plaintiff's Counsel shall have  
17 any obligation to repay any amounts or expenses actually and properly disbursed  
18 from the Settlement Fund. In addition, any expenses already incurred and  
19 chargeable to the Settlement Fund pursuant to ¶7 hereof at the time of such  
20 termination or cancellation, but which have not been paid, shall be paid in  
21 accordance with the terms of the Stipulation prior to the balance being refunded in  
22 accordance with ¶10.4 hereof.

23           10.7 If prior to the Settlement Hearing, the aggregate number of shares of  
24 Tag-It common stock purchased or acquired during the Class Period by Persons  
25 who would otherwise be members of the Class, but who request exclusion from the  
26 Class, exceeds the sum specified in a separate supplemental agreement between the  
27 Parties (the "Supplemental Agreement"), Defendants shall have, in their sole and  
28 absolute discretion, the option to terminate this Stipulation in accordance with the

1 procedures set forth in the Supplemental Agreement. The Supplemental  
2 Agreement will not be filed with the Court unless required by court rule or unless  
3 and until a dispute arises between the Parties concerning its interpretation or  
4 application. Copies of all requests for exclusion received, together with copies of  
5 all written revocations of requests for exclusion, shall be delivered to counsel for  
6 Defendants within three (3) calendar days of receipt thereof.

7 10.8 In the event this Stipulation shall be cancelled as set forth in ¶10.7  
8 above, the Parties shall, within thirty (30) days after such cancellation becomes  
9 effective, jointly request a status conference with the Court to be held on the  
10 Court's first available date. At such status conference, the Parties shall ask the  
11 Court's assistance in scheduling continued proceedings in the Litigation.

12 11 No Admission of Wrongdoing

13 11.1 This Stipulation, whether or not consummated, and any negotiations,  
14 discussions or proceedings in connection herewith shall not be:

15 (a) offered or received against any Defendant as evidence of or construed  
16 as or deemed to be evidence of any presumption, concession, or admission by any  
17 Defendant of the truth of any fact alleged by the Class Members or the merit or  
18 validity of any claim that has been or could have been asserted in the Litigation, or  
19 the deficiency of any defense that has been or could have been asserted in the  
20 Litigation, or of any liability, negligence, fault, or wrongdoing of Defendants;

21 (b) offered or received against any Defendant as evidence of a  
22 presumption, concession, admission of any fault, misrepresentation or omission  
23 with respect to any statement or written document approved or made by any  
24 Defendant, or against the Lead Plaintiff or any Class Member as evidence of any  
25 infirmity in the claims of the Lead Plaintiff and the Class;

26 (c) offered or received against any Defendant as evidence of a  
27 presumption, concession, or admission of any liability, negligence, fault or  
28 wrongdoing, or in any way referred to for any other reason as against any of the

1 Parties to this Stipulation, in any other civil, criminal or administrative action or  
2 proceeding, other than such proceedings as may be necessary to effectuate the  
3 provisions of this Stipulation; provided, however, that if this Stipulation is  
4 approved by the Court, Defendants and their Related Parties may refer to it to  
5 effectuate the release granted them hereunder; or construed against Defendants,  
6 Lead Plaintiff or the Class as an admission or concession that the consideration to  
7 be given hereunder represents the amount which could be or would have been  
8 recovered after trial.

9 12 Miscellaneous Provisions

10 12.1 The Parties (a) acknowledge that it is their intent to consummate this  
11 Stipulation; and (b) agree to cooperate to the extent reasonably necessary to  
12 effectuate and implement all terms and conditions of the Stipulation and to  
13 exercise their reasonable best efforts to accomplish the foregoing terms and  
14 conditions of the Stipulation.

15 12.2 This Stipulation and the exhibits attached hereto constitute the entire  
16 agreement between the Parties as to the subject matter hereof and supersedes any  
17 prior or contemporaneous written or oral agreements or understandings between  
18 the Parties.

19 12.3 No modification or amendment of this Stipulation shall be valid  
20 unless made in writing and signed by or on behalf of each party hereto. No  
21 representations, warranties or inducements have been made to any party  
22 concerning the Stipulation or its exhibits other than the representations, warranties  
23 and covenants contained and memorialized in such documents. Except as  
24 otherwise provided for herein, each party shall bear his, her or its own attorneys'  
25 fees, expenses and costs.

26 12.4 The settlement compromises claims that are contested and shall not be  
27 deemed an admission by any Party as to the merits of any claim or defense. The  
28 Judgment will contain a statement that during the commencement and course of

1 the Litigation, the Parties and their respective counsel at all times complied with  
2 the requirements of Rule 11 of the Federal Rules of Civil Procedure. The Parties  
3 agree that the amount paid to the Settlement Fund and the other terms of the  
4 settlement were negotiated in good faith by the Parties and reflect a settlement that  
5 was reached voluntarily after consultation with competent legal counsel. The  
6 Parties reserve their right to rebut, in a manner that such party determines to be  
7 appropriate, any contention made in any public forum that the Litigation was  
8 brought or defended or litigated in bad faith or without a reasonable basis.

9 12.5 Defendants and/or their Related Parties may file the Stipulation and/or  
10 the Judgment in any action that may be brought against them in order to support a  
11 defense, claim or counterclaim based on principles of res judicata, collateral  
12 estoppel, release, good faith settlement, judgment bar or reduction, or any other  
13 theory of claim preclusion or issue preclusion or similar defense or counterclaim.

14 12.6 All agreements made and orders entered during the course of the  
15 Litigation relating to the confidentiality of information shall survive this  
16 Stipulation. In addition, all information obtained from Defendants by Lead  
17 Counsel or Lead Plaintiff, and all information obtained by Defendants, in relation  
18 to this Litigation shall be maintained as confidential or destroyed after the  
19 Effective Date pursuant to the terms of the protective order previously entered  
20 herein.

21 12.7 Nothing in this Stipulation, or the negotiations relating thereto, is  
22 intended to or shall be deemed to constitute a waiver of any applicable privilege or  
23 immunity, including, without limitation, attorney/client privilege, or work product  
24 immunity.

25 12.8 All of the exhibits to the Stipulation are material and integral parts  
26 hereof and are fully incorporated herein by this reference.

27 12.9 The headings herein are used for the purpose of convenience only and  
28 are not meant to have any legal effect whatsoever.

1 12.10 The Stipulation may be amended or modified only by a written  
2 instrument signed by or on behalf of all Parties or their respective  
3 successors-in-interest. After the Effective Date, any amendments or modifications  
4 must also be approved by the Court.

5 12.11 Lead Counsel, on behalf of the Class, is authorized by the Lead  
6 Plaintiff to take all appropriate action required or permitted to be taken by the  
7 Class pursuant to the Stipulation to effectuate its terms and also is expressly  
8 authorized to enter into any modifications or amendments to the Stipulation on  
9 behalf of the Class which they deem appropriate.

10 12.12 Each counsel or other Person executing the Stipulation or any of its  
11 exhibits on behalf of any party hereto hereby warrants that such Person has the full  
12 authority to do so and that they have the authority to take appropriate action  
13 required or permitted to be taken pursuant to the Stipulation to effectuate its terms.

14 12.13 The Stipulation may be executed in one or more counterparts  
15 including by signature transmitted by facsimile or by email in PDF format. All  
16 executed counterparts and each of them shall be deemed to be one and the same  
17 instrument.

18 12.14 The Stipulation shall be binding upon, and inure to the benefit of, the  
19 successors and assigns of the Parties hereto.

20 12.15 Each of the Parties warrants and represents that he, she or it has not  
21 assigned or transferred, and will not assign or transfer, to any Person any Released  
22 Claims or any other claims related to the matters alleged in the Litigation.

23 12.16 The Court shall retain jurisdiction with respect to implementation and  
24 enforcement of the terms of the Stipulation, and all Parties hereto submit to the  
25 jurisdiction of the Court for purposes of implementing and enforcing the  
26 Settlement embodied in the Stipulation.

27 12.17 The waiver by one party of any breach of this Stipulation by any other  
28 party shall not be deemed a waiver by any other party or a waiver of any other

1 prior or subsequent breach of this Stipulation.

2 12.18 If a case is commenced with respect to any Defendant under Title 11  
3 of the United States Code (Bankruptcy), or a trustee, receiver or conservator is  
4 appointed under any similar law, and in the event of the entry of a final order of a  
5 court of competent jurisdiction determining the transfer of money to the Settlement  
6 Fund or any portion thereof by or on behalf of that Defendant to be a preference,  
7 voidable transfer, fraudulent transfer or similar transaction, and any portion thereof  
8 is required to be returned, the other defendants shall have the right but not the  
9 obligation to deposit a corresponding amount to the Settlement Fund. If such an  
10 amount is not promptly deposited to the Settlement Fund by others, then, at the  
11 election of Lead Counsel, the Parties shall jointly move the Court to vacate and set  
12 aside the releases given and the Judgment entered in favor of such Defendant  
13 pursuant to this Stipulation, which releases and the Judgment shall be null and  
14 void, and the Parties so affected shall be restored to their respective positions in the  
15 Litigation as of June 22, 2009, and any other cash amounts in the Settlement Fund  
16 paid by or on behalf of such affected Defendant shall be returned as provided  
17 herein.

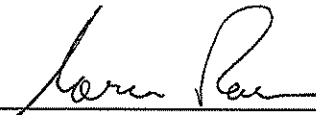
18 12.19 The Stipulation and the exhibits hereto shall be considered to have  
19 been negotiated, executed and delivered, and to be wholly performed, in the State  
20 of California, and the rights and obligations of the Parties to the Stipulation shall  
21 be construed and enforced in accordance with, and governed by, the internal,  
22 substantive laws of the State of California without giving effect to that state's  
23 choice-of-law principles.

24 12.20 This Stipulation and its Exhibits shall not be construed more strictly  
25 against one party than another merely by virtue of the fact that it, or any part of it,  
26 may have been prepared by counsel for one of the Parties, it being recognized that  
27 it is the result of arm's-length negotiations between the Parties and all Parties have  
28 contributed substantially and materially to the preparation of this Stipulation and


1 its Exhibits.

2 IN WITNESS WHEREOF, the Parties hereto have caused the Stipulation to  
3 be executed, by their duly authorized attorneys dated as of July 31, 2009.

4  
5  
6  
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27 Attorneys for Plaintiff SETH HUBERMAN  
28 and the certified class

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34 & WALKER LLP

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Attorneys for Defendants

# **EXHIBIT A**

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UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA  
WESTERN DIVISION

SETH HUBERMAN, on behalf of  
himself and the certified class,  
  
Plaintiffs,  
  
vs.  
  
TAG-IT PACIFIC INC., COLIN  
DYNE, MARK DYNE, RONDA  
FERGUSON and AUGUST F.  
DELUCA,  
  
Defendants.

Case No. 2:05-cv-07352-R(Ex)  
  
CLASS ACTION  
  
**AMENDED  
[PROPOSED] ORDER  
PRELIMINARILY APPROVING  
SETTLEMENT OF CLASS ACTION  
AND ESTABLISHING NOTICE  
PROCEDURES**

1 WHEREAS, by Order dated June 19, 2009, the Court certified this action to  
2 proceed as a class action under Fed. R. Civ. P. 23(a) and (b)(3) on behalf of all  
3 persons and entities who purchased or otherwise acquired Tag-It Pacific Inc.  
4 (“Tag-It”) common stock on the open market between March 28, 2003 and August  
5 22, 2005, inclusive (the “Class Period”) and who were damaged thereby (the  
6 “Class”), excluding (i) Defendants; (ii) members of the immediate family of each  
7 of the Individual Defendants; (iii) any subsidiary or affiliate of Tag-It; (iv) the  
8 directors, officers, managing directors, principals and partners of Tag-It; (v) any  
9 entity in which any excluded person has a controlling interest; and (vi) the legal  
10 representatives, heirs, successors and assigns of any such excluded person;

11 WHEREAS, the Parties have presented the proposed Settlement of the  
12 above-captioned action (the “Action”) by and between Lead Plaintiff individually  
13 and on behalf of the Class, and Defendants Tag-It, Colin Dyne, Mark Dyne, Ronda  
14 Ferguson and August F. Deluca (collectively, “Defendants”) to the Court for  
15 preliminary approval pursuant to Rule 23 of the Federal Rules of Civil Procedure  
16 (the “Settlement”);

17 WHEREAS, the terms of the Settlement are set forth in a Stipulation of  
18 Settlement that was executed by the Parties on July 31, 2009 (the “Stipulation”);

19 WHEREAS, the Settlement was reached after extensive arm’s-length and  
20 protracted negotiations that included multiple mediation conferences before an  
21 experienced mediator;

22 WHEREAS, Defendant Tag-It shall provide the Claims Administrator with  
23 reasonably available data in electronic format obtained from its transfer agent  
24 identifying the names and last known addresses of record owners acting on behalf  
25 of beneficial owners who purchased or otherwise acquired Tag-It common stock  
26 on the open market during the Class Period;

1 WHEREAS, this Court, pursuant to Fed. R. Civ. P. 23(d), directs that notice  
2 to the Class of the pendency and proposed settlement of the Action be made in the  
3 manner set forth herein;

4 NOW, upon consent of the Parties, after review and consideration of the  
5 Stipulation filed with the Court and the exhibits annexed thereto, and after due  
6 deliberation,

7 IT IS HEREBY ORDERED, that:

8 1. The Court, for purposes of this Order Preliminarily Approving  
9 Proposed Settlement of Class Action and Establishing Notice Procedures (the  
10 “Preliminary Approval Order”), adopts all defined terms as set forth in the  
11 Stipulation.

12 2. Lead Counsel is authorized to act on behalf of the Class with respect  
13 to all acts required by, or which may be undertaken pursuant to, the Stipulation or  
14 such other acts that are reasonably necessary to consummate the proposed  
15 Settlement set forth in the Stipulation.

16 3. The Court preliminarily approves: (1) the Settlement of the Litigation  
17 with respect to the Parties as set forth in the Stipulation; and (2) the proposed Plan  
18 of Allocation described in the Notice, pending a final hearing on the Settlement  
19 and subject to the right of any Class Member to challenge the fairness,  
20 reasonableness, and adequacy of the Stipulation or the proposed Plan of  
21 Allocation, and to show cause, if any exists, why a final judgment dismissing the  
22 Action against the Defendants and otherwise finally approving the Stipulation  
23 should not be ordered herein after due adequate notice to the Class has been given  
24 in conformity with this Order.

