SETTLEMENT AGREEMENT AND RELEASE

This SETTLEMENT AGREEMENT AND RELEASE (hereinafter "Agreement") is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (hereinafter "ARB") 1001 I Street, Sacramento, California 95814, and DONALDSON COMPANY, Inc. (hereinafter "Donaldson"), 1400 W 94th Street, Bloomington, MN 55431-2370.

I. RECITALS

(1) The Verification Procedure for In-Use Strategies to Control Emissions from Diesel Engines ("Verification Procedure," California Code of Regulations (CCR), Title 13, Sections 2700-2710) provides at section 2702 that if the Executive Officer of the ARB grants verification of a diesel emission control strategy, he or she will issue an Executive Order (EO) to the strategy's applicant identifying the verified emission reduction level and any conditions that must be met for the Diesel Emission Control Strategy (DECS) to function properly. The Verification Procedure itself also places conditions on applicants and diesel emissions control strategies.

(2) The Verification Procedure provides at section 2706 (f) (2) that all filter-based diesel emission control systems must be installed with a backpressure monitor to notify the operator when the high backpressure limit, as specified by the engine manufacturer or included in the verification, is approached.

(3) The Executive Orders DE-05-012 and DE-05-013 issued by ARB to Donaldson for the DFM Diesel Multi-Stage Filter System with and without the Donaldson Spiracle Closed Crankcase Filtration System state that the systems consist of, among other components, a backpressure monitor.

(4) California Vehicle Code (VC) Section 27156 provides that no person shall install, sell, offer for sale, or advertise any device, apparatus, or mechanism 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. An exemption from Vehicle Code Section 27156 is required before any add-on or modified part can be sold in California. Aftermarket parts exemptions are regulated under CCR, Title13, Sections 1900 et seq., 2030-2031, 2047-2048, 2200-2207 and 2220-2225 (Aftermarket Parts Regulations).

(5) If a DECS or the application it is used in does not meet the conditions specified in the Verification Procedure or the applicable EO, it is a violation of the Verification Procedure, and the DECS is not verified for that application, rendering it an illegal, non-exempt add-on part.

(6) The ARB Enforcement Division staff, with the cooperation of Donaldson, has alleged certain violations of the Verification Procedure, the applicable Executive Orders, the Aftermarket Parts Regulations and of Vehicle Code Section 27156 with respect to Donaldson's diesel emission control strategies in California that do not conform to the conditions specified in the Verification Procedure and the applicable Executive Orders. In particular, these alleged violations involve selling the DFM Diesel Multi-Stage Filter Systems without a backpressure monitor in California.

(7) Health and Safety Code, Sections 39674 (a) and (b) authorize civil penalties for the violation of the programs for the regulation of toxic air contaminants not to exceed one thousand dollars ($1,000) or not to exceed ten thousand dollars ($10,000) respectively, for each day in which the violation occurs.

(8) In order to resolve the violations described herein, Donaldson has taken, or agreed to take, the actions enumerated below under "TERMS AND CONDITIONS." Further, the ARB accepts this Agreement in termination and settlement of this matter.

(9) In consideration of the foregoing, and of the promises and facts set forth herein, the parties desire to settle and resolve all claims, disputes, and obligations relating to the above-listed violations, and voluntarily agree to resolve this matter by means of this Agreement. Specifically, the ARB and Donaldson agree as follows:

II. TERMS AND CONDITIONS

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

(1) Upon execution of this Agreement, the sum of one hundred and three thousand dollars ($103,000) shall be paid on behalf of Donaldson as follows:

- $77,250 to the **California Air Pollution Control Fund.**
- $25,750 to the **San Joaquin Valley Air Pollution Control District**, with a notation on the check's face **"For School Bus Retrofit SEP"**.
- Checks with the signed settlement agreement shall be sent to:

Mr. Tajinder Gill, Air Resources Engineer
Air Resources Board, Enforcement Division
9480 Telstar Ave., Suite 4
El Monte, CA 91731

(2) Donaldson shall not violate any provision of the California Vehicle Code (VC) Section 27156.

(3) Donaldson shall not violate Aftermarket parts exemption procedures established in California Code of Regulations (CCR), Title13, Sections 1900 et seq., 2030-2031, 2047-2048, 2200-2207 and 2220-2225.

(4) Donaldson shall not violate the Verification Procedure (CCR, Title 13, Sections 2700-2710) or any Executive Orders issued by ARB.

