

SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release (hereinafter "Agreement") is entered into between the State of California Air Resources Board (hereinafter "ARB"), with its principal office at 1001 "I" Street, Sacramento, California, 95812, and Car Sound Exhaust System, Inc., a California corporation (hereinafter "Car Sound") with its principal place of business at 22961 Arroyo Vista, Rancho Santa Margarita, California 92688, each, individually a "Party," and collectively, the "Parties" hereinafter.

RECITALS

1. California Vehicle Code (VC) section 27156 provides, in part: "No person shall install, sell, offer for sale, or advertise any device intended for use with, or as a part of, any required motor vehicle pollution control device or system which alters or modifies the original design or performance of any such motor vehicle pollution control device or system." VC section 38391 contains a similar prohibition with respect to off-highway motor vehicle pollution control devices and systems.
2. California Health and Safety Code section 43644(a) provides, in part: "No person shall install, sell, offer for sale or advertise, or, except in an application to the state board for certification of a device, represent, any device as a motor vehicle pollution control device for use on any used motor vehicle unless that device has been certified by the state board."
3. Title 13, California Code of Regulations (CCR) section 2222(h)(1) states:

Prior to January 2009, the Executive Officer shall exempt new aftermarket catalytic converters from the prohibitions of Vehicle Code 27156 and 38391 based on an evaluation conducted in accordance with the "California Evaluation Procedures for New Aftermarket Non-Original Equipment Catalytic Converters" as adopted by the state board on August 19, 1988.

Title 13, California Code of Regulations (CCR) section 2222(h)(2) states:

On or after January 1, 2009, the Executive Officer shall exempt new aftermarket catalytic converters from the prohibitions of California Vehicle Code sections 27156 and 38391 based on an evaluation conducted in accordance with the "California Evaluation Procedures for New Aftermarket Catalytic Converters" as adopted by the state board on October 25, 2007.

Title 13, CCR section 2222(h)(3) states:

No person shall install, sell, offer for sale or advertise any new aftermarket catalytic converter in California unless it has been exempted pursuant to the procedures.

4. Title 13, CCR section 2225(a) provides, in part, that the Executive Officer may seek fines for violations of Vehicle Code Section 27156.
5. In July 2008, ARB issued a "Subpoena" to Car Sound, requesting documentation concerning all catalytic converters it sold in California from January 1, 2005 to the date of the Subpoena.
6. On September 29, 2008, Car Sound provided the requested documents.
7. Based on its review of the documents Car Sound provided, ARB alleges that between January 1, 2005 and March 3, 2010, Car Sound sold, offered for sale, and/or advertised in California approximately 3,982 non-California certified catalytic converters that were not exempted pursuant to Title 13, CCR section 2222, under the following parts numbers: 15448, 16420, 55213, 55300, 55320, 55321, 55322, 55400, 60010, 60011, 60012, 60020, 60021.
8. If the allegations described in recital paragraphs 1 through 7 hereinabove were proven in a court of law, penalties could be imposed against Car Sound pursuant to HSC section 43016 for each and every violation alleged.
9. Car Sound fully cooperated with ARB in its investigation of the sale of non-California certified catalytic converters.
10. Car Sound denies that it sold, offered for sale, and/or advertised in California any catalytic converter in violation of California law and asserts that each of the units sold, offered for sale and/or advertised was exempted by regulation or sold with ARB compliance staff recommended disclaimer.
11. Car Sound 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.

RELEASE

In consideration of ARB not filing a legal action against Car Sound for the alleged violations referred to above ARB and Car Sound agree as follows:

1. Car Sound shall pay the sum of Five Hundred Sixty Thousand dollars (\$560,000) by check payable to the **California Air Pollution Control Fund** according to the following schedule:
 - (a) Twenty Three Thousand Three Hundred Thirty Three dollars (\$23,333.00) upon execution of this Agreement;
 - (b) Twenty Three Thousand Three Hundred Thirty Three dollars (\$23,333.00) no later than May 30, 2011, June 30, 2011, July 30, 2011, August 30, 2011, September 30, 2011, October 30, 2011, November 30, 2011, December 30, 2011, January 30, 2012, February 28, 2012, March 30, 2012, April 30, 2012, May 30, 2012, June 30, 2012, July 30, 2012, August 30, 2012, September 30, 2012, October 30, 2012, November 30, 2012, December 30, 2012, January 30, 2013, February 28, 2013;
 - (c) A final payment of Twenty Three Thousand Three Forty One dollars (\$23,341.00) no later than March 31, 2013.

Payments shall be made by check payable to the Air Pollution Control Fund as described above and addressed to:

Mr. Kerry Albert
Air Resources Board
Enforcement Division
1001 I Street, P.O. Box 2815
Sacramento, California 95812

The time period to file a lawsuit over the facts and allegations contained in the Recitals is tolled until Car Sound has made all payments required by this settlement agreement.

