

## 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 INTERNATIONAL PAVEMENT SOLUTIONS, INCORPORATED and DCR INVESTMENTS, INCORPORATED (hereinafter collectively referred to as "INTERNATIONAL"), P.O. Box 10458, San Bernardino, CA 92423.

### I. RECITALS

- (1) California Health and Safety Code (*H&SC*) Section 44011.6 established the Heavy Duty Vehicle Inspection Program (HDVIP). It authorizes ARB to inspect on-road heavy-duty vehicles for excessive smoke emissions and engine tampering and to issue citations, accordingly. The program also requires the vehicle owner to repair its engines that exceed the prescribed ARB smoke opacity standards, perform a post-repair opacity test, and submit proof of repairs and any assessed penalties under the Regulations of the Heavy-Duty Smoke Inspection Program, Chapter 3.5, Sections 2180-2188, Title 13, California Code of Regulations (CCR).
- (2) *H&SC* Section 43701 provides that ARB shall adopt regulations that require owners or operators of heavy-duty diesel motor vehicles to perform regular inspections of their vehicles for excess smoke emissions.
- (3) Title 13, CCR sections 2190 et seq. were adopted under the authority of *H&SC* section 43701 and, with limited exceptions which are not applicable here, apply to all heavy-duty diesel powered vehicles with gross vehicle weight ratings greater than 6,000 pounds which operate on the streets or highways within the State of California.
- (4) Title 13, CCR sections 2190 et seq. authorize the Periodic Smoke Inspection Program (PSIP) which requires the owners and operators of California based vehicle fleets of two or more heavy duty diesel motor vehicles with gross vehicle weight ratings greater than 6,000 pounds which operate on the streets or highways within the State of California to conduct annual smoke opacity inspections of their vehicles that are four years older than the model year of the vehicle's engine.
- (5) Title 13, CCR section 2192(a) requires inter alia that the owner of the vehicle "[t]est the vehicle for excessive smoke emissions periodically according to the inspection intervals specified in section 2193(a), (b), and (c)", "[m]easure the smoke emissions for each test...", "[r]ecord the smoke test opacity levels and other required test information as specified in

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section 2194..." and "[k]eep the records specified in section 2194 for two years after the date of inspection."

- (6) H&SC Section 43016 states, "Any person who violates any provision of this part, or any order, rule, or regulation of the state board adopted pursuant to this part, and for which violation there is not provided in this part any other specific civil penalty or fine, shall be subject to a civil penalty of not to exceed five hundred dollars (\$500.00) per vehicle."
- (7) The ARB considers testing, measuring, recording, and recordkeeping to be critical components in reducing excessive smoke emissions from these heavy-duty vehicles.
- (8) ARB contends INTERNATIONAL failed to test, measure, record, and maintain records of smoke emissions from its fleet of heavy duty diesel vehicles for the years of 2008 and 2009 in violation of Title 13, CCR Sections 2190 et seq.
- (9) ARB contends that if the facts described in recital paragraphs (1) – (8) were proven civil penalties could be imposed against INTERNATIONAL, as provided in H&SC section 43016.
- (10) INTERNATIONAL 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, and therefore agree as follows:

## II. TERMS & RELEASE

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

- (1) INTERNATIONAL shall pay a civil penalty of \$11,000.00. Payment shall be made by check made payable to the **California Air Pollution Control Fund** as described below:
  - \$2,750 payable upon execution of this agreement.
  - The remaining balance of \$8,250 shall be paid in three monthly installments of \$2,750.

All payments and documents shall be sent to the attention of:

Mr. Sidney Lau, Air Resources Engineer  
Air Resources Board, Enforcement Division  
9480 Telstar Avenue, Suite 4  
El Monte, CA 91731

(2) Upon execution of this agreement:

(a) INTERNATIONAL shall dismiss with prejudice the action entitled International Pavement Solutions Inc. v. California Air Resource Board, in San Bernardino Superior Court, Case No. CIVDS1100752 file; and,

(b) ARB shall request the Department of Motor Vehicles to remove the remaining registration holds on the vehicles subject to this agreement.

If the Attorney General files a civil action to enforce this settlement agreement, INTERNATIONAL shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorney's fees, and costs.

