SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release (Agreement) is entered into by and between the STATE OF CALIFORNIA AIR RESOURCES BOARD (ARB) with its principal office at 1001 "I" Street, Sacramento, California 95814 and 3Hanger Supply Company, Inc. (3Hanger) with its principal office at 3355 West El Segundo Boulevard, Hawthorne, California 90250, collectively, "The Parties."

RECITALS

1. Health and Safety Code section 39658(b) provides, "If a substance is designated as a toxic air contaminant because it is listed as a hazardous air pollutant pursuant to subsection (b) of section 112 of the federal Clean Air Act (42 United States Code (U.S.C.) Sec. 7412(b)), the state board shall establish the airborne toxic control measure applicable to the substance..."

2. Pursuant to title 42 U.S.C section 7412, the Environmental Protection Agency (EPA) identified Perchloroethylene (Perc) as a hazardous air pollutant

3. Thereafter, in 1991, ARB identified Perc as a toxic air contaminant and later adopted the Airborne Toxic Control Measure for Emissions of Perchloroethylene Associated with Dry Cleaning Operations and Requirements for Manufacturers and Distributors of Perchloroethylene (Dry Cleaning ATCM). (Cal. Code Regs., tit. 17, § 93109, et seq.) The Dry Cleaning ATCM was adopted pursuant to Article 4, Chapter 3.5, Part 2, Division 26 (commencing with section 39650).

4. The Dry Cleaning ATCM defines a "Perc distributor" as "any person who, directly or indirectly, sells Perc or recycled Perc to California dry cleaners." (Cal. Code Regs., tit. 17, § 93109(d)(33).) 3Hanger sells Perc to California dry cleaners, and is therefore a "Perc distributor," subject to the requirements of the Dry Cleaning ATCM.

5. The Dry Cleaning ATCM requires that, by January 31 of each year, Perc distributors shall report to ARB the annual gallons of Perc and recycled Perc sold to California dry cleaners from January 1 through December 31 of the previous year (Cal. Code Regs., tit. 17, § 93109.2(b)(3)) and requires Perc distributors to pay a per-gallon fee to ARB in accordance with a fee schedule, no later than 30 days after the issuance of an invoice from ARB (Cal. Code Regs., tit. 17, § 93109.2(c)). The per-gallon fee for 2012 sales is $11. (Cal. Code Regs., tit. 17, § 93109.2, Table 2.)

6. Health and Safety Code section 39674(b)(1) provides in pertinent part, "Any person who violates any rule or regulation... which is implemented and enforced

as authorized by subdivision (b) of Section 39658 is strictly liable for a civil penalty not to exceed ten thousand dollars ($10,000) for each day in which the violation occurs."

7. On January 3, 2013, ARB sent a reporting form and invoice to 3Hanger for Perc sold to California dry cleaners from January 1, 2012 through December 31, 2012. On January 24, 2013, 3Hanger reported sales of 71 gallons of Perc and paid fees of $781.00 to ARB based on those sales.

8. On March 12, 2013, ARB inspected 3Hanger and requested 3Hanger's Perc sales records. At that time, 3Hanger provided sales invoices documenting it sold 142 gallons of Perc to California dry cleaners from January 1, 2012 through December 31, 2012.

9. On May 21, 2013, ARB requested 3Hanger's records of all Perc sales, including sales to distributors and/or resellers, from January 1, 2012 through December 31, 2012. 3Hanger provided these records on May 22, 2013.

10. Based on a review of 3Hanger sales records, ARB determined that 3Hanger sold 487 gallons of Perc to California dry cleaners from January 1, 2012 through December 31, 2012.

11. On June 10, 2013, ARB issued Notice of Violation (NOV) number ATCM-2013-6 to 3Hanger for violating the Dry Cleaning ATCM by failing to report 416 gallons of Perc sold to California dry cleaners in 2012 and for failing to remit fees, totaling $4,576, on those sales as required by the Dry Cleaning ATCM.

12. 3Hanger promptly and fully cooperated with ARB throughout its investigation.

13. 3Hanger has no prior enforcement record with ARB.

14. 3Hanger provided ARB with audited Profit and Loss Statements for the past couple of years, which demonstrate a financial hardship for the company.

15. ARB alleges that if the facts described in recital paragraphs 1 – 10 were proven, civil penalties could be imposed against 3Hanger as provided in Health and Safety Code section 39674(b)(1).

16. 3Hanger admits the facts described in recital paragraphs 1 – 10, but denies any liability arising therefrom.

17. 3Hanger is willing to enter into this Agreement solely for the purpose of settlement and resolution of this matter with ARB. ARB accepts this Agreement

in termination of this matter. Accordingly, The Parties agree to resolve this matter completely by means of this Agreement, without the need for formal litigation.

