SETTLEMENT AGREEMENT AND RELEASE

This SETTLEMENT AGREEMENT AND RELEASE ("Agreement") is entered into between the California Air Resources Board ("ARB"), with its principal office at 1001 I Street, Sacramento, California 95814, and CFMOTO Powersports, Inc. ("CFMOTO") with its principal place of business at 3555 Holly Lane N. #30, Plymouth, Minnesota, "the Parties" hereinafter.

I. RECITALS

(1) California Health and Safety Code section 43151 states, "No person who is a resident of, or who operates an established place of business within this state shall import, deliver, purchase, rent, lease, acquire, or receive a new motor vehicle, new motor vehicle engine, or motor vehicle with a new motor vehicle engine for use, registration, or resale in this state unless such motor vehicle engine or motor vehicle has been certified pursuant to this chapter. No person shall attempt or assist in any such action."

(2) Health and Safety Code section 43152 states, "No person who is engaged in this state in the business of selling to an ultimate purchaser, or renting or leasing new motor vehicles or new motor vehicle engines, including, but not limited to, manufacturers, distributors, and dealers, shall intentionally or negligently import, deliver, purchase, receive, or otherwise acquire a new motor vehicle, new motor vehicle engine, or vehicle with a new motor vehicle engine which is intended for use primarily in this state, for sale or resale to an ultimate purchaser who is a resident of or doing business in this state, or for registration, leasing or rental in this state, which has not been certified pursuant to this chapter. No person shall attempt or assist in any such act."

(3) Health and Safety Code section 43153 states, "No person who is engaged in this state in the business of selling to an ultimate purchaser or renting or leasing new motor vehicles or new motor vehicle engines, including, but not limited to, manufacturers, distributors, and dealers, shall intentionally or negligently sell, or offer to sell, to an ultimate purchaser who is a resident of or doing business in this state, or lease, offer to lease, rent, or offer to rent, in this state any new motor vehicle, new motor vehicle engine, or vehicle with a new motor vehicle engine, which is intended primarily for use or for registration in this state, and which has not been certified pursuant to this chapter. No person shall attempt or assist in any such action."

(4) Health and Safety Code sections 39018 and 39019 define a motor vehicle as non-California certified if it does not possess an emission control system approved for

use in California by ARB. Health and Safety Code sections 39042 and 43156 define a new motor vehicle as a vehicle that has an odometer reading of less than 7,500 miles.

(5) Pursuant to Health and Safety Code section 43154, any person who violates any provision of this part, shall be subject to a civil penalty not to exceed five thousand dollars ($5,000) per vehicle.

(6) Without the issuance of a California Executive Order, a CFMOTO dealer offered for sale, and/or sold in California sixteen (16) 2009 model-year, on-road motorcycles (the "subject vehicles") for use or registration in California that were not certified for sale or use in California pursuant to Chapter 2 of Part 5 of Division 26 of the Health and Safety Code in that the subject vehicles were not certified by ARB as meeting California emissions standards.

(7) CFMOTO fully cooperated with ARB in the investigation of offers and sales by the dealer of the subject vehicles to California customers.

(8) CFMOTO admits the facts in recital paragraphs (1) through (7) above, but denies liability for the actions of its dealer.

(9) CFMOTO is willing to enter into this Agreement 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.

II. TERMS AND RELEASE

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

(1) As a condition of this Settlement Agreement, CFMOTO shall pay the total sum of twenty four thousand dollars ($24,000) as a penalty to the California Air Pollution Control Fund.

Payment shall be made by check payable to the California Air Pollution Control Fund and addressed to:

Lisa Yacoubian
Air Resources Board
Enforcement Division

9528 Telstar Avenue
El Monte, California 91731

(2) In addition, if the Attorney General files a civil action to enforce this settlement agreement, CFMOTO shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorney's fees, and costs.

