SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into as of the ____ day of ~~March~~ April, 2013 (the "Effective Date"), by and between the California Air Resources Board ("CARB"), with its principal office at 1001 I Street, Sacramento, California, 95812, Pier 1 Imports (U.S.), Inc. ("Pier 1"), with its principal place of business at 100 Pier 1 Place in Fort Worth, Texas, 76102 and Scent Shop, Inc. ("Scent Shop"), with its principal place of business at 2614 National Place, Garland, Texas 75041.

RECITALS

1. CARB alleges that from 2009-2011, Pier 1, sold, supplied and/or offered for sale in California Pier 1 reed diffusers ("Reed Diffusers") subject to the volatile organic compound ("VOC") limit for air fresheners: liquid/pump spray, Title 17, California Code of Regulations (CCR), Section 94509(a).

2. Pier 1 did not manufacture the Reed Diffusers described above, but rather purchased the Reed Diffusers from Scent Shop (a domestic supplier) and various foreign suppliers.

3. CARB alleges that from 2009-2011, Pier 1 sold, supplied and offered for sale in California Ultra Shield Quick Dry Fabric Guard ("Fabric Guard") subject to the VOC limit for fabric protectors: non-aerosol, Title 17, California Code of Regulations (CCR), Section 94509(a).

4. Pier 1 did not manufacture the Fabric Guard described above, but rather purchased all of the Fabric Guard from various foreign suppliers.

5. CARB alleges that the Reed Diffusers referenced in recital paragraph 1 contained concentrations of VOCs exceeding the 18.0 percent VOC limit for the air fresheners: liquid/pump spray Product specified in Title 17, CCR, Section 94509(a).

6. CARB alleges that the Fabric Guard referenced in recital paragraph 3 contained concentrations of VOCs exceeding the 25.0 percent VOC limit for the fabric protectors: non-aerosol product specified in Title 17, CCR, Section 94509(a).

7. CARB alleges the Reed Diffusers and Fabric Guard did not display on each consumer product container or package, the day, month, and year on which the product was manufactured, nor a code indicating such a date as specified in Title 17, CCR, Section 94512(b).

8. CARB alleges that if the allegations described in recital paragraphs 1 and 7 were proven, civil penalties could be imposed against Pier 1 and/or its manufacturers as provided in Health and Safety Code Sections 42402, et seq. for each and every unit involved in the violations.

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9. The parties agree to resolve this matter completely by means of this Agreement without the need for formal litigation.

Therefore, the parties agree as follows:

TERMS AND CONDITION

1. Pier 1 shall not sell, supply or offer for sale for use in California any consumer products in violation of CARB consumer products regulations set forth in Title 17, CCR, Section 94500, et seq.; however, the terms and conditions set forth in this Agreement will remain valid and enforceable not withstanding any future violations that may occur.

2. Pier 1, in settlement of the above-described allegations of violations of Title 17, CCR, Section 94509(a) and 94512(b), agrees to pay a penalty to CARB in the amount of $138,000.00, payable to the California Air Pollution Control Fund within ten (10) days from the Effective Date of this Agreement. The penalty is comprised of the following: $110,500.00 for products manufactured by Scent Shop, and $27,500.00 for products manufactured by Pier 1's foreign suppliers and for CARB's investigative costs.

3. This settlement shall apply to and be binding upon Pier 1 and Scent Shop and their respective officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations (corporate and non-corporate) and upon CARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this settlement.

4. The parties stipulate that this Agreement shall be the final resolution of CARB claims regarding the above-described violations alleged by CARB and shall have the same *res judicata* effect as a judgment in terms of acting as bar to any civil action by CARB against Pier 1, or Scent Shop, and their respective officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations (corporate and non-corporate). This Agreement shall be deemed the recovery of civil penalties for purposes of precluding subsequent criminal action as provided in Health and Safety Code Section 42400.7(a).

5. 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.

6. This Agreement constitutes the entire agreement and understanding between CARB, Pier 1 and Scent Shop 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 CARB, Pier 1 or Scent Shop 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. Each of the undersigned represents and warrants that he, she or it has full power and authority to enter into this Agreement.

9. SB 1402 Statement. California Health and Safety Code (HSC) Section 39619.7 (Senate Bill 1402 - Dutton, Chapter 413, statutes of 2010) requires CARB to provide information on the basis for the penalties it seeks. This Settlement Agreement includes this information, which is also summarized here.