25 4. Pursuant to Fed. R. Civ. P. Rule 23(e), a final hearing (the “Settlement  
26 Hearing”) shall be held on \_\_\_\_\_, 2009, at \_\_\_:00 a.m., in the United States  
27 District Court for the Central District of California, the Honorable Manuel L. Real

1 presiding, to:

- 2 a. determine whether the Settlement should be approved by the Court as
- 3 fair, reasonable, adequate, and in the best interests of the Class;
- 4 b. determine whether the Plan of Allocation for the proceeds of the
- 5 Settlement should be approved by the Court as fair and reasonable;
- 6 c. rule on Lead Counsel's application for an award of attorney's fees and
- 7 the reimbursement of litigation expenses;
- 8 d. rule on Class Representative's application for reimbursement of time
- 9 and expenses;
- 10 e. determine whether the Final Order and Judgment should be entered
- 11 pursuant to the Stipulation, *inter alia*, dismissing the Litigation
- 12 against Defendants with prejudice and releasing all Released Claims
- 13 (as defined in the Stipulation); and
- 14 f. rule on such other matters as the Court may deem appropriate.

15 5. Lead Counsel shall cause notice of the proposed Settlement and the  
16 Settlement Hearing to be provided to potential members of the Class as follows:

- 17 a. Within thirty (30) days after entry of this Order, Lead Counsel shall
- 18 cause a Notice of Pendency and Proposed Settlement of Class Action
- 19 and Settlement Hearing ("Notice") and Proof of Claim and Release
- 20 Form ("Proof of Claim"), substantially in the forms annexed hereto as
- 21 Exhibit A-1 and A-2, to be mailed by first class mail, postage pre-
- 22 paid, to persons or entities who can be identified from Tag-It's
- 23 transfer and other records as potential members of the Class.
- 24 b. Within thirty (30) days after entry of this Order, Lead Counsel shall
- 25 cause the Notice to be mailed to all brokers or other institutions that
- 26 the transfer records, or other information, indicate may have held Tag-
- 27 It common stock in street name, or as nominees for class members.

1 Such nominees who hold or held Tag-It common stock purchased on  
2 the open market for class members are directed (a) to provide the  
3 Administrator with lists of the names and last known addresses of the  
4 beneficial owners for whom they purchased Tag-It common stock  
5 during the Class Period on the open market within ten (10) business  
6 days of receipt of the Notice, or (b) to request additional copies of the  
7 Notice and Proof of Claim within ten (10) business days of receipt of  
8 the Notice. If the nominee elects to send the Notice to beneficial  
9 owners, the nominee is directed to mail, either by first class mail,  
10 postage prepaid, or by e-mail (for those accounts for which the  
11 nominee has current e-mail addresses) the Notice and Proof of Claim  
12 within seven (7) business days of receipt of the copies of the Notice  
13 from the Administrator and upon such mailing the nominee shall send  
14 a statement to the Administrator confirming that the mailing was  
15 made as directed, and providing the Administrator with a list of the  
16 names and addresses of the persons and entities to whom the Notice  
17 was mailed. Nominees who elect to mail the Notice to their  
18 customers are directed to retain the list of names and addresses of the  
19 persons and entities to whom the Notice was mailed so that it will be  
20 available for future mailings. Upon full compliance with this Order,  
21 such nominees may seek reimbursement from the settlement fund of  
22 their reasonable expenses actually incurred in complying with this  
23 Order, which expenses would not have been incurred except for the  
24 sending of such Notice, by providing the Administrator with proper  
25 documentation supporting the expenses for which reimbursement is  
26 sought, subject to further order of this Court with respect to any  
27 dispute concerning such compensation.

1 c. The Notice shall inform the nominees that they are directed by this  
2 Order to retain all records of trading in Tag-It common stock during  
3 the Class Period pending final determination of this Action.

4 d. Within ten (10) business days after the mailing of the Notice, Lead  
5 Counsel shall cause a summary notice (the "Summary Notice"),  
6 substantially in the form annexed as Exhibit A-3, to be published once  
7 in Investors' Business Daily.

8 6. Lead Counsel shall file with the Court proof of mailing of the Notice  
9 and Proof of Claim and publication of the Summary Notice at least seven (7) days  
10 prior to the Settlement Hearing.

11 7. As soon as reasonably practicable, to the extent it has not already been  
12 done, Tag-It or its transfer agent shall provide the Claims Administrator with  
13 shareholder information to the extent reasonably available in the records of Tag-It  
14 or its transfer agent, providing the identity of all class members or record holders  
15 of the common stock of Tag-It during the Class Period. To the extent available  
16 and practicable, this information shall be in computer readable form and shall  
17 contain the names and addresses of such persons. Tag-It shall bear all reasonable  
18 costs or expenses associated with providing the Claims Administrator with the  
19 above-described shareholder information from its or its agents' records.

20 8. The Notice and Proof of Claim shall also be placed on the Claims  
21 Administrator's website.

22 9. Lead Counsel may retain, as a reimbursable expense from the  
23 Settlement Fund, an Administrator or other agent to assist in providing the Notice,  
24 Summary Notice, and Proof of Claims, as well as receiving requests for exclusion  
25 and communicating with Class Members. Any such requests for exclusion shall be  
26 produced to Defendants' counsel within three (3) business days after receipt by  
27 Lead Counsel.

1           10. The Court appoints Rust Consulting Inc. as Claims Administrator to  
2 supervise and administer the notice and claims procedures set forth in the  
3 Stipulation. The Parties and their counsel shall not be liable in any way for any act  
4 or omission of the Claims Administrator.

5           11. The Court appoints Signature Bank, Signature Bank, 261 Madison  
6 Avenue, New York, NY 10016, as Escrow Agent for the Settlement Fund.

7           12. The Escrow Agent is authorized and directed to cause to have  
8 prepared any tax returns and any other tax reporting for or in respect of the  
9 Settlement Fund and paying from the Settlement Fund any Taxes owed with  
10 respect to the Settlement Fund, and to otherwise cause to be performed all  
11 obligations with respect to Taxes and any reporting or filings in respect thereof as  
12 contemplated by the Stipulation, without further order of the Court.

13           13. The Notice and Summary Notice shall provide that Class Members  
14 may exclude themselves from the Class. However, to be effective, any request for  
15 exclusion from the Class must be mailed to the address(es) provided in the Notice,  
16 and must be postmarked on or before sixty (60) days from the date of initial  
17 mailing of the Notice, and the Notice shall so inform Class Members. A Request  
18 for Exclusion must state: (1) the name, address, and telephone number of the  
19 person requesting exclusion; (2) the person's purchases and sales of Tag-It  
20 common stock on the open market made during the Class Period, including the  
21 dates, the number of shares of Tag-It common stock purchased or sold, the price(s)  
22 paid or received per share of Tag-It common stock for each such purchase or sale,  
23 and whether such person continues to hold such Tag-It common stock; (3) the  
24 amount or number of shares of Tag-It common stock held as of the beginning of  
25 the Class Period on March 28, 2003; and (4) that the person wishes to be excluded  
26 from the Class.

27           14. All persons who submit valid and timely Requests for Exclusion in  
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1 the manner set forth in above paragraph and the Notice shall have no rights under  
2 the Stipulation and shall not share in the distribution of the Net Settlement Fund.  
3 Any member of the Class who fails to properly and timely request exclusion shall  
4 be included in the Class and be bound by any orders or judgment in the Litigation.

5 15. The Court approves the form and the content of the Notice, the Proof  
6 of Claim, and the Summary Notice, annexed hereto as Exhibits A-1, A-2, and A-3,  
7 respectively, and finds that the procedures for publication, mailing, and distribution  
8 of these notices substantially in the manner and form set forth in this Order  
9 constitute the best notice practicable under the circumstances to members of the  
10 Class, and are in full compliance with and satisfy the requirements of Rule 23 of  
11 the Federal Rules of Civil Procedure, §21D(a)(7) of the Private Securities  
12 Litigation Reform Act of 1995 (the “PSLRA”), and constitutional due process.

13 16. The Court approves, as to form and content, the Notice of Settlement  
14 to Federal and/or State Officials annexed as Exhibit C to the Stipulation, and finds  
15 that such notification(s) fully apprises the appropriate officials of the proposed  
16 settlement, and fully complies with the applicable requirements of the Class Action  
17 Fairness Act (“CAFA”), 28 U.S.C. §§1711 *et seq.*

18 17. Not later than 10 days following the entry of this Order, Defendants  
19 shall cause the Notice of Settlement to Federal and/or State Officials, along with  
20 the accompanying materials referenced therein, to be served upon the appropriate  
21 State official of each State and the Attorney General of the United States. For  
22 purposes of compliance with CAFA, the Claims Administrator shall be permitted  
23 to compile all of the relevant documents into a single compact disc for delivery to  
24 the Federal and/or State Officials. Plaintiff, Defendants, and the Claims  
25 Administrator shall have no duty to supplement this CAFA notice.

26 18. Any Class Member may enter an appearance in the Action, at his own  
27 expense, individually or through counsel of his own choice. If any Class Member  
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1 does not enter an appearance, he will be represented by Plaintiffs' Counsel.

2 19. Any Class Member who wishes to participate in the Net Settlement  
3 Fund must submit a valid Proof of Claim to the Claims Administrator, at the  
4 address indicated in the Notice, postmarked not later than \_\_\_\_\_, 2009. Such  
5 deadline may be further extended by Court order. Proofs of Claim shall be deemed  
6 to have been submitted when postmarked, if mailed by first class, or registered or  
7 certified mail, postage prepaid, addressed in accordance with the instructions given  
8 in the Proof of Claim. All other Proofs of Claim shall be deemed to have been  
9 submitted at the time they are actually received by the Claims Administrator.

10 20. To be valid, a Proof of Claim must: (1) be completed in a manner that  
11 permits the Claims Administrator to determine the eligibility of the claim as set  
12 forth in the Proof of Claim; (2) include the release by the Claimant of all Released  
13 Parties as set forth in the Stipulation; and (3) be signed with an affirmation that the  
14 information is true and correct. All Class Members who do not submit valid and  
15 timely Proofs of Claim shall be forever barred from receiving any payments from  
16 the Net Settlement Fund, but will in all other respects be subject to and bound by  
17 the provisions of the Stipulation and Final Order and Judgment, if entered.

18 21. Any member of the Class who timely and properly objects to the  
19 Settlement, the Plan of Allocation, the application for attorneys' fees and  
20 reimbursement of expenses, and/or the Class Representative application for  
21 reimbursement of time and expenses, or who otherwise wishes to be heard, may  
22 appear in person or by his, her, or its attorney, at his, her, or its own expense, at the  
23 Hearing and present evidence or argument that may be proper or relevant;  
24 *provided, however*, that no person other than the parties and their counsel shall be  
25 heard, and no papers, briefs, pleadings, or other documents submitted by any  
26 person shall be considered by the Court unless on or before  
27 \_\_\_\_\_ such person files with the Court and serves upon counsel

1 listed below: (1) a written statement of such person’s objections to any matters  
 2 before the Court concerning this Settlement; (2) the grounds therefore or the  
 3 reasons that such person desires to appear and be heard, as well as all documents or  
 4 writings such person desires the Court to consider; (3) whether that person intends  
 5 to present any witnesses; and (4) the person’s purchases, acquisitions and sales of  
 6 Tag-It common stock made during the Class Period, including the dates, the  
 7 number of shares of Tag-It common stock purchased, acquired or sold, the price(s)  
 8 paid or received per share of Tag-It common stock for each such purchase,  
 9 acquisition or sale, and whether such person continues to hold such Tag-It common  
 10 stock at the time the statement. Counsel to be served with such papers are:

11 Peter M. Stone, Esq. 12 Jay C. Gandhi, Esq. Paul Hastings Janofsky & Walker LLP 13 695 Town Center Drive, 17th Floor 14 Costa Mesa, CA 92626-1924 e-mail: peterstone@paulhastings.com 15 jaygandhi@paulhastings.com	Howard M. Privette, Esq. Paul Hastings Janofsky & Walker LLP 515 South Flower Street Twenty Fifth Floor Los Angeles, CA 90071 0705 e-mail: howardprivette@paulhastings.com
16 Marian P. Rosner, Esq. Wolf Popper LLP 17 845 Third Avenue 18 New York, New York 10022 19 e mail: IRRep@wolfpopper.com	Lionel Z. Glancy, Esq. Glancy Binkow & Goldberg LLP 1801 Avenue of the Stars, Suite 311 Los Angeles, California 90067 e mail: info@glancylaw.com

20 22. Any Class Member who does not object to the Settlement, and/or the  
 21 Plan of Allocation or any other matter to be heard at the Settlement Hearing in the  
 22 manner provided for herein shall be deemed to have waived such objection and  
 23 shall forever be foreclosed from making any objection to the fairness, adequacy or  
 24 reasonableness of the proposed Settlement and the Plan of Allocation, or to the  
 25 application by Plaintiffs’ counsel for an award of attorneys fees and payment of  
 26 expenses, or to the award to the Lead Plaintiff pursuant to the Private Securities  
 27 Litigation Reform Act, or to the Final Order and Judgment to be entered approving  
 28 the Settlement.

1           23. If the Settlement is approved, all Class Members will be bound by the  
2 proposed Settlement provided for in the Stipulation, and by any judgment or  
3 determination of the Court affecting Class Members, regardless of whether or not  
4 such Class Members submit a Proof of Claim.

5           24. If this Settlement, including any amendment made in accordance with  
6 the Stipulation, is not approved by the Court or shall not become effective for any  
7 reason whatsoever, the Settlement (including any modification thereof) made with  
8 the consent of the parties as provided for in the Stipulation, and any actions taken  
9 or to be taken in connection therewith (including this Order and any judgment  
10 entered herein), shall be terminated and shall become void and of no further force  
11 and effect except as set forth in the Stipulation.

