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 Kmart Corporation (Kmart) with its principal place of business at: 3333 Beverly Road, Hoffman Estates, Illinois.

RECITALS

1. ARB alleges that between October 3, 2009 and January 28, 2012, Kmart sold, supplied, and offered for sale in California products of Country Living gift sets of Reed Diffuser and Room Spray in six fragrance variations: Cardamom Tea & Honey, Sweet Lime & Mint, Grapefruit & Ginger, Pumpkin & Nutmeg, Sea Salt & Rosemary, and Cinnamon & Vanilla. The Country Living gift sets are subject to the volatile organic compound (VOC) limit for "Air Freshener" category in Title 17, California Code of Regulations (CCR), section 94509(a).

2. ARB alleges that the room sprays in the Country Living gift sets referenced in recital paragraph 1 contained concentrations of VOCs exceeding the 18 percent VOC limit for "Air Freshener: liquid/pump spray" specified in Title17, CCR, section 94509(a).

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

4. Kmart admits the allegations described in recital paragraphs 1 to 2, but denies any liabilities 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. Kmart shall not sell, supply, 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. Kmart in settlement of the above-described violations of Title17, CCR, section 94509(a) agrees to pay a penalty to the California Air Pollution Control Fund, concurrent with the execution of this Agreement.

3. This settlement shall apply to and be binding upon Kmart 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 Kmart, 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 Health and Safety Code 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 Kmart 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 Kmart 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 Health and Safety Code (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 Kmart sold, supplied, offered for sale, or manufactured for sale consumer products for commerce in California in violation of the Consumer Products Regulations (Title 17 California Code of Regulations (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 Health and Safety Code. 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.

HSC section 42402, et seq. provides strict liability penalties of $1,000 per day for violations of the Consumer Product Regulations. In cases like this, involving unintentional second violations of the Consumer Products Regulations, ARB has sought and obtained penalties of approximately 3 times the dollar per ton rate of the settlement of the first violations. There were 13 pounds of excess emissions attributable to the violation in this case. The penalty is $9,000 which represents 3 times the minimum ($3,000) VOC violation.

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 Kmart agreed with ARB's laboratory analysis results and made sales data available to the ARB. Based upon this information (which Kmart has designated as confidential), the violations were calculated to have caused the 13 pounds of excess emissions of volatile organic compounds to be emitted to the atmosphere in California.

10. Kmart 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 had considered and determined that while this penalty is not being assessed a provision of law that prohibits the emission of pollutants at a specified level, it is practicable for ARB to quantify the excess emissions from the alleged violations, has done so and has included this information in this Settlement Agreement.

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. The penalty was discounted in this matter based on the factors described. Penalties in future cases might be smaller or larger on a per ton basis.

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

CALIFORNIA AIR RESOURCES BOARD

Dated: 1/21/14

By: _____
James Ryden
Enforcement Division Chief

KMART CORPORATION

Dated: 1/9/14

By: _____
Cary Mergele
Vice President and Deputy General Counsel