2. **Effect of Untimely Payment.** If a payment installment is not made within 10 days of the date specified above, the entire remaining balance shall become immediately due and payable without notice or demand. In addition, if the Attorney General files a civil action to enforce this settlement agreement, Car Sound shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorneys' fees, and costs.

3. Car Sound shall not install, sell, offer for sale, or advertise any device in California intended for use with, or as a part of, any required motor vehicle pollution control device or system which alters or modifies the original design or performance of any such motor vehicle pollution control device or system unless it has first received an exemption from ARB or the device is used exclusively for racing purposes or the device is otherwise exempt from regulation by the ARB.
4. This Agreement shall apply to and be binding upon Car Sound and its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations, dealers, distributors, and upon ARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this Agreement.
5. Now therefore, in consideration of the payment by Car Sound in the amount of Five Hundred Sixty Thousand dollars (\$560,000) to the California Air Pollution Control Fund, ARB hereby releases Car Sound and its principals, officers, agents, dealers, distributors, subsidiaries, predecessors, and successors from any and all claims ARB may have based upon the events described in recital paragraphs (1) through (7) above, including claims under Vehicle Code sections 27156 and 38391 and Title 13, CCR section 2222 et seq. The undersigned represent that they have the authority to enter this Agreement.
6. This Agreement constitutes the entire agreement and understanding between ARB and Car Sound concerning the claims and settlement in this Agreement, and this Agreement fully supersedes and replaces any and all prior negotiations and agreement of any kind or nature, whether written or oral, between ARB and Car Sound concerning these claims.
7. No agreement to modify, amend, extend, supersede, terminate, or discharge this Agreement, or any portion thereof, shall be valid or enforceable unless it is in writing and signed by all Parties to this Agreement.
8. 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.
9. 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.

10. Severability. 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.
11. 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.
12. This agreement is deemed to have been drafted equally by the Parties; it will not be interpreted for or against either party on the ground that said party drafted it.
13. **SB 1402 Statement**

Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010, Health and Safety Code section 39617) requires the 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 or per vehicle penalty.

Penalties must be set at levels sufficient to discourage violations. The penalties in this matter were determined in consideration of all relevant circumstances, including the eight factors specified in Health and Safety Code section 43024.

The per unit penalty in this case is a maximum of \$500 per unit per strict liability violation. The penalty obtained in this case is approximately \$140.63 per unit for approximately 3,982 units. This reflects the facts that this is an unintentional, first time violation, Car Sound's unusually diligent efforts to comply and to cooperate with the investigation and the impact of current economic conditions on the cost of precious metals and the resulting impact on margins in the industry.

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

The ARB alleges that the penalty provision being applied in this case, Health and Safety Code section 43016, is appropriate because Car Sound allegedly sold, offered for sale, and/or advertised the subject non-California certified catalytic converters that were not exempted pursuant to Title 13, CCR section 2222.

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 practicable to do so.

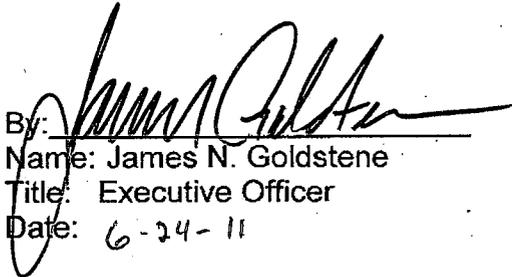
The provisions cited above do not prohibit emissions above a specified level. It is not practicable to quantify these emissions because the information necessary to do so is not available. There are no testing results available that would indicate that the converters are causing the vehicles to emit at excessive levels. The parties had adequate opportunity to conduct such testing, but elected not to do so in the interests of settlement and because of the time and expense involved.

14. Car Sound 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 section 43024, 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.

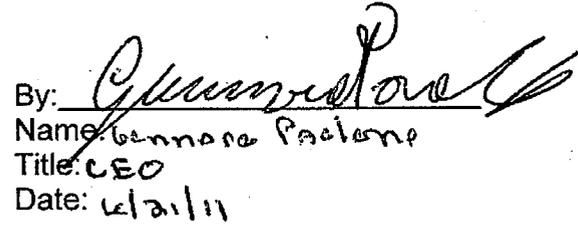
15. Penalties were determined based on the unique circumstances of this matter, considered together with the need to remove any economic benefit from noncompliance, the goal of deterring future violations and obtaining swift compliance, the consideration of past penalties in similar case negotiation, 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 and because Car Sound made unusually diligent efforts to comply and to cooperate with the ARB's investigation. Penalties in future cases might be smaller or larger on a per unit basis.

16. The penalty in this case was based in part on confidential business information provided by Car Sound 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 Car Sound 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 Car Sound, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that Car Sound may have secured from its actions.

California Air Resources Board

By: 
Name: James N. Goldstene
Title: Executive Officer
Date: 6-24-11

Car Sound Exhaust Systems, Inc.

By: 
Name: Gennaro Paolone
Title: CEO
Date: 6/21/11