TERMS AND RELEASE

In consideration of ARB not filing a legal action against 3Hanger for the violations alleged above, and in consideration of the other terms set out below, ARB and 3Hanger agree as follows:

1. As a condition of this Settlement Agreement, 3Hanger shall pay the total sum of five thousand dollars ($5,000.00) as a penalty to the California Air Resources Board for deposit into the California Air Pollution Control Fund, payable as follows:

   (a) Two thousand five hundred dollars ($2,500.00) no later than October 5, 2013 and

   (b) Two thousand five hundred dollars ($2,500.00) no later than November 5, 2013.

   All payments shall be made by certified check payable to the **California Air Resources Board**, shall include "NOV# ATCM-2013-6" in the memo field, and shall be addressed to:

   Ms. Kim Nguyen
   Enforcement Division
   Air Resources Board
   P.O. Box 2815
   Sacramento, California 95812

2. Effect of Untimely Payment of the Penalty. If any penalty payment is more than 15 days late, the entire remaining balance becomes immediately due and payable without notice or demand. In addition, if the Attorney General files a civil action to enforce this settlement agreement, 3Hanger shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorney's fees, and costs.

3. It is agreed that if 3Hanger at any time becomes insolvent, or makes an assignment for the benefit of creditors or similar action adversely involving 3Hanger, or a proceeding or petition under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt, or receivership law or

statute is filed by or against 3Hanger, or a trustee in bankruptcy, custodian, receiver or agent is appointed or authorized to take charge of any of 3Hanger's properties, or if any deposit account or other property of 3Hanger be attempted to be obtained or held by writ of execution, garnishment, attachment, condemnation, levy, forfeiture or other legal process, or 3Hanger takes any action to authorize any of the foregoing, the entire remaining balance becomes immediately due and payable without notice or demand.

4. It is agreed that the penalty described in terms and release paragraph 1 is punitive in nature, rather than compensatory. Furthermore, the penalty is intended to deter and punish 3Hanger for violations of state environmental statutes, and this penalty is payable to and for the benefit of ARB, a governmental unit. Therefore, it is agreed that this penalty imposed on 3Hanger by ARB arising from the facts described in recital paragraphs 1 – 10 are nondischargeable under 11 U.S.C § 523 (a)(7), which provides an exception from discharge for any debt to the extent such debt is for a fine, penalty or forfeiture payable to and for benefit of governmental unit, and is not compensation for actual pecuniary loss, other than certain types of tax penalties.

5. Within 30 days of execution of this Agreement, 3Hanger shall amend its 2012 annual report of Perc sales to California dry cleaners to include total sales of Perc by 3Hanger to California dry cleaners. ARB will invoice 3Hanger in the amount of FOUR THOUSAND, FIVE HUNDRED AND SEVENTY SIX DOLLARS ($4,576.00) reflecting unpaid fees on 416 gallons of Perc sold by 3Hanger to California dry cleaners from January 1, 2012 through December 31, 2012. 3Hanger shall pay this invoice within 30 days of receipt of the invoice ("Due Date"). Payment of this invoice shall be remitted to the address indicated on the invoice.

6. Effect of Untimely Payment of the Unpaid Fees. If the unpaid fees described in Terms and Release paragraph 5 are received by ARB after the Due Date, 3Hanger shall pay an additional penalty of ten thousand dollars ($10,000.00) per day that any of the unpaid fees are remitted late to ARB. In addition, if the Attorney General files a civil action to enforce this provision, 3Hanger shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorney's fees, and costs.

7. 3Hanger shall retain for at least five years and shall make available to ARB or the district upon request, monthly sales and purchase records (with invoices) of the gallons of Perc and recycled Perc sold and/or purchased for use in dry cleaning in California.

8. 3Hanger shall not violate the Dry Cleaning ATCM.

9. This Agreement shall apply to and be binding upon 3Hanger, and its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations, and upon ARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this Agreement.

10. Now therefore, in consideration of the timely payment by 3Hanger in the amount of five thousand dollars ($5,000.00) to the California Air Resources Board for deposit into the California Air Pollution Control Fund and four thousand five hundred and seventy six dollars ($4,576.00) to the California Air Resources Board for deposit into the Nontoxic Dry Cleaning Incentive Trust Fund, ARB hereby releases 3Hanger and its principals, officers, agents, subsidiaries, predecessors, and successors from any and all claims ARB may have based upon the events described in recital paragraphs 1 through 10 hereinabove, including claims under California Code of Regulations, title 17, section 93109 et seq. for the unpaid Perc fees and late fees. The undersigned represent that they have the authority to enter this Agreement.

11. This Agreement constitutes the entire agreement and understanding between ARB and 3Hanger concerning the claims and settlement in this Agreement, and this Agreement fully supersedes and replaces any and all prior negotiations and agreements of any kind or nature, whether written or oral, between ARB and 3Hanger concerning these claims.