- (3) INTERNATIONAL shall not violate Health and Safety Code Sections 43701 et seq. and 44011.6, et seq., Title 13, CCR, Sections 2180 et seq., 2190 et seq., and 2485 et seq. INTERNATIONAL affirms that at the time it enters this agreement it no longer owns or controls the vehicles subject to the agreement or any commercial diesel vehicles. Should such vehicles come under INTERNATIONAL's ownership or control in the future, INTERNATIONAL shall, in addition to its other obligations imposed by law and this paragraph, comply with paragraphs (4), (5) and (6) below.
- (4) INTERNATIONAL shall complete Low NOx Software Upgrades (reflash) on all applicable heavy duty diesel engines operating in California no later than 45 days after an engine requiring reflash to comply with ARB emission standards is identified or included in its fleet, and return proof to Mr. Sidney Lau, at the address above.
- (5) Each 1974 or newer diesel powered heavy-duty commercial vehicle in INTERNATIONAL's fleet shall comply with the emission control label (ECL) requirements set forth in the CCR, Title 13, Section 2183(c), within 45 days of this agreement.
- (6) INTERNATIONAL shall instruct all employees who operate diesel fueled commercial vehicles to comply with the idling regulations set forth in CCR, Title 13, Section 2485, within 45 days of this Agreement.



- (7) This Agreement shall apply to and be binding upon INTERNATIONAL, 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.
- (8) This Agreement constitutes the entire agreement and understanding between ARB and INTERNATIONAL, concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and INTERNATIONAL, concerning the subject matter hereof.
- (9) 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.
- (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) 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.
- (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) Now, therefore, in consideration of the payment by INTERNATIONAL in the amount of eleven thousand (\$11,000) and INTERNATIONAL's dismissal of the action reference in Recital paragraph (2), ARB hereby releases INTERNATIONAL and its principals, officers, directors, agents, subsidiaries, predecessors, and successors from any and all claims that ARB may have based on the facts and allegations described in recital paragraphs (1) – (8) above. The undersigned represent that they have the authority to enter into this Agreement.

(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 Health and Safety Code section 43024.

#### PSIP Violations

The per vehicle penalty for the PSIP violations involved in this case is a maximum of \$500 per vehicle per violation. The penalty obtained for the PSIP violations involved in this case is \$11,000 for 45 violations, yielding a per violation/per vehicle penalty of \$244. This amount reflects the fact that this was an unintentional, first-time violation, that INTERNATIONAL cooperated with the investigation and provided confidential documentation indicating that a higher penalty would have caused INTERNATIONAL undue financial hardship.

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

#### PSIP Violations

The penalty provision being applied to the PSIP violations is Health and Safety Code section 43016 because INTERNATIONAL failed to test, measure, record, and maintain records of smoke emissions from its fleet of heavy duty diesel vehicles for years 2007, 2008, and 2009 in violation of the PSIP regulation in Title 13, CCR Sections 2190 et seq. Since the PSIP regulation was adopted pursuant to authority granted in Part 5 of Division 26 of the Health and Safety Code and since there is no specific penalty or fine provided for PSIP violations in Part 5, Health and Safety Code section 43016 is the applicable penalty provision.

**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.**

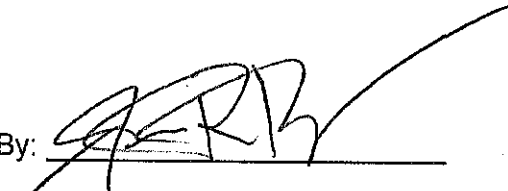
The provisions cited above do not prohibit emissions above a specified opacity or level of g/hp-hr. However, since the hours of operation of the non-compliant trucks involved and their individual emission rates are not known, it is not practicable to quantify the excess emissions attributable to the alleged violations.

- (15) INTERNATIONAL 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 HSC section 43024, has explained

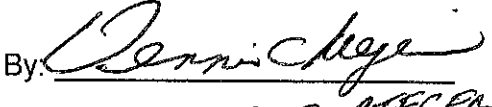
the manner in which the penalty amount was calculated, has identified the provision of law under which the penalty is being assessed and has considered and determined that this penalty is not being assessed under a provision of law that prohibits the emission of pollutants at a specified level.

- (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, and the potential costs and risk associated with litigating these particular violations. The penalty was discounted based on the fact that the violations were first time violations and INTERNATIONAL made unusually diligent efforts to comply and to cooperate with the investigation. Penalties in future cases might be smaller or larger on a per unit basis.
- (17.....) The penalty was based on confidential settlement communications between ARB and INTERNATIONAL, including confidential financial information that ARB does not retain in the ordinary course of business either. The penalty is the product of an arms length negotiation between ARB and INTERNATIONAL and reflects ARB's assessment of the relative strength of its case against INTERNATIONAL, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that INTERNATIONAL may have secured from its actions.

**California Air Resources Board**

By:   
Name: James Ryden  
Title: Chief, ARB Enforcement Division  
Date: 3/18/11

**International Pavement Solutions, Incorporated  
DCR Investments, Incorporated**

By:   
Name: DENNIS C. REEGEN  
Title: PRESIDENT/CEO  
Date: 03/08/11