12           25. Pending final determination of whether the Settlement should be  
13 approved, all proceedings in the action against the Released Parties, other than  
14 such proceedings as may be necessary to carry out the terms and conditions of the  
15 Settlement, are hereby stayed and suspended until further order of this Court.  
16 Pending final determination whether the Settlement should be approved, the Class  
17 Representative and all members of the Class are barred and enjoined from  
18 commencing, prosecuting, continuing, or asserting any action asserting any claims  
19 against the Released Parties that are or relate in any way to the Settled Claims as  
20 defined in the Stipulation.

21           26. The Released Persons shall have no responsibility or liability  
22 whatsoever with respect to the Plan of Allocation or Lead Counsel's application  
23 for an award of attorneys' fees and payment of litigation expenses or Lead  
24 Plaintiff's application for reimbursement of reasonable time and expenses. The  
25 Plan of Allocation, Lead Counsel's application for an award of attorneys' fees and  
26 payment of litigation expenses, and Lead Plaintiff's application for reimbursement  
27 of reasonable time and expenses will be considered separately from the fairness,  
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1 reasonableness and adequacy of the settlement. At or after the Settlement Hearing,  
2 the Court will determine whether Lead Counsel's proposed Plan of Allocation  
3 should be approved, the amount of attorneys' fees and litigation expenses to be  
4 awarded to Lead Counsel, and Lead Plaintiff's application for reimbursement of  
5 reasonable time and expenses. Any appeal from any orders relating to the Plan of  
6 Allocation or Lead Counsel's application for an award of attorneys' fees and  
7 litigation expenses, or Lead Plaintiff's application for reimbursement of reasonable  
8 time and expenses, or reversal or modification of any order(s) thereon, shall not  
9 operate to terminate or cancel the settlement, or affect or delay the finality of  
10 Judgment approving the Stipulation and the settlement of the Action set forth  
11 therein.

12 27. The contents of the Settlement Fund shall be deemed and considered  
13 to be in *custodia legis* of the Court, and shall remain subject to the jurisdiction of  
14 the Court, until such time as the contents of those funds shall be distributed  
15 pursuant to the Stipulation and/or further order(s) of the Court.

16 28. Neither the Stipulation nor any terms or provisions contained in the  
17 Stipulation, nor any negotiations, statements, or proceedings in connection  
18 therewith, nor any action undertaken pursuant thereto shall be construed as, or  
19 deemed to be evidence of, an admission or concession on the part of any Defendant  
20 or any other person of any liability, wrongdoing, or fault by them, or any of them,  
21 and shall not be offered or received in evidence in any action or proceeding, or be  
22 used in any way as an admission, concession, or evidence of any liability,  
23 wrongdoing, or fault of any nature, and shall not be construed as, or deemed to be  
24 evidence of, an admission or concession that the Class Representative, any member  
25 of the Class, or any other person, has or has not suffered any damage.

26 29. Any party making submissions to the Court in support of approval of  
27 the Settlement or the Plan of Allocation, or in support of Lead Counsel's  
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1 application for an award of attorneys' fees and reimbursement of litigation  
2 expenses, or for an award under the Private Securities Litigation Reform Act to  
3 Lead Plaintiff, shall do so by seven (7) calendar days before the date scheduled for  
4 the Settlement Hearing.

5 30. Only Class Members, Plaintiff's Counsel, and the Lead Plaintiff shall  
6 have any right to any portion of, or any rights in the distribution of the Settlement  
7 Fund unless otherwise ordered by the Court or as otherwise provided for above or  
8 in the Stipulation.

9 31. The Court authorizes payment out of the Settlement Fund of notice  
10 and administration expenses in accordance with the Stipulation.

11 32. As set forth in the Stipulation, the proceeds of the Settlement Fund  
12 may be used to pay all reasonable costs and expenses in providing the Notice,  
13 Proof of Claim forms, and the Summary Notice to the Class, locating Class  
14 Members, soliciting claims, assisting with the filing of the claims, administering  
15 and distributing the Net Settlement Fund, processing Claim Forms, and paying  
16 taxes, escrow fees and costs. In the event the Court does not approve the  
17 Settlement, or it otherwise fails to become effective, neither Lead Plaintiff nor any  
18 of his counsel shall have any obligation to repay any amounts actually and properly  
19 incurred or disbursed for such purposes.

20 33. There shall be no distribution of the Net Settlement Fund to Class  
21 Members who filed valid Proof of Claims until a plan of allocation is finally  
22 approved and is affirmed on appeal or is no longer subject to review by appeal or  
23 *certiorari* and the time for any petition for rehearing, appeal, or review has  
24 expired.

25 34. The Court may, for good cause, extend any deadlines set forth in this  
26 order without further notice to Class Members.

27 35. The Court reserves the right to adjourn or continue the Settlement  
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1 Hearing or any adjournment or continuance thereof, including the consideration of  
2 the application for attorneys' fees and reimbursement of litigation expenses,  
3 without further notice of any kind to Class Members.

4 36. The Court reserves the right to approve the Settlement at or after the  
5 Settlement Hearing with such modification as may be consented to by the Parties  
6 and without further notice to the Class.

7 37. The court retains jurisdiction of this Litigation to consider all further  
8 applications or matters arising out of or connected with the proposed Settlement.

9 DATED:

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The Honorable Manuel L. Real  
13 UNITED STATES DISTRICT JUDGE  
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# **EXHIBIT A-1**

UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

SETH HUBERMAN, on behalf of himself  
and the certified class,

Plaintiffs,

vs.

TAG-IT PACIFIC, INC., COLIN DYNE,  
MARK DYNE, RONDA FERGUSON  
and AUGUST F. DELUCA,

Case No. 2:05-cv-07352-R(Ex)

**NOTICE OF PENDENCY AND PROPOSED SETTLEMENT OF CLASS  
ACTION AND SETTLEMENT HEARING**

**TO: ALL PERSONS AND ENTITIES WHO PURCHASED OR OTHERWISE ACQUIRED TAG-IT PACIFIC, INC. (NOW KNOWN AS TALON INTERNATIONAL, INC.) (“TAG-IT”) COMMON STOCK ON THE OPEN MARKET DURING THE PERIOD BETWEEN MARCH 28, 2003 AND AUGUST 22, 2005, INCLUSIVE, (“CLASS PERIOD”) AND WHO WERE DAMAGED THEREBY (the “CLASS”)**

· The settlement resolves the above- captioned lawsuit (the “Litigation”). The Litigation concerns allegations that investors purchased or acquired Tag-It common stock at allegedly artificially inflated prices on the stock market as a result of Defendants’ dissemination of allegedly materially false and misleading statements about, among other things, the loss of its two largest customers, and inventory and accounts receivables problems. Defendants have expressly denied and continue to deny all allegations of wrongdoing or liability whatsoever, and believe they complied with all applicable laws.

· The settlement provides for a fund of five million seven hundred fifty thousand dollars (\$5,750,000) plus interest earned (“Settlement Fund”) for the benefit of class members who purchased or acquired Tag-It common stock during the Class Period on the open market.

· Your legal rights are affected whether or not you act. Read this notice carefully.

· The Court in charge of this case still has to decide whether to approve the settlement. Payments will be made if the Court approves the settlement and after any appeals are resolved. Please be patient.

***A federal court authorized this notice. This is not a solicitation from a lawyer.***

YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT	
SUBMIT A PROOF OF CLAIM FORM (by _____, 2009)	The only way to get a payment. A copy of the Proof of Claim form is enclosed and is also available at <a href="http://www.tag-itclassactionsettlement.com">www.tag-itclassactionsettlement.com</a> or <a href="http://www.wolfpopper.com">www.wolfpopper.com</a> .
EXCLUDE YOURSELF (by _____, 2009)	Get no payment. This is the only option that allows you to ever be part of any other lawsuit about the legal claims in this case.
OBJECT (by _____, 2009)	File with the Clerk of the Court your written objections about why you do not like the Settlement, the Plan of Allocation, counsel’s request for fees and expenses, or the reimbursement to the Lead Plaintiff for time and expenses.
GO TO A HEARING (on _____, 2009)	Ask to speak in Court concerning the fairness of the Settlement, the Plan of Allocation, counsel’s request for fees and expenses, or the reimbursement to the Lead Plaintiff for time and expenses.
DO NOTHING	Get no payment. Give up rights.

**SUMMARY NOTICE**

**Securities and Time Period:**

The Settlement relates to Tag-It common stock. In order to be considered part of the

Class, you must have purchased or acquired Tag-It common stock during the Class Period on the open market, and not be otherwise excluded.

**Settlement Fund and Lead Plaintiffs' Statement of Recovery:**

The Settlement Fund consists of five million seven hundred and fifty thousand dollars (\$5,750,000) plus interest earned. Plaintiff believes that this settlement represents a substantial recovery for the Class based on the estimated damages and the risks and delays of proceeding through trial and certain appeals therefrom. Your recovery will depend on the number of shares of Tag-It common stock you purchased or acquired in the open market, and the timing of those transactions. It will also depend on the number of valid claim forms that members of the Class submit and the amount of such claims. Assuming that all of the investors who purchased or acquired Tag-It common stock during the Class Period and suffered damages participate in this settlement, Plaintiff's Counsel estimates that the estimated average distribution will be approximately: \$0.38 per share of Tag-It common stock before the deduction of court-approved fees and expenses as described in Question 18 below and the cost of notice and claims administration. Historically, fewer than all eligible investors submit claims.

Defendants disagree with Lead Plaintiff on the liability of Defendants and on the average amount of damages per share, if any, that would be recoverable if the Lead Plaintiff were to prevail on each claim alleged. Defendants deny that they are liable in any respect or that Lead Plaintiffs suffered any injury. The issues on which the parties disagree include, but are not limited to: (1) whether the statements made or facts allegedly omitted were material, false, misleading, or whether the Defendants are otherwise liable under the securities laws for those statements or omissions; (2) the appropriate economic model for determining the amount by which the prices of Tag-It common stock were allegedly artificially inflated (if at all) during the Class Period; (3) the amount by which the prices of Tag-It common stock were allegedly artificially inflated (if at all) during the Class Period; (4) the effect of various market forces influencing the trading prices of Tag-It common stock at various times during the Class Period; (5) the extent to which external factors, such as general market and industry conditions, influenced the trading prices of Tag-It common stock at various times during the Class Period; (6) the extent to which the various matters that Lead Plaintiff alleged were materially false or misleading influenced (if at all) the trading prices of Tag-It common stock at various times during the Class Period; (7) the extent to which the various allegedly adverse material facts that Lead Plaintiff alleged were omitted influenced (if at all) the trading prices of Tag-It common stock at various times during the Class Period.

### **Fees and Expenses:**

The fee and expense applications are subject to the approval of the Court. At the Settlement Hearing, Plaintiff's Counsel will request the Court award attorneys' fees of 30% of the Settlement Fund, plus payment of expenses, not to exceed \$250,000, which were incurred in connection with the Litigation, plus interest thereon. (This fee request amounts to less than 50% of the actual time value of more than \$3.7 million spent by Plaintiff's Counsel in the prosecution of the case.) In addition, Lead Plaintiff may seek compensation pursuant to the Private Securities Litigation Reform Act of 1995 ("PSLRA") of a total of \$15,000 for his reasonable expenses incurred (including lost wages) in prosecuting the Litigation. This compensation will be paid from the Settlement Fund. If the amounts requested are awarded by the Court, the average cost per share of Tag-It common stock will be \$0.13 (this amount will vary depending on the number of claims submitted). Class Members are not personally liable for any such fees or expenses. To date, Plaintiff's Counsel have not received any payment for their services in conducting the Litigation nor have counsel been paid for their expenses incurred.

### **Reasons for the Settlement**

For the Class Representative, the principal reason for the Settlement is the immediate benefit of a cash recovery for the Class. This benefit must be compared to the risk that no recovery or a smaller recovery might be achieved after more motion practice and litigation through a contested trial and certain appeals thereafter, possibly years into the future. For Defendants, who deny all allegations of wrongdoing, the principal reason for the Settlement is to eliminate the expense, risks, and uncertain outcome of the Litigation.

### **Further Information:**

Further information regarding the Litigation and this Notice may be obtained by contacting the Claims Administrator at 877-874-7560, or Lead Counsel at [irrep@wolfpopper.com](mailto:irrep@wolfpopper.com), or by visiting [www.tag-itclassactionsettlement.com](http://www.tag-itclassactionsettlement.com) or [www.wolfpopper.com](http://www.wolfpopper.com). **Please Do Not Call the Court or Tag-It With Questions About the Settlement.**

## WHAT THIS NOTICE CONTAINS

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2. What is this lawsuit about?
3. Why is this Litigation a class action?
4. Why is there a settlement?
5. How do I know if I am part of the settlement?
6. Are there exceptions to being included in the Class?
7. I'm still not sure if I am included.
8. What does the settlement provide?
9. How much will my payment be?
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11. When would I get my payment?
12. What am I giving up to get a payment or stay in the Class?
13. What is the Plan of Allocation and how will claims be calculated?
14. How do I exclude myself from the Class and the Settlement?
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16. If I exclude myself, can I get money from this settlement?
17. Do I have a lawyer in this case?

18. How will the lawyers be paid?

19. How do I object?

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21. When and where will the Court decide whether to approve the settlement?

22. Do I have to come to the hearing?

23. May I speak at the hearing?

24. What happens if I do nothing at all?

25. How do I get more information?

**SPECIAL NOTICE TO SECURITIES BROKERS AND OTHER NOMINEES**

## **BASIC INFORMATION**

### **1. Why did I get this notice package?**

You or someone in your family may have purchased or acquired Tag-It common stock on the open market during the Class Period. The Court directed that Class Members be sent this Notice because they have a right to know about a proposed settlement of a class action lawsuit, and about all of their options, before the Court decides whether to approve the settlement. If the Court approves it and after objections and appeals (if there are any) are resolved, an administrator appointed by the Court will make the payments that the settlement allows. This package explains the lawsuit, the settlement, your legal rights, what benefits are available, who is eligible for them, and how to get them.