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

The penalty provision being applied in this case is HSC Section 42402, et seq. because Pier 1 sold, supplied, offered for sale consumer products for commerce in California allegedly in violation of the Consumer Products Regulations (Title 17 California Code of Regulations (CCR) Section 94507, et seq.). The penalty provisions of HSC Section 42402, et seq. apply to violations of the Consumer Products Regulations because the regulations were adopted under authority of HSC Section 41712 which is in Part 4 of Division 26 of the Health and Safety Code. The penalty provisions of HSC Section 42402, et seq. apply to requirements adopted pursuant to Part 4.

The manner in which the penalty amount was determined, including aggravating and mitigating factors and per unit or per vehicle basis for the penalty.

Penalties must be set at levels sufficient to discourage violations. CARB considered all relevant circumstances in determining penalties, including the eight factors specified in HSC Section 42403.

Under HSC Section 42402, et seq. the penalties for strict liability violations of the Consumer Product Regulations are a maximum of $1,000 per day of violation, with each day being a separate violation. In cases like this involving unintentional first time violations of the Consumer Products Regulations where the violator cooperates with the investigation the CARB has sought and obtained penalties of approximately $17,000 per ton of excess emissions of volatile organic compounds attributable to the violation. This represents an average cost to retire a ton of volatile organic comp and emission credits and reformulate a product to comply with the Consumer Product Regulations. In this case CARB alleges that there were 7.0 tons of excess VOC emissions attributable to the alleged violation and represents a penalty of $17,000 per ton of excess emissions.

The total penalty in this case is $138,000.00 which CARB contends includes VOC excess emissions, procedural penalties for the product dating violations, and investigative costs. Penalties in future cases might be smaller or larger on a per ton basis.

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 the excess emissions, if it is practicable to do so.

The Consumer Product Regulations do not prohibit emissions above a specific level, but they do limit the concentration of VOCs in regulated products. In this case a quantification of the excess

emissions attributable to the violations was practicable because Pier 1 provided sales data necessary to make this quantification available to the CARB. Based upon this information (which Pier 1 has designated as confidential), the alleged violations were calculated to have caused the 7.0 tons of excess emissions of volatile organic compounds to be emitted to the atmosphere in California.

10. Pier 1 and Scent Shop acknowledge that CARB has complied with SB1402 in investigating and settling this case. Specifically, CARB has considered all relevant facts, including those listed at HSC Section 42403, has explained the manner in which the penalty amount was calculated, has identified the provision of law under which the penalty amount is being assessed and had considered and determined that while this penalty is not being assessed a provision of law that prohibits the emission of pollutants at a specified level, it is practicable for CARB to quantify the excess emissions from the alleged violations, has done so and has included this information in this Settlement Agreement.

11. CARB determined final penalties 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 negotiated cases, and the potential costs and risk associated with litigating these particular violations. The penalty reflects alleged violations extending over a number of days that CARB contends resulted in quantifiable harm to the environment considered together with the complete circumstances of this case listed above. The penalty was discounted in this matter based on the factors outlined above. Penalties in future cases might be smaller or larger on a per ton basis.

12. The final penalty in this case was based in part on confidential business information provided by Pier 1 that is not retained by CARB in the ordinary course of business. As of the date of execution of this Agreement, CARB has either destroyed such confidential business information or returned it and all copies thereof to Pier 1. The penalty in this case was also based on confidential settlement communications between CARB and Pier 1 that CARB does not retain in the ordinary course of business either. The penalty also, reflects CARB's assessment of the relative strength of its case against Pier 1, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that Pier 1 may have secured from its actions.

13. Nothing contained in this Agreement or omitted from it, nor its existence nor any act contemplated hereby is, nor shall it be construed as an admission of any fact, wrongdoing, misfeasance, malfeasance, negligence, omission or other liability by Pier 1 or Scent Shop whatsoever. This Agreement is entered into solely for the purpose of resolving and compromising contested claims, without the need for litigation.

14. This Agreement is effective as of the last date on which any party required to execute this Agreement does so, and such date will be set forth in the first paragraph of this Agreement where indicated.

15. This Agreement may be executed in multiple counterparts, each of which taken together shall constitute one and the same agreement binding upon the parties. Signatures transmitted by facsimile or via e-mail in a "PDF" format shall have the same force and effect as original signatures on this Agreement.

{Signatures on following page}

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IN WITNESS THEREOF, the parties hereto have caused this Agreement to be executed as of the day and year indicated below to be effective pursuant to Section 14 above.

CALIFORNIA AIR RESOURCES BOARD

Dated: ~~March~~ April 15, 2013

By: _____
~~James Goldstene~~ RICHARD COREY
Executive Officer

PIER 1 IMPORTS (U.S.), INC.

Dated: March 18, 2013

By: _____

Name: Michael A. Carter
Title: SR VP and General Counsel, Secretary

SCENT SHOP, INC.

Dated: March 13, 2013

By: _____

Name: Mark Stewart
Title: V.P. Sales