12. No agreement to modify, amend, extend, supersede, terminate, or discharge this Agreement, or any portion thereof, is valid or enforceable unless it is in writing and signed by all parties to this Agreement. This Agreement shall further serve to toll any statute of limitation until six months after all terms and conditions of this Agreement have been fulfilled.

13. Advice of Counsel. Each Party to this Agreement has reviewed the Agreement independently, has had the opportunity to consult counsel, is fully informed of the terms and effect of this Agreement, and has not relied in any way on any inducement, representation, or advice of any other Party in deciding to enter into this Agreement.

14. Each provision of this Agreement is severable, and in the event that any provision of this Agreement is held to be invalid or unenforceable, the remainder of this Agreement remains in full force and effect.

15. This Agreement shall be interpreted and enforced in accordance with the laws of the State of California, without regard to California's choice-of-law rules.

16. Waiver. The failure of any Party to enforce any provision of this Agreement shall not be construed as a waiver of any such provision, nor prevent such Party thereafter from enforcing such provision or any other provision of this Agreement. The rights and remedies granted all Parties herein are cumulative and the election of one right or remedy by a Party shall not constitute a waiver of such Party's right to assert all other legal remedies available under this Agreement or otherwise provided by law.

17. This Agreement is deemed to have been drafted equally by ARB and 3Hanger; it will not be interpreted for or against either party on the ground that said party drafted it.

18. **SB 1402 Statement.**
Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010, Health & Safety Code section 39619.7) requires ARB to provide information on the basis for the penalties it seeks. This required information, which is provided throughout this settlement agreement, is summarized here.

The manner in which the penalty amount was determined, including a per unit penalty.

Penalties must be set at levels sufficient to deter violations. The penalties in this matter were determined based on all relevant circumstances, including the eight factors specified in Health & Safety Code sections 42403.

The maximum per unit penalty in this case is ten thousand dollars ($10,000.00) per day per strict liability violation. The penalty obtained in this case is a total of five thousand dollars ($5,000.00), or $1,000.00 per month for five months of late, inaccurate or incomplete reporting. This reflects the consideration of a number of facts, including:

- That this was an unintentional, first time violation,
- 3Hanger's prompt response to ARB's request for sales records,
- 3Hanger's diligent efforts to comply and to cooperate with the investigation, and
- 3Hanger's financial hardship, which is reflected in their audited financial records.

The provision of law the penalty is being assessed under and why that provision is the most appropriate for that violation.

ARB alleges that the penalty provision being applied in this case, Health and Safety Code section 39674, is appropriate because 3Hanger failed to comply with the Dry Cleaning ATCM established under Health and Safety Code section 39650, et seq.

Is the penalty being assessed under a provision of law that prohibits the emission of pollution at a specified level, and if so a quantification of excess emissions, if it is practical to do so.

The regulations that have been alleged to have been violated do not prohibit emissions above a specified level. It is not practicable to quantify these emissions, because the information necessary to do so, such as emission rates and time of use, is not available. There are no testing results available that would indicate how much emissions increased as a result of the use of the Perc for which fees were not paid. However, since the fees for the Perc sold to California dry cleaners were not fully paid, emissions attributable to them are illegal.

19. 3Hanger acknowledges that ARB has complied with SB 1402 in prosecuting and settling this case. Specifically, ARB has considered all relevant facts, including those listed at Health and Safety Code sections 42403, has explained the manner in which the penalty amount was calculated (including a per unit or per vehicle penalty, if appropriate), has identified the provision of law under which the penalty is being assessed, and has considered and determined that this penalty is not being assessed under a provision of law that prohibits the emission of pollutants at a specified level.

20. Penalties were determined based on the unique circumstances of this matter, considered together with the need to remove any economic benefit from noncompliance, the goal of deterring future violations and obtaining swift compliance, the consideration of past penalties in similar case negotiation, and the potential costs and risk associated with litigating these particular violations. The penalty reflects violations extending over a certain period of time, considered together with the complete circumstances of this case. The penalty was discounted in this matter based on the fact that this was an innocent, first time violation, 3Hanger promptly responded to ARB's request for sales records, 3Hanger made diligent efforts to comply and to cooperate with the ARB's investigation, and 3Hanger's financial hardship. Penalties in future cases might be smaller or larger on a per unit basis.

21. The penalty in this case was based in part on confidential business information provided by 3Hanger that is not retained by ARB in the ordinary course of business. The penalty in this case was also based on confidential settlement communications between ARB and 3Hanger that ARB does not retain in the ordinary course of business either. The penalty also reflects ARB's assessment of the relative strength of its case against 3Hanger, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that 3Hanger may have secured from its actions.

SIGNATURES

California Air Resources Board

By: _____
Name: James Ryden
Title: Chief, Enforcement Division

Date: 10/8/13

3Hanger Supply Company, Inc.

By: _____
Name: Sam Monempour
Title: Vice President

Date: 9-18-13