The Court in charge of the case is the United States District Court for the Central District of California, and the case is known as *Huberman v. Tag-It Pacific, Inc., et al.* The person who sues is called the plaintiff. The Lead Plaintiff, Seth Huberman (“Lead Plaintiff”), was appointed by the Court to supervise the litigation on behalf of the Class. The people being sued, Tag-It, and certain of its former officers and directors, Colin Dyne, Mark Dyne, Ronda Ferguson and August F. DeLuca (the “Individual Defendants”), are called the Defendants.

### **2. What is this lawsuit about?**

This case was brought as a class action alleging that Defendants violated §§10(b) (and SEC Rule 10b-5 issued thereunder) and 20(a) of the Securities and Exchange Act of 1934, by, among other things, making false and misleading statements in press releases and quarterly and annual reports filed with the U.S. Securities and Exchange Commission, misstating Tag-It’s financial condition, accounts receivable, accounts payable and inventory, and falsely stating that Tag-It, notwithstanding the loss of its largest customers, was expanding its customer base, continuing sales growth, and improving gross margins. Plaintiff alleges that largely as a result of the loss of its largest customers, millions of dollars in inventory became obsolete and accounts receivable became uncollectible, and that Tag-It was not continuing profitable sales growth. Plaintiff alleges that Tag-It was having serious cash flow problems and that Defendants undertook efforts to hide Tag-It’s deteriorating financial condition and that it was only towards the end of the Class Period that Tag-It took the steps necessary to write-off its obsolete inventory and to properly write-off or reserve for accounts receivable. Plaintiff alleges that Defendants engaged in this conduct to raise money to prevent Tag-It from going bankrupt. The Complaint further alleges that

Lead Plaintiff and other Class Members purchased Tag-It common stock during the Class Period at prices artificially inflated as a result of Defendants' dissemination of materially false and misleading statements.

Defendants deny all allegations of misconduct contained in the Complaint, and deny having engaged in any wrongdoing. Defendants assert that their public statements were accurate at the times made and were not intended to, and did not, defraud purchasers of Tag-It common stock.

On January 24, 2006, the Court appointed Mr. Huberman to serve as the Lead Plaintiff for the Litigation pursuant to 15 U.S.C. §78u-4(b)(3)(B), and approved his selection of Wolf Popper LLP, 845 Third Avenue, New York, New York 10022 as Lead Counsel and Glancy Binkow & Goldberg LLP, 1801 Avenue of the Stars, Suite 311, Los Angeles, CA 90067 to serve as Liaison Counsel for the Class.

On March 13, 2006, Plaintiff filed an Amended Complaint (the "Complaint") against Defendants Tag-It, Colin Dyne (Tag-It's then President and Chief Executive Officer), Mark Dyne (the then Chairman of Tag-It's Board of Directors), Ronda Ferguson (Tag-It's former Chief Financial Officer), and August F. DeLuca (another former Chief Financial Officer of Tag-It).

Defendants moved to dismiss the Complaint pursuant to Federal Rules of Civil Procedure 9(b) and 12(b)(6) and the PSLRA, and on July 17, 2006, the Court denied Defendants' motions. Following the filing with the Court of the parties' Joint Report of Early Meeting pursuant to Rules 16 and 26 of the Federal Rules of Civil Procedure and the Local Rules of the Court on October 10, 2006, Plaintiff commenced discovery on October 11, 2007 by serving his first request for production of documents. By an order entered on December 27, 2006, the Court set a pretrial schedule requiring the completion of discovery by March 19, 2007, other pretrial proceedings, and set the trial for May 1, 2007. Plaintiff filed his motion to have the Litigation certified to proceed as a class action on January 16, 2007. On February 20, 2007, the Court denied the class certification motion. The parties engaged in document review and numerous discovery disputes, as well as extensive motion practice before the Court. On March 12, 2007, Defendants filed a motion for summary judgment, which Plaintiff opposed on March 19, 2007. On April 2, 2007, the Court granted Defendants' motion for summary judgment.

On March 1, 2007, the parties participated in a mediation session in San Francisco

with mediator Honorable Daniel Weinstein (Ret.) in an attempt to resolve the Litigation. In advance of the mediation, the parties prepared detailed mediation statements in which they presented their respective views regarding the merits of the Litigation as well as their views concerning available defenses, the evidence and damages analyses. The mediation was unsuccessful.

Plaintiff appealed the Court's grant of summary judgment to Defendants, as well as the Court's denial of Plaintiff's motion for class certification and other adverse rulings by the Court.

On January 16, 2009, the United States Court of Appeals for the Ninth Circuit ("Court of Appeals"), among other things, reversed the dismissal of the Litigation and the grant of summary judgment to Defendants and remanded the action with the direction to grant class certification. *Huberman v. Tag-It Pacific Inc.*, 2009 U.S. App. LEXIS 2780, at \*10 (9<sup>th</sup> Cir. Jan 16, 2009). The Court of Appeals also ordered the Court to "modify the pretrial scheduling order to allow a reasonable period of time to enable the parties to complete discovery."

Following the reversal of the Court's dismissal of the Litigation by the Court of Appeals, on June 15, 2009, the Court entered its pretrial scheduling Order, ordering, among other things, that discovery be completed by July 30, 2009 and that trial commence on September 29, 2009.

On March 27, 2009, the parties participated in another mediation session in San Francisco with mediator Honorable Daniel Weinstein (Ret.) in an attempt to resolve the Litigation. The parties again prepared detailed mediation statements and presented their respective views regarding the merits of the Litigation following the reversal by the Ninth Circuit, as well as their views concerning available defenses, the evidence and damages analyses. The mediation session was unsuccessful. The mediator appointed an independent expert to advise him and the Parties regarding potential damages in the Litigation, taking into account the damages arguments of both Plaintiff and Defendants. The parties thereafter conducted further mediation through Judge Weinstein. After these comprehensive arm's-length negotiations, the parties reached the proposed agreement to settle the Litigation, subject to Court approval.

### **3. Why is this Litigation a class action?**

In a class action, one or more people called class representatives (in this case the Lead Plaintiff) sue on behalf of people who have similar claims. All of these people and/or

entities are a class or members of the class. Bringing a case, such as this one, as a class action allows adjudication of many similar claims that might be economically too small to bring in individual actions. One court resolves the issues for all members of the class, except for those who exclude themselves from the class.

#### **4. Why is there a settlement?**

After almost four years of litigation, the parties reached an agreement to settle this case. The settlement reflects a compromise that resolves the Class' claims without trial. The settlement was reached before a trial, and the Court did not decide in favor of Lead Plaintiff or Defendants. Instead, the lawyers for both sides of the Litigation have negotiated a settlement, with the assistance of a highly respected mediator, the Honorable Daniel Weinstein (Ret.), that they believe is in the best interests of their respective clients. The settlement allows both sides to avoid the risks and cost of lengthy and uncertain litigation and the uncertainty of a trial and appeals, and permits Class Members to be compensated without further delay. The Lead Plaintiff and his attorneys believe that the settlement is in the best interest of Class Members.

#### **WHO IS IN THE SETTLEMENT**

To see if you will get money from this settlement, you first have to decide if you are a Class Member.

#### **5. How do I know if I am part of the settlement?**

The Class includes all Persons who purchased or acquired Tag-It common stock on the open market between March 28, 2003 and August 22, 2005, inclusive, and who were damaged thereby .

#### **6. Are there exceptions to being included in the Class?**

Yes. Excluded from the Class are: Defendants; members of the immediate family of each of the Individual Defendants; any subsidiary or affiliate of Tag-It; the directors, officers, managing directors, principals and partners of Tag-It; any entity in which any excluded person has a controlling interest; and the legal representatives, heirs, successors and assigns of any such excluded person). Also excluded from the Class are those Persons who timely and validly request exclusion from the Class. Persons who purchased all of their Tag-It common stock before April 1, 2005 and sold all those shares of common stock before April 1, 2005, are not members of the Class.

Also, other types of stock or securities of Tag-It are not included in Class. For example, if you purchased Tag-It preferred stock, or purchased Tag-It common stock

through a privately-negotiated transaction, through a private placement, directly from Tag-It, or through the conversion of any preferred stock or other convertible security of Tag-It that you owned, those shares of common stock are not included in the Class. Only shares of common stock that were purchased or acquired in an open market transaction through a stock exchange are included in the Class.

**7. I'm still not sure if I am included.**

If you still are not sure whether you are included, you can ask for free help. You can call 1-877-874-7560 or visit [www.tag-itclassactionsettlement.com](http://www.tag-itclassactionsettlement.com) for more information. If you wish, you may also contact your own attorney.

**THE SETTLEMENT BENEFITS**

**8. What does the settlement provide?**

In exchange for the settlement and dismissal of the Litigation, Defendants' insurance carriers paid the Settlement Fund the sum of five million seven hundred and fifty thousand dollars (\$5,750,000). The Settlement Fund (less certain Court authorized expenses) is being invested in interest-bearing U.S. government securities and that interest is being accrued and reinvested for the benefit of the Class. These funds will be distributed proportionately to eligible Class Members who send in valid Proof of Claim forms, after payment of Plaintiff's Counsel's legal fees and expenses and any award to Lead Plaintiff for his time, expense and effort in representing the Class, and the expenses and the costs of claims administration, including the costs of printing and mailing this Notice and the cost of publishing notice, as approved by the Court.

**9. How much will my payment be?**

Your share of the fund will depend on the number of shares of Tag-It common stock represented by valid claim forms that Class Members send in and the dollar amount of those claims, how many shares of Tag-It common stock you held, and when you bought and sold them. A claim will be calculated as follows: The Settlement Fund less taxes, notice and administration costs, attorneys' fees and litigation expenses ("Net Settlement Fund") will be distributed to Class Members who submit valid, timely Proof of Claim forms ("Claimants") under the Plan of Allocation (the "Plan") described below. The Plan provides that Claimants will be eligible to participate in the distribution of the Net Settlement Fund only if Claimants have a net loss on all their transactions in Tag-It common stock during the Class Period.

To the extent there are sufficient funds in the Net Settlement Fund, each Claimant will

receive an amount equal to the Claimant's "Recognized Loss," as defined below. If, however (and as is much more likely), the amount in the Net Settlement Fund is not sufficient to permit payment of the total Recognized Loss of each Claimant, then each Claimant shall be paid the percentage of the Net Settlement Fund that each Claimant's claim bears to the total of the Recognized Losses of all Claimants. Payment in this manner shall be deemed conclusive against all Claimants. The Plan of Allocation has been prepared by Plaintiff's Counsel with the assistance of a damages expert who took into account the report of the expert appointed by the mediator who reviewed the parties' submissions with respect to damages. Defendants do not agree with the characterization that any damages were suffered by Lead Plaintiff or the Class.

## **HOW YOU GET A PAYMENT – SUBMITTING A CLAIM FORM**

### **10. How can I get a payment?**

To qualify for a payment, you must send in a Proof of Claim form. A claim form is enclosed with this Notice. You may also get a Proof of Claim form from the Claims Administrator at: Tag-It Class Action Settlement, c/o Rust Consulting, Inc., P.O. Box 2224, Faribault, MN 55021-1624, or from the Internet at either [www.tag-itclassactionsettlement.com](http://www.tag-itclassactionsettlement.com) or [www.wolfpopper.com](http://www.wolfpopper.com). Read the instructions carefully, fill out the form, include all the documents the form asks for, sign it, and mail it in the enclosed envelope postmarked no later than January 14, 2010.

### **11. When would I get my payment?**

The Court will hold a Settlement Hearing on \_\_\_\_\_, 2009, to decide whether to approve the settlement. Even if the Court approves the settlement, there could be objections and there could be appeals. Resolving these can take time, perhaps more than a year. It also takes time for all the claim forms to be processed. If there are no appeals and depending on the number of claims submitted, the settlement administrator could distribute the Settlement Fund within about a year after the deadline for filing the Proof of Claim forms. Please be patient. You can always contact Lead Counsel for information.

### **12. What am I giving up to get a payment or stay in the Class?**

Unless you exclude yourself, you are staying in the Class, and that means you cannot sue, or be part of any other lawsuit against the Defendants about the same issues or the claims that were or could have been raised in the Litigation. To receive the payment under the settlement, if the settlement is approved, you must release all "Released Claims" against Defendants and their "Related Parties" (as defined below).

**“Released Claims”** means all rights, demands, liabilities, claims (including “Unknown Claims” as defined in the Stipulation) and causes of action of every nature and description whatsoever, at law or in equity, accrued or unaccrued, whether known or unknown, whether or not concealed or hidden, whether fixed or contingent, liquidated or un-liquidated, matured or un-matured, whether class or individual in nature and whether arising under federal, state, common or foreign law, including, without limitation, claims for negligence, gross negligence, recklessness, breach of duty of care and/or breach of duty of loyalty, fraud, misrepresentation, mismanagement, breach of fiduciary duty, that Lead Plaintiffs or any member of the Class asserted, or could have asserted, arising out of, or relating to, directly or indirectly, the purchase or acquisition of Tag-It common stock on the open market during the Class Period, and the facts, matters, allegations, transactions, events, disclosures, statements, acts or omissions which were alleged or that could have been alleged in the Complaint.

**“Related Parties”** means, with respect to each Defendant, the immediate family members, heirs, executors, administrators, successors, assigns, present and former employees, officers, directors, attorneys, legal representatives, insurers, reinsurers, and agents of each of them, and any person or entity which is or was related to or affiliated with any Defendant or in which any Defendant has or had a controlling interest and the present and former parents, subsidiaries, divisions, affiliates, predecessors, successors, employees, officers, directors, attorneys, assigns, legal representatives, insurers, reinsurers, and agents of each of them.

**“Unknown Claims”** means all claims, demands, rights, liabilities, and causes of action of every nature and description which Lead Plaintiff or any Class Member do not know or suspect to exist in his, her or its favor at the time of the release of the Released Persons which, if known by him, her or it, might have affected his, her or its settlement with and release of the Released Persons, or might have affected his, her or its decision not to object to this settlement with respect to any and all Released Claims. The Parties stipulate and agree that, upon the Effective Date, the Lead Plaintiff shall expressly waive, and each of the Class Members shall be deemed to have waived, and by operation of the Judgment shall have waived, the provisions, rights and benefits of California Civil Code § 1542, which provides: “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.”