(5) Donaldson shall ensure that the terms and conditions specified in the applicable EO are met prior to installing, selling, offering for sale, or advertising any DECS in California.

(6) Donaldson shall not violate the system labeling requirements set forth in CCR, Title 13, Section 2706 (j).

(7) Donaldson shall comply with the DECS warranty requirements set forth in the CCR, Title 13, Section 2707.

(8) Donaldson has completed the service compaign described in the attached letter from ARB dated July 28, 2010 and will report back to ARB on the field service campaign within 30 days of execution of this agreement.

(9) This Agreement constitutes the entire agreement and understanding between ARB and Donaldson concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and Donaldson concerning the subject matter hereof.

(10) 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.

(11) 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.

(12) 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.

(13) 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.

(14) SB 1402 Statement

Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010) requires the ARB to provide information on the basis for the penalties it seeks *(see Health and Safety Code section 39619.7)*. This 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 §43024.

The per unit or per vehicle penalty in this case is a maximum of $1,000 per unit per day for strict liability violations and $10,000 per unit per day for negligent or intentional violations. The total penalty in this case is $103,000, for 103 non-compliant units for a per unit penalty of $1,000 over an unspecified number of days of violation. This penalty was calculated by considering all factors specified in Health and Safety Code section 43024, including the fact that this is an unintentional violation that Donaldson corrected while cooperating with the investigation.

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 is this case is Health and Safety Code section 39674 because Donaldson failed to comply with the Air Toxic Control Measure for In-Use Strategies to Control Emissions from Diesel Engines, Title 13, California Code of Regulations sections 2700-2710, which was adopted under authority of Health and Safety Code section 39600, 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 practicable to do so.

The provisions cited above do prohibit emissions above a specified level. However, since the hours of operation of the non-compliant units involved and their individual emission rates are not known, it is not practical to quantify the excess emissions.

(15) Donaldson acknowledges that ARB has complied with SB 1402 in prosecuting ~~of~~ and settling this case. Specifically, ARB has considered all relevant facts, including those listed at HSC 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 being assessed under a provision of law that prohibits the emission of pollutants at a specified level. However, since the hours of operation of the non-compliant units involved and their individual emission rates are not known, it is not practical for ARB to quantify the excess emissions.

(16) 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 cases negotiation, and the potential costs and risk associated with litigating these particular violations. The penalty reflects violations extending over a number of days considered together with the complete circumstances of this case. Penalties in future cases might be smaller or larger on a per unit basis.

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

(18) Now therefore, in consideration of the payment on behalf of Donaldson to the California Air Pollution Control Fund and the San Joaquin Valley Air Pollution Control District, the ARB hereby releases Donaldson and their principals, officers, agents, predecessors and successors from any and all claims for past violations of the Verification Procedure, the applicable Executive Orders, the Aftermarket Parts Regulations, and Vehicle Code Section 27156 alleged in recital paragraph 6. The undersigned represent that they have the authority to enter into this Agreement.

California Air Resources Board

By: _____

Name: James N. Goldstene
Title: Executive Officer
Date: 2 DEC 2011

Donaldson Company, Inc.

By: _____

Name:
Title:
Date: 17 Nov 2011

Donaldson Company, Inc.
Jay L. Ward
Senior Vice President

Attachment:

July 28, 2010 letter from ARB to Donaldson Director Ted Angelo Including Attachment A

cc: Mongred PEU TMJ KM via PDF

Air Resources Board

Mary D. Nichols, Chairman
9480 Telstar Avenue, Suite 4
El Monte, California 91731 www.arb.ca.gov

Linda S. Adams
Secretary for
Environmental Protection

Arnold Schwarzenegger
Governor

8-6-10

July 28, 2010

Mr. Ted Angelo
Director, Exhaust & Emissions Business Unit
Donaldson Company, Incorporated
Post Office Box 1299
Minneapolis, Minnesota 55440-1299

Dear Mr. Angelo:

On May 17, 2010, the Air Resources Board (ARB) deverified the Donaldson Company, Incorporated (Donaldson) Diesel Multi-Stage Filter (DMF) for these reasons:

> *field experience indicates that this system does not comply with the conditions and requirements in the applicable Executive Orders [DE-05-012 and DE-05-013] and the Procedure (13 CCR section 2706(f)) because it does not include a backpressure monitor, has a catastrophic failure mode that was previously unknown, and because of on-going concerns about the safe deployment of this system...*

The Verification Procedure Regulations appear at the Title 13, California Code of Regulations, Sections 2700-2710.

