

## SETTLEMENT AGREEMENT

This Settlement Agreement (Agreement) is entered into by and between the California Air Resources Board (ARB), with its principal office at 1001 I Street, Sacramento, California, and USC Flooring Products, Inc. (USC) with its principal place of business at 922 North Ninth Street, San Jose, California.

### RECITALS

1. Pursuant to its authority in Health and Safety Code (H&SC) section 39666, in 2008 ARB adopted the Airborne Toxic Control Measure to Reduce Formaldehyde Emissions from Composite Wood Products (ATCM). California Code of Regulations (CCR), title 17, section 93120 et seq. (17 CCR section 93120 et seq.) applies to all manufacturers, distributors, importers, fabricators, and retailers of composite wood products and finished goods that contain composite wood products.
2. 17 CCR section 93120.2 (Emission Standards) specifies a maximum formaldehyde limit of 0.11 ppm for medium density fiberboard (MDF).
3. 17 CCR sections 93120.5 through 93120.8 require reasonable prudent precaution to be taken to ensure composite wood products and composite wood products contained in finished goods comply with the emission standards specified in 17 CCR section 93120.2.
4. Failure to comply with the ATCM is a violation of State Law subject to penalties up to \$10,000 for each day that the violation occurs, pursuant to H&SC section 39674.
5. ARB alleges that between January 1, 2014, and August 26, 2015, USC imported, distributed, and offered for sale in California LP-06D Moroccan Dusk, 4292 Country Pecan, 8232-1Midnight Maple, and Brazilian Cherry laminate flooring made from composite wood products, each of which is subject to the ATCM formaldehyde limit for MDF in 17 CCR section 93120.2.
6. ARB alleges that the LP-06D Moroccan Dusk, 4292 Country Pecan, 8232-1Midnight Maple, and Brazilian Cherry referenced in Recital paragraph 5 contained concentrations of formaldehyde exceeding the 0.11 ppm limit for MDF in 17 CCR section 93120.2.
7. ARB alleges USC failed to take reasonable prudent precautions to ensure that the subject products complied with the Emission Standards in 17 CCR section 93120.2.

8. ARB alleges that if the allegations described in Recitals paragraphs 5, through 7 were proven, civil penalties could be imposed against USC as provided in H&SC section 39674 for each day in which each unit was offered for sale.
9. USC admits the allegations described in Recitals paragraphs 5 through 7, but denies any liability resulting from said allegations.
10. 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 alleged violation and voluntarily agree to resolve this matter by means of this Agreement, without the need for formal litigation. USC has taken, or agrees to take, the actions enumerated below within the Terms and Conditions. ARB accepts this Agreement in termination and settlement of this matter.

### **TERMS AND CONDITIONS**

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

11. USC shall not manufacture, distribute, import, fabricate, sell, or offer for sale for use in California, any composite wood product in violation of the ATCM set forth in CCR, title 17, section 93120, et seq.; the terms and conditions set forth in this Agreement will remain valid and enforceable notwithstanding any future violations that may occur.
12. USC in settlement of the above-described violations of 17 CCR section 93120 et seq., agrees to pay a penalty to ARB in the amount of sixty thousand dollars (\$60,000) payable to the California Air Pollution Control Fund, concurrent with the execution of this Agreement. Payment and the signed Agreement shall be mailed to the address specified on the Payment Transmittal Form enclosed with this Agreement.
13. This Agreement shall apply to and be binding upon USC 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 settlement.
14. The parties stipulate that this Agreement shall be the final resolution of ARB claims regarding the above-described violations and shall have the same res judicata effect as a judgment in terms of acting as a bar to any civil action by ARB against USC, its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations. This Agreement shall be deemed the recovery of civil penalties for purposes of precluding subsequent criminal action as provided in H&SC section 42400.7(a).

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. This Agreement constitutes the entire agreement and understanding between ARB and USC concerning the claims and settlement in this Agreement. 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 USC concerning these claims.
17. The effective date of this Agreement shall be the date upon which this Agreement is fully executed.
18. This Agreement is deemed to have been drafted equally by ARB and USC; it will not be interpreted for or against either Party on the ground that said Party drafted it.
19. 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.
20. This Agreement shall further serve to toll any statute of limitation until all terms and conditions of this Agreement have been fulfilled.
21. It is further agreed that the stipulated penalties described in this Agreement are non-dischargeable under United States Code, title 11, section 523(a)(7).
22. **Penalty Determination**

H&SC section 39619.7 requires ARB to provide information on the basis for the penalties it seeks. This 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 H&SC section 39674 because USC imported, distributed, and offered for sale composite wood products for commerce in California, in violation of the ATCM and did not use reasonable prudent precautions to ensure that the subject products complied with the ATCM (CCR, title 17, section 93120 et seq.).

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

ARB determined the settlement amount in consideration of all relevant circumstances, including the eight factors specified in the H&SC section 42403.

The settlement amount in this case is based on H&SC section 39674 in the amount of approximately \$370.37 per day for each day the subject products were sold or offered for sale in California. The penalty in this case was reduced because this was a strict liability first time violation and USC made diligent efforts to comply and to cooperate with the investigation. Penalties in future cases might be higher or lower on a daily 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 excess emissions, if it is practicable to do so.**

The ATCM does not prohibit emissions above a specified level, but it does limit the concentration of formaldehyde in regulated products. In this case a quantification of the excess emissions attributable to the violations was not practicable because the information necessary to do so, such as emissions rates and time of use, is not available.

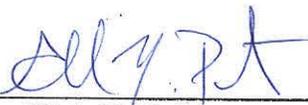
Final penalties were determined based on the unique circumstances of this matter, considered together with the need to remove any economic benefit from noncompliance, the goal of deterring future violations and obtaining swift compliance, the consideration of past penalties in similar negotiated cases, and the potential cost and risk associated with litigating these particular violations. The penalty reflects violations extending over a number of days resulting in harm to the environment considered together with the complete circumstances of this case. Penalties in future cases might be smaller or larger on a per day basis.

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

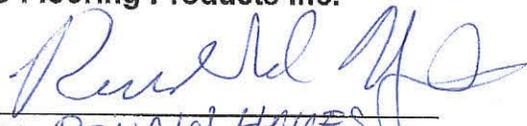
23. Each provision of this Agreement is severable, and in the event that any provision of this Agreement is held to be illegal, invalid, or unenforceable in any jurisdiction, the remainder of this Agreement remains in full force and effect.
24. The undersigned represent that they have full power and authority to enter into this Agreement.

ACKNOWLEDGED AND ACCEPTED BY:

**California Air Resources Board**

By:   
Name: Ellen M. Peter  
Title: Chief Counsel  
Date: 5/19/2017

**USC Flooring Products Inc.**

By:   
Name: RONALD HAYES  
Title: CEO  
Date: 5/4/17