## PLAN OF ALLOCATION OF THE SETTLEMENT

### 13. What is the Plan of Allocation and how will claims be calculated?

The Net Settlement Fund shall be distributed to Class Members who submit acceptable Proofs of Claim (“Authorized Claimants”) in the following manner:

The Claims Administrator shall determine each Authorized Claimant’s share of the Net Settlement Fund based upon the Recognized Loss formula described below. The Recognized Loss formula is intended to equitably apportion the Net Settlement Fund among Class Members. The Recognized Loss formula is not an estimate of what your out-of-pocket losses might be for tax purposes; nor is it an estimate of what a Class Member would have recovered after trial; nor is it the amount that the Authorized Claimant will be paid pursuant to the Settlement. A Class Member’s actual share of the Net Settlement Fund shall be determined pro rata by the ratio of the Class Member’s Recognized Loss divided by the aggregate of the Recognized Loss of all Class Members.

The calculation of each Class Member’s Recognized Loss takes into account when during the Class Period the Class Member purchased Tag-It common stock and when (if at all) the Class Member sold such Tag-It common stock during or after the Class Period.

The amount of a Recognized Loss will depend on when the Class Member purchased and sold Tag-It common stock on the open market. Because the alleged first corrective disclosure concerning the issues alleged in the Complaint was on March 31, 2005, all Class Members who both purchased and sold Tag-It common stock before April 1, 2005 will have a Recognized Loss of zero for those shares.<sup>1</sup>

The Recognized Loss for each share of Tag-It common stock purchased on the open market between March 28, 2003 and August 22, 2005, and not sold or sold after August 22, 2005, shall be the lesser of:

- (1) the estimated Artificial Inflation per Share on the date of purchase (as

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<sup>1</sup> If a person or entity purchased all of their Tag-It common stock on or before March 31, 2005, and sold all of those shares of common stock before April 1, 2005, such person or entity is not a member of the class. If such person or entity sold some shares of common stock before April 1, 2005, the Recognized Loss for those shares is zero. For the shares sold on or after April 1, 2005, the recognized loss will be calculated in accordance with the Plan of Allocation.

shown on Schedule A below); or

- (2) the difference between the purchase price per share and \$1.13.

The Recognized Loss for each share of Tag-It common stock purchased on the open market between March 28, 2003 and August 22, 2005, and sold between April 1, 2005 and August 22, 2005, shall be the lesser of:

- (1) the difference between the Estimated Artificial Inflation per Share on the date of purchase (as shown on Schedule A) and the Estimated Artificial Inflation per Share on the date of sale (as shown on Schedule A); or
- (2) the difference between the purchase price per share and the sales price per share.

<b>Schedule A</b>			
Estimated Artificial Inflation per Share			
Purchase Date Range		Estimated Artificial Inflation per Share	
03/28/2003 - 03/31/2005	\$	3.193	
04/01/2005 - 05/16/2005	\$	2.093	
05/17/2005 - 08/12/2005	\$	0.946	
08/15/2005 - 08/22/2005	\$	0.110	

Short sales will have no recognized loss under the Plan of Allocation, but any recognized gain attributable to such short sales will be used to offset recognized losses from other transactions. Furthermore, market gains or losses attributable to short sales will be calculated as part of the market gain or loss calculation.

For Class Members who held Tag-It common stock at the beginning of the Class Period or made multiple purchases or sales during the Class Period, the first in, first out (“FIFO”) method will be applied to such holdings, purchases, and sales for purposes of calculating a claim. Under the FIFO method, sales of Tag-It common stock held at the beginning of the Class Period will be matched in chronological order,

first against the Tag-It common stock held at the beginning of the Class Period.

A purchase or sale of Tag-It common stock shall be deemed to have occurred on the “contract” or “trade” date as opposed to the “settlement” or “payment” date.

Tag-It common stock acquired by means of a gift, inheritance, or operation of law shall only be considered if the shares in question were purchased during the Class Period on the open market by the donor, decedent, or transferor, and the donor, decedent, or transferor does not submit a Claim Form with respect to the shares. In such instances, the recipient must provide documentation of the original purchase on the open market in addition to documentation of the transfer.

The receipt of Tag-it common stock during the Class Period in exchange for securities of any other corporation or entity shall not be deemed a purchase or sale of Tag-it common stock. The receipt of Tag-It common stock upon the conversion of a convertible security, including convertible preferred stock of Tag-It, shall not be deemed a purchase or sale of Tag-It common stock. The receipt of Tag-It common stock pursuant to a private placement offering shall not be deemed a purchase or sale of Tag-It common stock.

To the extent a Claimant had an overall gain from transactions in Tag-It common stock during the Class Period (under FIFO), the value of the Recognized Loss will be zero.

To the extent that a Claimant suffered an overall loss on transactions in Tag-It common stock during the Class Period (under FIFO), but that loss was less than the Recognized Loss calculated above, then the Recognized Loss shall be limited to the amount of the actual loss.

An Authorized Claimant, who purchased Tag-It common stock during the Class Period and sold such common stock either during the Class Period or during the 90-day period immediately subsequent to the Class Period, shall be determined to have an overall gain from transactions in Tag-It common stock during the Class Period, or to have suffered a loss, by calculating: (i) the total amount paid for all Tag-It common stock during the Class Period (the “Total Purchase Amount”); (ii) matching any sale of Tag-It common stock during the Class Period first against the Authorized Claimant’s opening position; and (iii) the total amount received from sales

of the remaining shares of Tag-It common stock sold during the Class Period or during the 90-day period immediately after the Class Period (the "Sales Proceeds"). The difference between Sales Proceeds and the Total Purchase Amount shall be deemed an Authorized Claimant's overall gain (if greater than zero) or loss (if less than zero) on transactions in Tag-It common stock during the Class Period.

No Authorized Claimant whose proportionate share of the Net Settlement Fund is less than \$5.00 shall receive a distribution from the Net Settlement Fund. Rather, that Claimant's proportionate share of the Net Settlement Fund shall be redistributed among all remaining Authorized Claimants.

Class Members who do not submit acceptable Proofs of Claim will not share in the settlement proceeds. Class Members who did not submit a request for exclusion and do not submit an acceptable Proof of Claim by the deadline for submitting claims, will nevertheless be bound by the settlement and the Order and Final Judgment of the Court dismissing this Litigation.

Distributions will be made to Authorized Claimants after all claims have been processed and after the Court has finally approved the settlement. Subject to the approval of the Court, if any funds remain in the Net Settlement Fund by reason of the uncashed checks or otherwise, then, after the Claims Administrator has made reasonable and diligent efforts to have Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their distributions, any balance remaining in the Net Settlement Fund after the initial distribution of such funds shall be redistributed to Class Members, if feasible, who have cashed their initial distributions and who would receive an amount no less than \$5.00 from such redistribution. If six months after such redistribution any funds shall remain in the Net Settlement Fund, then such balance shall be contributed as follows: any balance shall be donated to a secular § 501(c)(3) organization approved by the Court.

The Court has reserved jurisdiction to allow, disallow or adjust the claim of any Class Member on equitable grounds. Payment pursuant to the Plan shall be conclusive against all Claimants. No Person shall have any claim against Plaintiff's Counsel, Lead Plaintiff, the Claims Administrator, Defendants and their Related Parties, or any Person designated by Plaintiff's Counsel based on distributions made substantially in accordance with the Stipulation and the Settlement contained therein, the Plan of Allocation, or further order(s) of the Court.

## **EXCLUDING YOURSELF FROM THE CLASS AND THE SETTLEMENT**

### **14. How do I exclude myself from the Class and the Settlement?**

You can exclude yourself from the Class and the Settlement. If you do not want a payment from the settlement, but you want to keep any right to sue Tag-It, or any of the Defendants or any of the Related Parties about the claims you would otherwise be releasing in this settlement, then you must take steps to exclude yourself from the settlement. This is called excluding yourself or is sometimes referred to as opting out of the class. To exclude yourself, you must send a letter by mail saying that you want to be excluded from the Huberman v. Tag-It Pacific, Inc. Litigation.

Your request to be excluded must be signed and must state: (a) your name, address, and telephone number; (b) your purchases and sales of Tag-It common stock on the open market made during the Class Period, including the dates, the number of shares of Tag-It common stock purchased or sold, the price(s) paid or received per share of Tag-It common stock for each such purchase or sale, and whether you continue to hold such Tag-It common stock; (c) the amount or number of shares of Tag-It common stock held as of the beginning of the Class Period on March 28, 2003; and (d) that you wish to be excluded from the Class. You must mail your exclusion request postmarked no later than November 15, 2009 to:

Tag-It Class Action Settlement  
c/o Rust Consulting, Inc.  
P.O. Box 2224  
Faribault, MN 55021-1624

You cannot exclude yourself on the phone or by e-mail. If you ask to be excluded, you will not get any settlement payment, and you cannot object to the settlement. Also, you will not be legally bound by anything that happens in this lawsuit, and you would not be prevented by this settlement from suing Defendants and their Related Parties for the Released Claims in the future. However, if you exclude yourself and bring your own lawsuit, you would be subject to all the risks of litigation, including the risk that your lawsuit would be rejected because you filed it too late. If you do not file your request for exclusion on time, you will be legally bound by all the proceedings in this Litigation, including all court orders and judgments in the Litigation, even if you have a lawsuit pending against the Released Persons that covers Released Claims, or if you

subsequently start a lawsuit or an arbitration or any other proceedings against any of the Released Persons that are covered by the Released Claims.

**15. If I do not exclude myself, can I sue Defendants for the same thing later?**

No. Unless you exclude yourself, you give up any right to sue Defendants or their Related Parties for the claims that this settlement resolves. Remember, the exclusion deadline is November 15, 2009.

**16. If I exclude myself, can I get money from this settlement?**

No. If you exclude yourself, unless you retract your exclusion by at least fourteen days prior to the Settlement Hearing, do not send in a claim form to ask for any money. Once you exclude yourself, you will receive no cash payment even if you also submit a claim form, unless you withdraw your notice of exclusion before the deadline.

**THE LAWYERS REPRESENTING YOU**

**17. Do I have a lawyer in this case?**

Pursuant to Orders of the Court dated January 24, 2006 and June 19, 2009, Lead Plaintiff and the Class are represented by the law firms of Wolf Popper LLP, 845 Third Avenue, New York, New York 10022 (Lead Counsel) and Glancy Binkow & Goldberg LLP, 1801 Avenue of the Stars, Suite 311, Los Angeles, California 90067 (Liaison Counsel) (collectively, "Plaintiff's Counsel"). These lawyers are collectively called Plaintiff's Counsel. You will not be separately charged for these lawyers' work. The Court will determine the amount of Plaintiff's Counsel's fees and expenses, which will be paid from the Settlement Fund. If you want to be represented by your own lawyer, you may hire one at your own expense.

**18. How will the lawyers be paid?**

All fee and expense applications are subject to the approval of the Court. At the Settlement Hearing, Plaintiff's Counsel will request the Court to award attorneys fees of 30% of the Settlement Fund, plus payment of expenses, not to exceed \$250,000, which were incurred in connection with the Litigation, plus interest thereon. In addition, Lead Counsel are also asking the Court to award a payment of up to \$15,000 to the Court-appointed Lead Plaintiff for the reasonable costs and expenses (including lost wages) directly relating to his prosecuting the Litigation on behalf of the Class. This compensation will be paid from the Settlement Fund. Class Members are not personally liable for any such fees or expenses. To date, Plaintiff's Counsel have not received any payment for their services in conducting the Litigation nor have they

been paid for their expenses incurred.

## **OBJECTING TO THE SETTLEMENT**

If you approve of the Settlement, you need do nothing. If you do not approve, you can tell the Court that you do not agree with the Settlement or some part of it.

### **19. How do I object?**

If you are a Class Member (and you have not excluded yourself), and you want to object to the Settlement or any of its terms, the proposed Plan of Allocation, the application by Plaintiff's Counsel for an award of fees and the reimbursement of expenses, and/or the request for an award to the Lead Plaintiff under the Private Securities Litigation Reform Act, the Court will consider your views if you file a proper objection within the deadline below, and according to the following procedures. To object, you must send a signed letter saying that you object to the proposed settlement in "Huberman v. Tag-it Pacific Inc., Case No. 2:05-cv-07352-R(Ex) (United States District Court for the Central District of California)." Your letter must include your name, address, telephone number and your original signature (no copies). You must also include: (a) a written statement of your objections, (b) the grounds or the reasons for why you object or desire to appear and be heard, as well as copies of all documents or any writings that you wish the Court to consider, (c) whether you intend to present any witnesses; and (d) information about your purchases, acquisitions and sales of Tag-It common stock made during the Class Period, including the dates, the number of shares, the price(s) paid or received per share, and whether you continue to hold such Tag-It common stock.

You must mail such objection, postmarked no later than November 15, 2009, to: (1) Clerk of the Court, United States District Court for the Central District of California, 312 North Spring Street, Room G-19, Los Angeles, CA 90012-4701. You must also send a copy of what you send to the Court to the following attorneys no later than November 15, 2009:

Marian P. Rosner, Esq.  
Wolf Popper LLP  
845 Third Avenue  
New York, New York 10022

Lionel Z. Glancy, Esq.  
Glancy Binkow & Goldberg LLP  
1801 Avenue of the Stars, Suite 311  
Los Angeles, California 90067

Email: IRRep@wolfpopper.com

Email: info@glancylaw.com

Peter Stone, Esq.  
Jay Gandhi, Esq.  
Paul Hastings Janofsky & Walker LLP  
695 Town Center Drive  
17th Floor  
Costa Mesa, CA 92626-1924  
Email: jaygandhi@paulhastings.com

Howard Privette, Esq.  
Paul Hastings Janofsky & Walker LLP  
515 South Flower Street  
Twenty-Fifth Floor  
Los Angeles, CA 90071-0705

You may object either on your own or through an attorney that you hire at your own expense. If you do hire an attorney to represent you, your attorney must file a notice of appearance with the clerk of the court and deliver a copy of that notice to Lead Counsel and Defendants' counsel no later than November 15, 2009.