(3) It is agreed that if CFMOTO at any time becomes insolvent, or makes an assignment for the benefit of creditors or similar action adversely involving CFMOTO, or a proceeding or petition under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt, or receivership law or statute is filed by or against CFMOTO, or a trustee in bankruptcy, custodian, receiver or agent is appointed or authorized to take charge of any of CFMOTO's properties, or if any deposit account or other property of CFMOTO be attempted to be obtained or held by writ of execution, garnishment, attachment, condemnation, levy, forfeiture or other legal process, or CFMOTO takes any action to authorize any of the foregoing, the entire remaining balance becomes immediately due and payable without notice or demand.

(4) It is agreed that the penalty described in terms and release paragraph (1) is punitive in nature, rather than compensatory. Furthermore, the penalty is intended to deter and punish CFMOTO for violations of state environmental statutes, and this penalty is payable to and for the benefit of ARB, a governmental unit. Therefore, it is agreed that this penalty imposed on CFMOTO by ARB arising from the facts described in recital paragraphs (1) – (7) is nondischargeable under 11 U.S.C § 523 (a)(7), which provides an exception from discharge for any debt to the extent such debt is for a fine, penalty or forfeiture payable to and for benefit of governmental unit, and is not compensation for actual pecuniary loss, other than certain types of tax penalties.

(5) CFMOTO agrees that it will not violate California Code of Regulations, title 13, section 2410 *et seq.* or Health and Safety Code section 43150 *et seq.* with respect to the delivery, rental, lease, sale, offer to sell, or introduction into commerce in California of non-California certified motor vehicles, all terrain vehicles, or any other nonpreempted application.

(6) This Agreement shall apply to and be binding upon CFMOTO and its principals, officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations, dealers, distributors, and upon ARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this Agreement.

(7) Now therefore, in consideration of the payment on behalf of CFMOTO in the amount of twenty four thousand dollars ($24,000) to the California Air Pollution Control

Fund, ARB hereby releases CFMOTO and its principals, officers, agents, employees, shareholders, subsidiaries, predecessors and successors from any and all claims for any and all violations of California Code of Regulations referenced in this agreement that ARB may assert based on the events described in paragraphs (1) - (7) of the Recitals. The undersigned represent that they have the authority to enter this Agreement.

(8) This Agreement constitutes the entire agreement and understanding between ARB and CFMOTO 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 CFMOTO concerning these claims.

(9) 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.

(10) Advice of Counsel. Each Party to this Agreement has reviewed the Agreement independently, has had the opportunity to consult counsel, is fully informed of the terms and effect of this Agreement, and has not relied in any way on any inducement, representation, or advice of any other Party in deciding to enter into this Agreement.

(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) 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.

(13) Waiver. The failure of any Party to enforce any provision of this Agreement shall not be construed as a waiver of any such provision, nor prevent such Party thereafter from enforcing such provision or any other provision of this Agreement. The rights and remedies granted all Parties herein are cumulative and the election of one right or remedy by a Party shall not constitute a waiver of such Party's right to assert all other legal remedies available under this Agreement or otherwise provided by law.

(14) Captions. The captions by which the sections and subsections of this Agreement are identified are for convenience only, and shall have no effect whatsoever upon their interpretation.

(15) This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original, and such counterparts together shall constitute one and the same instrument.

(16) 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.

(17) 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 section 43024.

The per unit penalty in this case is a maximum of $5,000 per unit per strict liability violation. The penalty negotiated in this case is $1,500 per unit for 16 units. The penalty was discounted based on CFMOTO's indirect involvement in the alleged violation, its financial condition and the fact this was a first time violation and CFMOTO made unusually diligent efforts to comply and cooperate with the investigation.

(18) CFMOTO 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 (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 not being assessed under a provision of law that prohibits the emission of pollutants at a specified level.

(19) 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 the extent of the violations together with the complete circumstances of this case. Penalties in future cases might be smaller or larger on a per unit basis.

(20) The penalty also reflects ARB's assessment of the relative strength of its case against CFMOTO, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that CFMOTO may have secured from its actions.

California Air Resources Board

By: _____
Name: Ellen M. Peter
Title: Chief Counsel
Date: 5/20/2012

CFMOTO Powersports, Inc.

By: _____
Name: ADAM TAO
Title: GENERAL MANAGER
Date: 30 APR 2012