To address this situation, Donaldson has agreed as follows.

Donaldson will ensure that all DMFs sold as verified by ARB are modified to comply with ARB Executive Orders DE-05-012 and DE-05-013 and the Verification Procedure Regulations. To accomplish this, Donaldson will conduct a service campaign as described in Attachment A (Donaldson's DMF service campaign), which includes installation of backpressure monitors and other modifications that Donaldson represents are necessary to ensure the proper operation of the system. Donaldson will ensure that all owners of DMF systems receive written notification of the service campaign and proposed system modifications. ARB requests and Donaldson agrees to complete the field campaign in California within three months of the date of this letter.

ARB agrees that Donaldson's implementation of the DMF service campaign does not constitute a violation of Vehicle Code Section 27156 and will not adversely affect the

compliance status of vehicles that employ the DMF with respect to ARB regulations controlling emissions from diesel fueled vehicles.

Donaldson's DMF service campaign does not relieve it of any obligation under law, including, but not limited to, liability for damages or civil penalties. Likewise, Donaldson's DMF service campaign agreement does not modify the obligations of any party, including owner/operators or installers to comply with the provisions of Executive Orders DE-05-012 and DE-05-013 or the Verification Procedure Regulations. However, failure to obtain the modifications described in Donaldson's DMF service campaign may constitute a violation of the Executive Orders and the Procedure.

Should you have any questions or comments regarding this decision, please contact Mr. Erik White, Assistant Division Chief, at (916) 322-1017, or by email at ewhite@arb.ca.gov.

Sincerely,

Robert H. Cross, Chief
Mobile Source Control Division

Enclosure

cc: Julian Imes
Donaldson Company Incorporated
Post Office Box 1299
Minneapolis, Minnesota 55440-1299

James Blublaugh
US EPA
Ariel Rose Building
1200 Pennsylvania Avenue, N.W.
Mail Code 6405J
Washington, DC 20460

Erik White
Assistant Division Chief
Mobile Source Control Division

bcc: Ms. Sharon Lemieux, MSCD
Ms. Shawn Daley, MSCD
Mr. Keith Macias, MSCD
Mr. Manfred Ochsner, ED
Mr. Paul Jacobs, ED
Mr. Kirk Oliver, EO
HDDIUS Branch File

Referral #10-67

Attachment A

Diesel Multi-Stage Filter (DMF) Muffler System Field Service Campaign

Donaldson Company, Incorporated is performing a field campaign to address a potential performance and safety issue that may impact Donaldson's DMF Muffler system under certain operational conditions, as more fully described in the Product Safety Alert Donaldson released in February 2010.

Donaldson and/or its designated representative will be contacting all end user DMF owners to evaluate their DMF applications and conduct upgrades, at no cost to the end user, of the DMF Muffler system as described below:

1. Phase 1 – DMF Assessment

    a. Visual inspection of the DMF Muffler installation.
    b. Screening test of system backpressure. This test will detect a compromised or overloaded system regardless of the cause, whether it is being fouled by the engine, is failing internally or both.
    c. Review vehicle suitability for DMF Muffler system. Data-log exhaust temperature and evaluate engine condition.
    d. Advise end user if engine malfunction or maintenance issues are suspected and request corrective action.
    e. Remove and/or clean DMF Muffler system where engine conditions and/or engine temperature profile indicate such action is appropriate

2. Phase 2 – Hardware Upgrade

    a. Install an Emission Device Monitor (EDM) to monitor and warn of excessive exhaust backpressure and/or temperature during engine operation. The warning system will be installed in the direct line of sight of the operator of the vehicle. The EDM will provide an interim backpressure warning (yellow light) to encourage the end user to seek service, and a final backpressure warning (red light) to indicate that the end user must cease operation and contact a service provider for appropriate action. Donaldson or its designated representative will train the end users in the use of the EDM.
    b. Replace the standard DMF Muffler outlet section with an upgraded design.
    c. Install heat shielding as needed on or near the DMF Muffler system.
    d. Replace device and engine labels to serialize the DMF Muffler systems that have undergone a field upgrade.

In the event the end-user vehicle has not been maintained consistent with the warranty obligations of Title 13, California Code of Regulations, Section 2707 or cannot be made to meet the terms and conditions of the applicable DMF Executive Order, Donaldson will remove the DMF Muffler system at no expense to the end user. Donaldson will compensate the end user for the full price of the DMF Muffler system (including installation), prorated to the remaining warranty coverage.