You do not need to go to the Hearing to have your written objection considered by the Court. At the Hearing, any Class Member who (1) has not previously submitted a request for exclusion from the Class and (2) has complied with the procedures set out for filing with the Court, and provided to the counsel for Lead Plaintiff and Defendants a statement of an intention to appear at the Hearing may also appear and be heard, to the extent allowed by the Court, to state any objection to the settlement, the Plan of Allocation, Lead Counsel's motion for an award of attorneys' fees and reimbursement of expenses, and/or the proposed award to the Lead Plaintiff. Any such objector may appear in person or arrange, at that objector's expense, for a lawyer to represent the objector at the Hearing.

If you do not follow the directions in this notice for objecting to the settlement, you will forfeit all rights that you may have to object to and/or appeal this settlement unless the Court orders otherwise. You will be bound by the orders and judgments in this lawsuit.

**20. What is the difference between objecting to the settlement and excluding myself from the settlement?**

Objecting is telling the Court that you do not like something about the proposed settlement or any other matter to be considered at the hearing. You can object only if you stay in the Class. Excluding yourself is telling the Court that you do not want to be part of the Class. If you exclude yourself, you have no basis to object because the

case no longer applies to you.

**THE COURT’S SETTLEMENT HEARING – SCHEDULED FOR [DATE]**

The Court will hold a hearing to decide whether to approve the proposed settlement. You may attend, but you do not have to.

**21. When and where will the Court decide whether to approve the settlement?**

The Court will hold a hearing at \_\_\_\_\_ on \_\_\_\_\_, 2009, at the United States District Court for the Central District of California, located at 312 North Spring Street, Los Angeles, CA 90012-4701, in Courtroom 8 (“Settlement Hearing”). At this Settlement Hearing, the Court will consider whether the settlement is fair, reasonable and adequate. If there are objections, the Court will consider them. The Court will listen to people who have asked to speak at the hearing. The Court will also decide whether to approve the Plan of Allocation, and the payment of fees, costs and expenses to Plaintiffs’ Counsel, including the payment under the Private Securities Litigation Reform Act to Lead Plaintiff to compensate him for his time and expenses incurred (including lost wages) in this case. We do not know how long the Settlement Hearing will take or whether the Court will make its decision about the settlement on that day or sometime later. The Court will take into consideration any written objections filed in accordance with the instructions in the response to question 19. The Court also may listen to people who have properly indicated, within the deadline identified above, an intention to speak at the hearing; but decisions regarding the conduct of the hearing will be made by the Court.

At or after the hearing, the Court will decide whether to approve the settlement. We do not know how long these decisions will take. You should be aware that the Court may change the date and time of the Hearing. Thus, if you want to come to the hearing, you should check with Lead Counsel before coming to be sure that the date and/or time has not changed.

**22. Do I have to come to the hearing?**

No. Class Members do not need to appear at the hearing or take any other action to indicate that they approve of the settlement. Lead Counsel will answer questions the Court may have about the settlement. But if you would like to attend the hearing, you are welcome to do so, at your own expense. If you send an objection, you do not have to come to Court to talk about it. The Court will consider your written objection, as long as you mailed your objection in on time (see response to question 19). You may also pay your own lawyer to attend, but it is not necessary.

**23. May I speak at the hearing?**

If you object to the settlement, you may ask the Court for permission to speak at the hearing. To do so, you must include with your objection (see response to question 19) a statement saying that it is your “Notice of Intention to Appear in Huberman v. Tag-It Pacific, Inc.” Persons who intend to object to any part of the settlement must provide in their written objections any evidence they intend to present at the Hearing and must also include in their written objection the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the hearing.

*You cannot speak at the Settlement Hearing if you exclude yourself from the Class or if you have not provided written notice of your intention to speak at the hearing by the deadline above, and in accordance with the procedures described in this Notice.*

**IF YOU DO NOTHING**

**24. What happens if I do nothing at all?**

If you do nothing, you will not receive any payments from this settlement. However, unless you exclude yourself, you will not be able to start a lawsuit, or be part of any other lawsuit against the Defendants or their Related Parties about the Released Claims in this case ever again.

**GETTING MORE INFORMATION**

**25. How do I get more information?**

For additional, more detailed information concerning the Proposed Settlement or the matters involved in this Litigation, you may inspect the Stipulation of Settlement dated July 31, 2009 (the “Stipulation”), pleadings, the orders of the Court, and other papers filed in this Litigation at the office of the Clerk of the United States District Court for the Central District of California, 312 North Spring Street, Room G-19, Los Angeles, CA 90012-4701, during regular business hours, or at [www.tag-itclassactionsettlement.com](http://www.tag-itclassactionsettlement.com). You can also contact Plaintiff’s Lead Counsel at the address above, or the Claims Administrator at:

Tag-It Class Action Settlement  
c/o Rust Consulting, Inc.  
P.O. Box 2224  
Faribault, MN 55021-1624

**SPECIAL NOTICE TO SECURITIES BROKERS  
AND OTHER NOMINEES**

If you purchased or otherwise acquired Tag-It common stock between March 28, 2003 and August 22, 2005, inclusive, for beneficial owners who are Class Members, THE COURT HAS DIRECTED THAT WITHIN TEN (10) BUSINESS DAYS OF YOUR RECEIPT OF THIS NOTICE, you must either (a) provide the Claims Administrator the name and last known address of each person or entity for whom or which you purchased such Tag-It common stock during the Class Period or (b) request additional copies of the Notice and Proof of Claim from the Claims Administrator, which will be provided to you free of charge, and within seven (7) business days of receipt, mail the Notice and Proof of Claim by first class mail or e-mail (for those accounts for which you have current e-mail addresses) directly to the beneficial purchasers of Tag-It common stock. If you choose to follow alternative (b), the Court has directed that, upon such mailing, you send a statement to the Claims Administrator confirming that the mailing was made as directed. Additionally, if you elect to mail the Notice directly to your customers, the Court has further directed that you retain the list of names and addresses of the persons and entities to whom the Notice was mailed so that it will be available for future mailings, if necessary, pending the final determination of this action. Upon full compliance with these directives, you may seek reimbursement of the reasonable administrative expenses actually incurred in forwarding the Notice and Proof of Claim to beneficial owners, which would not have been incurred but for the obligation to forward the documents. Requests for reimbursement of expenses should be directed to the Claims Administrator and must be accompanied by proper documentation supporting the expenses for which reimbursement is sought. All communications should be directed to the Claims Administrator at the following address:

Tag-It Class Action Settlement  
c/o Rust Consulting, Inc.  
P.O. Box 2224  
Faribault, MN 55021-1624

***Please do not write or telephone the Court, the Judge, or  
the Clerk of the Court regarding this Notice or this Litigation***

If you have any questions regarding this Notice or the Action, you may contact Lead Counsel by writing: WOLF POPPER LLP, 845 Third Avenue, New York, NY 10022, or email IRRep@wolfpopper.com .

Dated: \_\_\_\_\_, 2009

By Order of the United States District  
Court For the Central District of  
California

# **EXHIBIT A-2**

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

WESTERN DIVISION

SETH HUBERMAN, on behalf of himself and the certified class,

Plaintiffs,

vs.

TAG-IT PACIFIC, INC., COLIN DYNE, MARK DYNE, RONDA FERGUSON and AUGUST F. DELUCA,

Defendants.

Case No. 2:05-cv-07352-R(Ex)

CLASS ACTION

PROOF OF CLAIM AND RELEASE

**I. GENERAL INSTRUCTIONS**

1. To recover as a Member of the Class based on your claims in the action entitled *Huberman v. Tag-It Pacific, Inc.*, Master File No. 2:05-cv-07352-R(Ex) (the "Litigation"), you must complete and, on page \_\_\_ hereof, sign this Proof of Claim and Release. If you fail to timely file a properly addressed (as set forth in paragraph 3 below) Proof of Claim and Release, your claim may be rejected and you may be precluded from any recovery from the Settlement Fund created in connection with the proposed settlement of the Litigation.

2. Submission of this Proof of Claim and Release, however, does not assure that you will share in the proceeds of settlement in the Litigation.

3. **YOU MUST MAIL YOUR COMPLETED AND SIGNED PROOF OF CLAIM AND RELEASE POSTMARKED NO LATER THAN \_\_\_\_\_, ADDRESSED AS FOLLOWS:**

Tag-It Class Action Settlement  
c/o Rust Consulting, Inc.  
P.O. Box 2224  
Faribault, MN 55021-1624  
Toll-Free Number (877) 874-7560

If you are NOT a Member of the Class (as defined in the "Notice of Pendency and Proposed Settlement of Class Action and Settlement Hearing") DO NOT submit a Proof of Claim and Release form.

4. If you are a Member of the Class, and you do not timely and validly request exclusion, you are bound by the terms of any judgment entered in the Litigation, including the releases provided therein, WHETHER OR NOT YOU SUBMIT A PROOF OF CLAIM AND RELEASE.

**II. DEFINITIONS**

Terms as defined in the Notice of Pendency and Proposed Settlement of Class Action shall also apply herein.

**III. CLAIMANT IDENTIFICATION SECTION OF FORM**

1. If you purchased Tag-It Pacific, Inc. (now known as Talon International Inc.) ("Tag-It") common stock, and held the certificate(s) in your name, you are the beneficial purchaser as well as the record purchaser. If, however,

the certificate(s) were registered in the name of a third party, such as a nominee or brokerage firm, you are the beneficial purchaser and the third party is the record purchaser.

Instructions

2. Use Part I of this form entitled "Claimant Identification" to identify each purchaser of record ("nominee"), if different from the beneficial purchaser of Tag-It common stock which forms the basis of this claim. **THIS CLAIM MUST BE FILED BY THE ACTUAL BENEFICIAL PURCHASER OR PURCHASERS, OR THE LEGAL REPRESENTATIVE OF SUCH PURCHASER OR PURCHASERS, OF THE TAG-IT COMMON STOCK UPON WHICH THIS CLAIM IS BASED.**

3. All joint purchasers must sign this claim. Executors, administrators, guardians, conservators and trustees must complete and sign this claim on behalf of Persons represented by them and proof of their authority must accompany this claim and their titles or capacities must be stated. The Social Security (or taxpayer identification) number and telephone number of the beneficial owner may be used in verifying the claim. Failure to provide the foregoing information could delay verification of your claim or result in rejection of the claim.

**IV. CLAIM FORM**

1. Use Part II of this form entitled "Schedule of Transactions in Tag-It Common Stock" to supply all required details of your transaction(s) in Tag-It common stock. If you need more space or additional schedules, attach separate sheets giving all of the required information in substantially the same form. Sign and print or type your name on each additional sheet.

2. On the schedules, provide all of the requested information with respect to **all** of your purchases and **all** of your sales of Tag-It common stock which took place at any time beginning March 28, 2003 through August 22, 2005, inclusive (the "Class Period"). Failure to report all such transactions may result in the rejection of your claim.

3. List each transaction in the Class Period separately and in chronological order, by trade date, beginning with the earliest. You must accurately provide the month, day and year of each transaction you list.

4. The date of covering a "short sale" is deemed to be the date of purchase of Tag-It common stock. The date of a "short sale" is deemed to be the date of sale of Tag-It common stock.

5. Copies of broker confirmations or other documentation of your transactions in Tag-It common stock must be attached to your claim. **Do not send originals.** Failure to provide this documentation could delay verification of your claim or result in rejection of your claim. Certain Claimants with a large number of transactions, such as institutional holders, may ask (or be asked) to submit claim information in an electronic format. The Settlement Administrator will decide when electronic filing of information will be authorized. In these cases, all Claimants **must** still submit a manually signed paper Proof of Claim form. The Proof of Claim form must list all the data and transactions, whether or not they are also submitted electronically. Only electronic files authorized by the Settlement Administrator will be considered properly submitted. The Settlement Administrator will issue a written acknowledgement of receipt and acceptance of electronically submitted data to the claimant.

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Reminder Checklist:

1. Please sign the release and declaration.
2. If this claim is being made on behalf of joint claimants, both must sign.
3. Remember to attach supporting documentation.
4. Do not send original or copies of stock certificates.
5. Keep a copy of your claim form and all documents submitted for your records.
6. If you desire an acknowledgment of receipt of your claim form, please send it Certified Mail, Return Receipt Requested.
7. If you move, please send us your new address.

**These forms and your supporting documentation must be postmarked no later than \_\_\_\_\_, 2009.**

**DEADLINE FOR  
SUBMISSION:  
POSTMARKED NO  
LATER THAN**  
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Page 1 of

**OFFICIAL USE ONLY**

HUBERMAN v. TAG-IT PACIFIC, INC.

Case No. 2:05-cv-07352-R(Ex)

Please Type or Print

**IV. CLAIMANT IDENTIFICATION SCHEDULE** - Complete either Section A or B

A. Complete this Section ONLY if the Beneficial Owner is an individual, joint, or IRA account. Proceed to Section C.

Last Name (Beneficial Owner)

First Name (Beneficial Owner)

Last Name (Joint Beneficial Owner, if applicable)

First Name (Joint Beneficial Owner, if applicable)

Name of IRA Custodian, if applicable

If this account is an IRA, and if you would like any check that you MAY be eligible to receive made payable to the IRA account, please include "IRA" in the "Last Name" box above (e.g. Jones IRA).

B. Complete this Section ONLY if the Beneficial Owner is an Entity, such as a corporation, trust, estate, etc. Proceed to Section C.

Name of IRA Custodian, if applicable

Name of Representative, if applicable (Executor, administrator, trustee, c/o, etc.)

C. Mailing Information:

Number and Street or P.O. Box

City

State

Zip Code

Foreign Province and Postal Code

Foreign Country

Telephone Number (Day, including area and/or country code)

Telephone Number (Evening, including area and/or country code)

E-mail Address

Account No.

Enter Taxpayer Identification Number below for the Beneficial Owner(s). For most individuals, this is your Social Security Number. If you fail to provide this information, your claim may be rejected.

Social Security No. (for individuals)

or Taxpayer Identification No. (for estates, trusts, corporations, etc.)

