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 Midway Importing, Inc. with its principal place of business at 1807 Brittmoore Road, Houston, Texas 77043.

RECITALS

1. ARB alleges that from July 1, 2009 to December 31, 2010, Midway Importing sold, supplied, and offered for sale in California quantities of *"Moco de Gorilia Roquero Squizz", "Moco de Gorilia Galan Squizz", "Moco de Gorila Punk Squizz", "Moco de Gorilia Roquero Gel Jar", "Moco de Gorilia Galan Gel Jar",* and *"Moco de Gorila Punk Gel Jar"* subject to the volatile organic compound (VOC) limit for the Hair Styling Products: All Other Forms category, Title 17, California Code of Regulations (CCR), section 94509(a).

2. ARB alleges that the products referenced in recital paragraph 1 contained concentrations of VOCs exceeding the 2 percent VOC limit for the Hair Styling Products: All Other Forms category specified in Title 17, CCR, section 94509(a).

3. ARB alleges that if the allegations described in recital paragraphs 1 and 2 were proven, civil penalties could be imposed against Midway Importing as provided in Health and Safety Code (HSC) sections 42402, et seq. for each and every unit involved in the violations.

4. Midway Importing admits the allegations described in recital paragraphs 1 and 2, but denies any liability resulting from said allegations.

5. 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 CONDITIONS

1. Midway Importing shall not sell, supply or offer for sale for use in California, any consumer products in violation of ARB 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 notwithstanding any future violations that may occur.

2. Midway Importing in settlement of the above-described violations of Title17, CCR, section 94509(a) agrees to pay a penalty to ARB in the amount of $213,000 payable to the California Air Pollution Control Fund.

3. This settlement shall apply to and be binding upon Midway Importing 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.

4. 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 bar to any civil action by ARB against Midway Importing, 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 HSC 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 ARB and Midway Importing 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 Midway Importing 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 or she has full power and authority to enter into this Agreement.

9. **SB 1402 Statement**. California HSC section 39619.7 (Senate Bill 1402 - Dutton, Chapter 413, statutes of 2010) requires ARB 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 is this case is HSC section 42402, et seq. because CARB asserts Midway Importing sold, supplied, offered for sale, or manufactured for sale consumer products for commerce in California in violation of the Consumer Products Regulations (Title 17, 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 HSC. 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. ARB 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, ARB has sought and obtained penalties of approximately $17,000 per ton of excess emissions of VOCs attributable to the violation. This represents an average cost to retire a ton of VOC emission credits and reformulate a product to comply with the Consumer Product Regulations.

In this case the total penalty is $213,000 and there were 23.9 tons of excess VOC attributable to the violation. This represents a penalty of approximately $8,900 per ton of excess emissions. The penalty in this case was reduced because Midway Importing made diligent efforts to comply, cooperated with the investigation, and mitigated emissions by convincing the foreign manufacturer of the products to reformulate. 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 Midway Importing made the product formulation and sales data necessary to make this quantification available to ARB. Based upon this information (which Midway Importing has designated as confidential), the violations were calculated to have caused 23.9 tons of excess emissions of VOCs to be emitted to the atmosphere in California.

10. Midway Importing acknowledges that ARB has complied with SB1402 in investigating and settling this case. Specifically, ARB 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 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.

11. 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 costs and risk associated with litigating these particular violations. The penalty reflects violations extending over a number of days resulting in quantifiable harm to the environment considered together with the complete circumstances of this case listed above. Penalties in future cases might be smaller or larger on a per ton basis.

12. No provision of the Agreement shall be construed as an admission of any wrongdoing, or of a violation of the CCR or any other statute, regulation, ordinance, order, or legal requirement by Midway Importing, its principals, officers, directors, agents, employees, parents, or subsidiaries. Midway Importing does not admit the truth of any of the alleged facts contained herein. The parties acknowledge that the agreements, statements, stipulations, and actions herein are made solely for the purpose of settling this matter economically and without litigation or further expense.

13. If any court of competent jurisdiction declares or determines any provision of this Agreement to be illegal, invalid, or unenforceable, the legality, validity, and enforceability of the remaining parts, terms, and provisions shall not be affected thereby, and said illegal, unenforceable, or invalid part, term, or provision, will be deemed not to be part of this Agreement.

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

CALIFORNIA AIR RESOURCES BOARD

Dated: 5/22/2013

By: _____

Richard W. Corey
Executive Officer

MIDWAY IMPORTING, INC.

Dated: 5/7/13

By: _____

Chris Hartmann
CEO