**SCHEDULE OF TRANSACTIONS IN TAG-IT COMMON STOCK**

A. State the total number of shares of Tag-It common stock owned at the close of trading on March 27, 2003, long or short (*must be documented*):

**Number of Shares**

B. Separately list each and every purchase of Tag-It common stock on the open market during the period March 28, 2003 through August 22, 2005, inclusive, and provide the following information (*must be documented*):

Trade Date <i>(List Chronologically)</i> <i>(Month/Day/Year)</i>	Number of Shares of Common Stock Purchased	Purchase Price Per Share of Common Stock	Amount Paid
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>

C. Separately list each and every sale of Tag-It common stock during the period March 28, 2003 through August 22, 2005, inclusive, and provide the following information (*must be documented*):

Trade Date <i>(List Chronologically)</i> <i>(Month/Day/Year)</i>	Number of Shares of Common Stock Sold	Sale Price Per Share of Common Stock	Amount Received
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>

D. State the total number of shares of Tag-It common stock you still owned at the close of trading on August 22, 2005 long or short (*must be documented*):

**Number of Shares**

## V. SUBMISSION TO JURISDICTION OF COURT AND ACKNOWLEDGMENTS

I submit this Proof of Claim and Release under the terms of the Stipulation of Settlement described in the Notice. I also submit to the jurisdiction of the United States District Court for the Central District of California, with respect to my claim as a Class Member and for purposes of enforcing the release set forth herein. I further acknowledge that I am bound by and subject to the terms of any Judgment that may be entered in the Litigation. I agree to furnish additional information such as transactions in other Tag-It securities (including common stock, other equity securities, and debt securities) to the Settlement Administrator to support this claim if required to do so. I have not submitted any other claim covering the same purchases or sales of Tag-It common stock during the Class Period and know of no other Person having done so on my behalf.

## VI. RELEASE

1. I hereby acknowledge full and complete satisfaction of, and do hereby fully, finally and forever settle, release and discharge from the Released Claims (including Unknown Claims) each and all of the Released Persons and each and all of their "Related Parties," defined as each of a Defendant's past or present directors, officers, employees, partners, insurers, reinsurers, controlling shareholders, attorneys, accountants or auditors, personal or legal representatives, predecessors, successors, parents, subsidiaries, divisions, assigns, spouses, heirs, related or affiliated entities, any entity in which a Defendant has a controlling interest, any members of any Individual Defendant's immediate family, or any trust of which any Individual Defendant is the settlor or which is for the benefit of any Individual Defendant's family.

2. "Released Claims" shall collectively mean any and all claims, rights, demands, and liabilities arising from the purchase or sale of Tag-It common stock and relating in any way to Tag-It's financial statements, or any other acts, facts, statements or omissions during the Class Period that are alleged or could have been alleged in the Litigation. "Released Claims" includes "Unknown Claims" as defined in paragraph 3 hereof.

3. "Unknown Claims" means any Released Claims which any Class Member does not know or suspect to exist in his, her or its favor at the time of the release of the Released Persons which, if known by him, her or it, might have affected his, her or its settlement with and release of the Released Persons, or might have affected his, her or its decision not to object to this settlement. With respect to any and all Released Claims, the Settling Parties stipulate and agree that, upon the Effective Date, each of the Class Members shall be deemed to have, and by operation of the Judgment shall have, expressly waived the provisions, rights and benefits of California Civil Code §1542, which provides:

**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.**

Each of the Class Members shall be deemed to have, and by operation of the Judgment shall have, expressly waived any and all provisions, rights and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to California Civil Code §1542. Class Members may hereafter discover facts in addition to or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Released Claims, but each Class Member, upon the Effective Date, shall be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever settled and released any and all Released Claims, known or unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed, upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct which is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts. The Class Members shall be deemed by operation of the Judgment to have acknowledged, that the foregoing waiver was separately bargained for and a key element of the settlement of which this release is a part.

4. This release shall only be in force when the Court approves the Stipulation of Settlement and the Stipulation becomes effective on the Effective Date (as defined in the Stipulation).

5. I (We) hereby warrant and represent that I (we) have not assigned or transferred or purported to assign or transfer, voluntarily or involuntarily, any matter released pursuant to this release or any other part or portion thereof.

6. I (We) hereby warrant and represent that I (we) have included information about all of my (our) transactions in Tag-It common stock which occurred during the Class Period as well as the number of shares of Tag-It common stock held by me (us) at the opening of trading on March 28, 2003, and at the close of trading on August 22, 2005.

**VII. CERTIFICATION**

UNDER THE PENALTY OF PERJURY, I (WE) CERTIFY THAT:

1. The number shown on this form is my correct TIN; and

2. I (We) certify that I am (we are) NOT subject to backup withholding under the provisions of Section 3406 (a)(1)(C) of the Internal Revenue Code because: (a) I am (we are) exempt from backup withholding; or (b) I (we) have not been notified by the Internal Revenue Service that I am (we are) subject to backup withholding as a result of a failure to report all interest or dividends; or (c) the Internal Revenue Service has notified me (us) that I am (we are) no longer subject to backup withholding.

NOTE: If you have been notified by the Internal Revenue Service that you are subject to backup withholding, you must cross out Item 2 above.

The Internal Revenue Service does not require your consent to any provision of this document other than the certification required to avoid backup withholding.

I declare under penalty of perjury under the laws of the United States of America that the foregoing information supplied by the undersigned is true and correct.

Executed this \_\_\_\_ day of \_\_\_\_\_ (Month) \_\_\_\_ (Year) in \_\_\_\_\_ (City, State / Country).

Signature of Claimant (If this claim is being made on behalf of Joint Claimants, then each must sign)

Signature of Claimant

Type/print name here

Signature of Joint Claimant (if any)

Type/print Joint Claimant name here

Signature of person signing on behalf of Claimant

Type/print name of person signing on behalf of Claimant

Capacity of person(s) signing (e.g., Beneficial Purchaser, Executor or Administrator)

**ACCURATE CLAIMS PROCESSING TAKES A SIGNIFICANT AMOUNT OF TIME.  
THANK YOU FOR YOUR PATIENCE.**

# **EXHIBIT A-3**

UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

SETH HUBERMAN, on behalf of himself  
and the certified class,

Plaintiffs,

vs.

TAG-IT PACIFIC, INC., COLIN DYNE,  
MARK DYNE, RONDA FERGUSON  
and AUGUST F. DELUCA,

Defendants.

Case No. 2:05-cv-07352-R(Ex)

**SUMMARY NOTICE OF PENDENCY AND PROPOSED  
SETTLEMENT OF CLASS ACTION, AND SETTLEMENT HEARING**

TO: ALL PERSONS AND ENTITIES WHO PURCHASED OR OTHERWISE ACQUIRED TAG-IT PACIFIC, INC. (NOW KNOWN AS TALON INTERNATIONAL, INC.) (“TAG-IT”) COMMON STOCK ON THE OPEN MARKET BETWEEN MARCH 28, 2003 AND AUGUST 22, 2005, INCLUSIVE (THE “CLASS PERIOD”) AND WHO WERE DAMAGED THEREBY (THE “CLASS”) (excluding (i) Defendants; (ii) members of the immediate family of each of the Individual Defendants; (iii) any subsidiary or affiliate of Tag-It; (iv) the directors, officers, managing directors, principals and partners of Tag-It; (v) any entity in which any excluded person has a controlling interest; and (vi) the legal representatives, heirs, successors and assigns of any such excluded person).

YOU ARE HEREBY NOTIFIED that the above-captioned action has been certified as a class action and that a settlement in the amount of \$5,750,000 has been reached. A hearing (the “Settlement Hearing”) will be held before the Honorable Manuel L. Real, in the United States Courthouse, 312 North Spring Street, Los Angeles, CA 90012-4701, Courtroom 8, at \_\_:00 \_\_.m., on \_\_\_\_\_, 2009, to determine whether: (a) the proposed settlement should be approved by the Court as fair, reasonable, and adequate; (b) the proposed plan of allocation to distribute the Settlement Fund is fair, reasonable, and adequate and should be approved in connection with the Settlement; (c) Plaintiff’s Counsel’s application for an award of attorneys’ fees of not more than 30% of the Settlement Fund and reimbursement of expenses of not more than \$250,000 should be approved; (d) the Court-appointed

Lead Plaintiff and Class Representative should be reimbursed \$15,000 for his reasonable time and expenses directly related to his prosecution of this case on behalf of the Class; and (e) the claims against Defendants should be dismissed with prejudice.

IF YOU ARE A MEMBER OF THE CLASS YOUR RIGHTS WILL BE AFFECTED AND YOU MAY BE ENTITLED TO SHARE IN THE SETTLEMENT FUND. If you purchased Tag-It common stock in the Class Period and you have not already received the detailed printed Notice of Pendency and Proposed Settlement of Class Action and Settlement Hearing (“Notice”) and Proof of Claim and Release Form (“Proof of Claim”), which more fully describes the case and the Settlement and your rights thereunder, and tells what a person or entity must do to be excluded from the Class, you may obtain copies by downloading them from [www.tag-itclassactionsettlement.com](http://www.tag-itclassactionsettlement.com) or [www.wolfpopper.com](http://www.wolfpopper.com), or by contacting the Court-approved Administrator, as follows:

Tag-It Class Action Settlement  
c/o Rust Consulting, Inc.  
P.O. Box 2224  
Faribault, MN 55021-1624  
Toll-Free Number (877) 874-7560

If you are a class member, in order to be eligible to share in the distribution of the Net Settlement Fund, you must submit a Proof of Claim by no later than \_\_\_\_\_, establishing that you are entitled to recovery. All members of the Class will be bound by any judgment rendered in the class action unless you properly request to be excluded, in writing to the above address, postmarked by \_\_\_\_\_. Your request to be excluded must include your name, address, and telephone number. **IF YOU DO NOT TIMELY FILE A PROPER PROOF OF CLAIM FORM AND DO NOT EXCLUDE YOURSELF FROM THE CLASS, YOU WILL NOT SHARE IN THE SETTLEMENT, BUT YOU WILL BE BOUND BY THE FINAL JUDGMENT OF THE COURT.**

Any objection to any of the matters to be determined at the Settlement Hearing must be filed with the Court and delivered to counsel for the parties, postmarked no later than \_\_\_\_\_, 2009, in the manner and form set forth in the Notice.

Inquiries, other than for requests for the Notice and Proof of Claim, may be

made to: Wolf Popper LLP, 845 Third Avenue, New York, New York 10022 as Lead Counsel or Glancy Binkow & Goldberg LLP, 1801 Avenue of the Stars, Suite 311, Los Angeles, California 90067 as Liaison Counsel for the Class.

**PLEASE DO NOT WRITE OR TELEPHONE THE  
COURT OR THE JUDGE FOR INFORMATION OR ADVICE**

Dated: \_\_\_\_\_, 2009

By Order of the United States District Court  
For the Central District of California

# **EXHIBIT B**

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UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA  
WESTERN DIVISION

SETH HUBERMAN, on behalf of  
himself and the certified class,  
  
Plaintiffs,  
  
vs.  
  
TAG-IT PACIFIC, INC., COLIN  
DYNE, MARK DYNE, RONDA  
FERGUSON and AUGUST F.  
DELUCA,  
  
Defendants.

Case No. 2:05-cv-07352-R(Ex)  
CLASS ACTION

**ORDER AND FINAL JUDGMENT**

WHEREAS, pursuant to Rule 23(a) and 23(b)(3) of the Federal Rules of Civil Procedure and by Order dated June 19, 2009, this Court certified the Action to proceed as a class action on behalf of the class consisting of all persons and entities who purchased or otherwise acquired Tag-It common stock on the open market between March 28, 2003 and August 22, 2005, inclusive (the “Class

1 Period”) and who were damaged thereby (the “Class”) (excluding (i) Defendants;  
2 (ii) members of the immediate family of each of the Individual Defendants; (iii)  
3 any subsidiary or affiliate of Tag-It; (iv) the directors, officers, managing directors,  
4 principals and partners of Tag-It; (v) any entity in which any excluded person has a  
5 controlling interest; and (vi) the legal representatives, heirs, successors and assigns  
6 of any such excluded person); and

7 WHEREAS, this matter came before the Court for hearing pursuant to the  
8 Order of this Court, dated \_\_\_\_, 2009, on the application of the Parties for final  
9 approval of the Settlement set forth in the Stipulation of Settlement dated as of July  
10 31, 2009.

11 WHEREAS, on the \_\_\_\_th day of \_\_\_\_\_, 2009, a hearing having been  
12 held before this Court : (1) to determine whether the terms and conditions of the  
13 Stipulation and the Settlement provided for therein are fair, reasonable, and  
14 adequate for the settlement of the claims asserted by the Class against the  
15 Defendants in the Class Action Complaint in the Action (the “Complaint”) now  
16 pending in this Court under the above caption, including the release of the  
17 Released Claims against the Released Persons, including Defendants and the  
18 Related Parties, and whether the Settlement should be approved; (2) to approve the  
19 Plan of Allocation as a fair and reasonable method to allocate the Net Settlement  
20 Fund’s proceeds among the members of the Class; (3) to determine the amount to  
21 award Plaintiffs’ Counsel for attorneys’ fees, reimbursement of expenses and other  
22 awards; (4) to determine the amount to award Lead Plaintiff pursuant to the Private  
23 Securities Litigation Reform Act; and (5) to enter judgment dismissing the  
24 Complaint with prejudice in favor of the Defendants and as against all persons or  
25 entities who are members of the Class herein who have not previously and  
26 effectively requested exclusion therefrom; and the Court having considered all  
27 matters submitted to it at the hearing and otherwise; and

1 WHEREAS due and adequate notice having been given to the Class as  
2 required in the Order for Notice and Hearing, entered on \_\_\_\_, 2009, it appearing  
3 that a notice of the hearing in all material respects in the form approved by the  
4 Court, the Notice of Pendency and Proposed Settlement of Class Action and  
5 Settlement Hearing (“Notice”) and Proof of Claim Form (“Proof of Claim”) was  
6 mailed to all persons or entities reasonably identifiable, who purchased the  
7 common stock of Tag-It Pacific, Inc. (now known as Talon International, Inc.)  
8 (“Tag-It”) on the open market between March 28, 2003 and August 22, 2005,  
9 inclusive (the “Class Period”), as shown by the records of Tag-It’s transfer agent,  
10 at the respective addresses set forth in such records, and that a summary notice of  
11 the hearing in all material respects in the form approved by the Court was  
12 published in Investors’ Business Daily, pursuant to the Order of the Court; and

13 WHEREAS, the Court having considered all papers filed and proceedings  
14 had herein and otherwise being fully informed; and

15 WHEREAS the Court having considered and determined the fairness,  
16 reasonableness and adequacy of the Settlement and of the award of attorneys’ fees,  
17 expenses and other awards requested; and good cause appearing therefore;

18 NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

19 1. This Order and Final Judgment (“Judgment”) incorporates by  
20 reference the definitions in the Stipulation and all terms used herein shall have the  
21 same meanings as set forth in the Stipulation.

22 2. The Court has jurisdiction over the subject matter of the Action, the  
23 Lead Plaintiff, all Class Members, and the Defendants.

24 3. The Court reiterates its prior order certifying this action as a class  
25 action and finds that the prerequisites for a class action under Rules 23(a) and  
26 (b)(3) of the Federal Rules of Civil Procedure have been satisfied in that: (a) the  
27 number of Class Members is so numerous that joinder of all members thereof is  
28 impracticable; (b) there are questions of law and fact common to the Class; (c) the

1 claims of the Court appointed Class Representative, Seth Huberman, are typical of  
2 the claims of the Class he represents; (d) the Class Representative has and will  
3 continue to fairly and adequately represent the interests of the Class; (e) the  
4 questions of law and fact common to the members of the Class predominate over  
5 any questions affecting only individual members of the Class; and (f) a class action  
6 is superior to other available methods for the fair and efficient adjudication of the  
7 controversy. Pursuant to Rule 23 of the Federal Rules of Civil Procedure, this  
8 Court hereby finally certifies this action as a class action on behalf of all persons  
9 and entities who purchased or otherwise acquired Tag-It Pacific, Inc. (now known  
10 as Talon International, Inc.) (“Tag-It”) common stock on the open market during  
11 the period between March 28, 2003 and August 22, 2005, inclusive, and who were  
12 damaged thereby. Excluded from the Class are (i) Defendants; (ii) members of the  
13 immediate family of each of the Individual Defendants; (iii) any subsidiary or  
14 affiliate of Tag-It; (iv) the directors, officers, managing directors, principals and  
15 partners of Tag-It; (v) any entity in which any excluded person has a controlling  
16 interest; and (vi) the legal representatives, heirs, successors and assigns of any such  
17 excluded person. Also excluded from the Class are persons and entities who  
18 submitted valid and timely requests for exclusion in accordance with the Notice,  
19 who are listed on Schedule 1 hereto.

20 4. The Notice given to the Class was the best notice practicable under  
21 the circumstances, including the individual notice to members of the Class who  
22 could be identified through reasonable effort. The form, content and method of  
23 notifying the Class of the pendency and settlement of the action as a class action,  
24 the Settlement Hearing, and of the terms and conditions of the proposed  
25 Settlement, the applications for an award of Attorneys’ Fees and Expenses, the  
26 Plan of Allocation, the application for awards for reimbursement of time and  
27 expense to the Lead Plaintiff, and other matters set forth in the Notice, to Persons  
28 entitled to such notice, met the requirements of Rule 23 of the Federal Rules of

1 Civil Procedure, §21D(a)(7) of the Securities Exchange Act of 1934, 15 U.S.C. §  
2 78u-4(a)(7), as amended by the Private Securities Litigation Reform Act of 1995,  
3 due process, and any other applicable law, constituted the best notice practicable  
4 under the circumstances, and constituted due and sufficient notice to all persons  
5 and entities entitled thereto. The notifications, along with their accompanying  
6 materials, to the Federal and/or State Officials fully apprised the appropriate  
7 officials of this settlement and fully complied with all the procedural and  
8 substantive requirements of the Class Action Fairness Act, 28 U.S.C. §§1711 *et*  
9 *seq.*

10 5. The Settlement set forth in the Stipulation is the product of  
11 substantial, good faith, arm's length negotiations, including mediations, between  
12 and among the parties.

13 6. Pursuant to Rule 23 of the Federal Rules of Civil Procedure, the Court  
14 finds that the Settlement set forth in the Stipulation and the Plan of Allocation set  
15 forth in the Notice are approved in all respects as fair, reasonable, and adequate,  
16 and in the best interests of the Class. The Class Members and the parties are  
17 directed to consummate the Settlement in accordance with the terms and provisions  
18 of the Stipulation.

19 7. The Complaint, the Litigation, and all claims contained therein,  
20 including the Released Claims, are hereby dismissed with prejudice as to Lead  
21 Plaintiff and the Class, and as against all Released Persons (except as to any claim  
22 of those persons and entities identified in Exhibit 1 hereto, who have validly and  
23 timely requested exclusion from the Class by filing a request for exclusion in  
24 response to the Notice) and, except as provided in the Stipulation, the parties are to  
25 bear their own costs and fees.

26 8. Upon the Effective Date, Lead Plaintiff and each of the Class  
27 Members shall be deemed to have, and by operation of the Judgment shall have,  
28 fully, finally and forever released, relinquished and discharged all Released Claims

1 against the Released Persons, whether or not such Class Member executes and  
2 delivers a Proof of Claim.

3 9. Upon the Effective Date, Lead Plaintiff and all Class Members and  
4 anyone claiming through or on behalf of any of them, are forever barred and  
5 enjoined from commencing, instituting or continuing to prosecute any action or  
6 any proceeding in any court of law or equity, arbitration tribunal, administrative  
7 forum, or other forum of any kind (whether within the United States or not)  
8 asserting any of the Released Claims against any of the Released Persons.

9 10. Upon the Effective Date, each of the Released Persons shall be  
10 deemed to have, and by operation of the Judgment shall have, fully, finally, and  
11 forever released, relinquished and discharged the Lead Plaintiff, Class Members,  
12 and Plaintiff's Counsel from all claims (including Unknown Claims) arising out of,  
13 relating to, or in connection with, the institution, prosecution, assertion, settlement,  
14 or resolution of the Litigation.

15 11. Upon the Effective Date, all claims against any Defendants or  
16 Released Persons sounding in contribution or equitable indemnification arising out  
17 of, relating to, or in connection in any way with (i) the purchase or acquisition of  
18 Tag-It common stock on the open market during the Class Period; (ii) the facts,  
19 transactions, events, occurrences, acts, disclosures, statements, omissions or  
20 failures to act which were, or could have been alleged, in the Litigation or any  
21 other forum, based upon, relating to or arising from the facts which were or could  
22 have been alleged in the Litigation; and (iii) the Complaint are hereby forever  
23 barred, enjoined or discharged pursuant to, *inter alia*, 15 U.S.C. §78u-4(f)(7) and,  
24 as a settlement made in good faith, pursuant to, *inter alia*, Cal. Civ. Proc. Code §  
25 877.6.

26 12. Neither the Stipulation nor the Settlement contained therein, nor any  
27 act performed or document executed pursuant to or in furtherance of the  
28 Stipulation or the Settlement: (a) is or may be deemed to be or may be used as an

1 admission of, or evidence of, the validity of any Released Claim, or of any  
2 wrongdoing or liability of the Defendants; (b) is or may be deemed to be or may be  
3 used as an admission of, or evidence of, any fault or omission of any of the  
4 Defendants in any civil, criminal or administrative proceeding in any court,  
5 administrative agency or other tribunal, or (c) construed as or received in evidence  
6 as an admission, concession or presumption against the Lead Plaintiff or any of the  
7 Class Members that any of their claims are without merit, or that any defenses  
8 asserted by the Defendants have any merit, or that damages recoverable under the  
9 Complaint would not have exceeded the Settlement Fund. The Stipulation may be  
10 filed in an action to enforce or interpret the terms of the Stipulation, the Settlement  
11 contained therein, and any other documents executed in connection with the  
12 performance of the agreements embodied therein. Defendants and/or the other  
13 Released Parties may file the Stipulation and/or this Judgment in any action that  
14 may be brought against them in order to support a defense or counterclaim based  
15 on the principles of *res judicata*, collateral estoppel, full faith and credit, release,  
16 good faith settlement, judgment bar, or reduction or any other theory of claim  
17 preclusion or issue preclusion or similar defense or counterclaim.

18 13. Any order approving or modifying the Plan of Allocation set forth in  
19 the Notice, the application for Attorneys' Fees and Expenses, or any application  
20 for reimbursement of time and expenses to the Class Representatives, shall not  
21 disturb or affect the finality of this Judgment, the Stipulation or the Settlement  
22 contained therein, nor any act performed or document executed pursuant to or in  
23 furtherance of the Stipulation or the Settlement.

24 14. The Court finds that all Parties and their counsel have complied with  
25 each requirement of Rule 11 of the Federal Rules of Civil Procedure as to all  
26 proceedings herein.

27 15. Without affecting the finality of this Judgment in any way, this Court  
28 hereby retains continuing jurisdiction over (a) implementing this Settlement and

1 any award or distribution from the Settlement Fund, including interest earned  
2 thereon; (b) disposition of the Settlement Fund, including the administration of all  
3 claims submitted; (c) hearing and determining applications for attorneys' fees,  
4 interest and reimbursement of expenses in the Action; (d) hearing and determining  
5 any application for payment to the Lead Plaintiff for reimbursement of his time and  
6 expenses; and (e) all parties hereto for the purpose of construing, enforcing and  
7 administering the Stipulation.

8 16. This Judgment and all provisions thereof, and the Settlement, shall  
9 bind each Class Member whether or not that Class Member files a Proof of Claim  
10 or receives an allocation of settlement proceeds.

11 17. Defendants and the other Released Persons, including their respective  
12 insurers, shall have no responsibility for the administration of the Settlement.

13 18. The parties may agree to reasonable extensions of time to carry out  
14 any of the provisions of the Stipulation. In the event that the Settlement does not  
15 become effective in accordance with the terms of the Stipulation then this  
16 Judgment shall be rendered null and void to the extent provided by and in  
17 accordance with the Stipulation and shall be vacated and, in such event, all orders  
18 entered and releases delivered in connection herewith shall be null and void to the  
19 extent provided by and in accordance with the Stipulation.

20 19. There is no just reason for delay in the entry of this Judgment and  
21 immediate entry by the Clerk of the Court is expressly directed.

22 Dated: \_\_\_\_\_, 2009

23 \_\_\_\_\_  
24 The Honorable Manuel L. Real  
25 UNITED STATES DISTRICT JUDGE  
26  
27  
28

# **EXHIBIT C**

Tag-It Class Action Settlement  
c/o Rust Consulting, Inc.  
P.O. Box 2224  
Faribault, MN 55021-1624

August \_\_, 2009

[NAME]  
[AGENCY]  
[ADDRESS]  
[CITY, STATE, ZIP]

Re: **CAFA Notice of Proposed Settlement** in *Huberman v. Tag-It Pacific, Inc., et al.*, U.S. District Court, Central District of California, Case No. 2:05-CV-07352 R (Ex).

Dear [NAME]:

Defendants Tag-It Pacific, Inc. (now known as Talon International, Inc.), Colin Dyne, Mark Dyne, Ronda Ferguson and August F. DeLuca (collectively, "Defendants") provide this notice of a proposed settlement of the above-captioned matter pursuant to the Class Action Fairness Act of 2005, 28 U.S.C. § 1711 *et seq.* ("CAFA") and the Court's Order Preliminarily Approving Settlement of Class Action and Establishing Notice Procedures dated August \_\_, 2009 ("Order"). In accordance with CAFA and the Order, Defendants are enclosing a CD containing the following documents:

1. A copy of the Consolidated Amended Class Action Complaint. Plaintiff filed this securities class action on or about October 12, 2005, on behalf of purchasers on the open market of Tag-It common stock during the period between March 28, 2003 and August 22, 2005.
2. The motion for preliminary approval of the settlement which was filed in the U.S. District Court, Central District of California, in Los Angeles, California and, pursuant to the Order, the Court has scheduled a final approval hearing for December \_\_, 2009 at \_\_:00 \_\_.m. Courtroom 8.
3. The proposed forms of notification to class members of the proposed class action settlement and their rights to request exclusion from the class action, which include forms of: (a) Notice of Pendency and Proposed Settlement of Class Action and Settlement Hearing, (b) Summary Notice, and (c) Proof of Claim and Release Form. Instructions to class members as to how they may request exclusion from the settlement class appear in the foregoing documents.
4. The parties' Stipulation of Settlement and Supplemental Stipulation.
5. The Court's Order Preliminarily Approving Settlement of Class Action and Establishing Notice Procedures and the parties' proposed Final Judgment.

CAFA also requires a defendant, "if feasible" to provide the names of class members who reside in each State and the estimated proportionate share of the claims of such members to the

entire settlement,” or if that is not feasible, to provide a “reasonable estimate of the number of class members residing in each State and the estimated proportionate share of the claims of such members to the entire settlement.” *See* 28 U.S.C. §1715(b)(7)(A)-(B). In this securities class action, the names and state residences of the class members will not be known until after notice of the settlement is given and potential class members submit claim forms, so it is not feasible at this time to provide a list of class members by state of residence, a reasonable estimate of the number of class members residing in each state, or a reasonable estimate of the proportionate share of the claims of class members residing in each state to the entire settlement. However, class members who properly submit claim forms and supporting documentation shall receive their *pro rata* share of the Net Settlement Fund and, upon the conclusion of the claims process, the claims administrator will provide, if requested by you, the names of class members who reside in each State and the estimated proportionate share of the claims of such members to the entire settlement.

Please be advised that the parties have applied to the Court to specifically find that this notice fully complies with CAFA and there will be no supplement to this notice.

If you have questions about this notice, the lawsuit, or the enclosed materials, or if you did not receive any of the above-listed materials, please contact the counsel listed below.

Sincerely,

Jay C. Gandhi  
Paul, Hastings, Janofsky & Walker LLP  
695 Town Center Drive  
Seventeenth Floor  
Costa Mesa, California  
Tel: (714) 668-6200  
Fax: (714) 979-1921  
[jaygandhi@paulhastings.com](mailto:jaygandhi@paulhastings.com)