

Proposed Changes to
Supplemental Staff Report (Appendix B)
Issued May 12, 2009

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On page B-11 of Appendix B at the end of Paragraph 7(a) insert a new subparagraph (b) and re-designate subparagraphs (b) and (c) as (c) and (d), as follows:

7. WARRANTY REQUIREMENTS

(a) *Requirements of Manufacturers:*

Each manufacturer of a conversion system shall warrant to the person having the vehicle converted and to each subsequent purchaser of the vehicle that the conversion system is designed and manufactured to conform with the applicable requirements of these Procedures without causing damage to any part on the converted vehicle, and is free from defects in materials and workmanship which cause the conversion system to fail to conform with the applicable requirements of these Procedures or cause damage to any part on the converted vehicle. This warranty shall cover customer service and the full repair or replacement costs including the costs of diagnosis, labor, and parts, including any part on the converted vehicle that is damaged due to a defect in the conversion system. This warranty requirement will be effective for longer of the following from the date of installation:

- (i) 5 years or 75,000 miles, whichever first occurs.
- (ii) Remaining original equipment manufacturer warranty period.

(b) Requirements Of Manufacturers Providing Supplemental Battery Conversion Systems:

For purposes of this Requirement, a Supplemental Battery Conversion System means a conversion system consisting of an OVCC battery system that supplements the original equipment vehicle manufacturer traction battery and that is designed to be capable of being readily turned off and/or removed and to return the original vehicle to its pre-conversion emissions control state.

The warranty requirement for such Supplemental Battery Conversion System shall be the same as that outlined in Paragraph 7(a) above provided that the applicable time periods shall be:

- (i) 5 years or 75,000 miles, whichever first occurs, on the Supplemental Battery Conversion System.
- (ii) Remaining original equipment warranty period (maximum 10 years from date of original purchase) on any damage to the original equipment traction battery caused by the Supplemental Battery Conversion System resulting in warranty claims against the original vehicle manufacturer.
- (iii) Remaining original equipment warranty period (maximum 15 years from date of original purchase) on any damage to the original equipment

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emissions control system caused by the Supplemental Battery Conversion System resulting in warranty claims against the original vehicle manufacturer.

In addition to the coverage requirements outlined in Paragraph 7(a) above, in the event that a Supplemental Battery Conversion System purchaser asserts a claim under subparagraphs 7(b) (ii) and/or (iii) above because the original equipment vehicle manufacturer has alleged that the defect in question was caused by the Supplemental Battery Conversion System and therefore refuses to make any repairs under warranty, the Supplemental Battery Conversion System manufacturer shall cause such repairs to be made and in consideration assume the rights to any claims that the Supplemental Battery Conversion System purchaser may have against the original equipment vehicle manufacturer.

The Supplemental Battery Conversion System manufacturer shall provide a warranty to the Supplemental Battery Conversion System purchaser reflecting the requirements of this Paragraph 7.

(c) Requirements of Small Volume Manufacturers:

For small volume manufacturers, requirements in section 7(a) apply with the exception of the warranty periods.

(i) For Tier 1 small volume manufacturers, the warranty requirements will be effective for 3 years or 50,000 miles, whichever first occurs, from the date of installation.

(ii) For Tier 2 small volume manufacturers, the warranty requirements will be effective for 5 years or 75,000 miles, whichever first occurs, from the date of installation.

(d) Requirements of Installers:

Each installer of a conversion system shall warrant to the person having the vehicle converted and to each subsequent purchaser of the vehicle that the conversion system will not fail to conform with the applicable requirements of these Procedures due to incorrect installation and that no part on the converted vehicle will be damaged due to incorrect installation. Installers of conversion systems shall install only those systems of a certified configuration and shall agree to indemnify the person having the vehicle converted and to each subsequent purchaser of the vehicle for the cost of repair of any vehicle upon which a noncertified configuration was installed. In addition, the installer shall agree to indemnify the person having the vehicle converted and to each subsequent purchaser of the vehicle for any tampering fines that may be imposed as a result of improper installation of the conversion system. The warranties and agreements to indemnify shall be effective for 3 years or 50,000 miles, whichever first occurs. the applicable warranty period specified in section 2037(b)(2), title 13, CCR. This warranty shall cover customer service and the full

Limited Warranty

A123Systems Hymotion™ L5 Plug-in Conversion Module Limited Parts and Labor Product Warranty

A123Systems, Inc. (“A123”) warrants that if the L5 Plug-in Conversion Module (“Product”) installed in your vehicle proves to be defective in material or workmanship within five (5) ~~three (3)~~ years or 75,000 miles (whichever occurs first) from the date of installation (“Warranty Period”) by A123 or an A123 Certified Hymotion Installation Partner (“Green CHIP Dealer”) we (or Green CHIP Dealer) will, at our option, either replace the defective Product or component thereof, or provide without charge the labor and parts necessary to remedy any such defect.

A123Systems’ only responsibility under this warranty is to replace or repair the Product and under no circumstances shall A123’s or its Green CHIP Dealer’s cumulative liability under this warranty exceed the price paid by you for the Product, except as outlined in Paragraph 2 below (Interaction with Prius Factory Limited Parts and Labor Warranty).

PLEASE REGISTER YOUR PRODUCT THROUGH YOUR GREEN CHIP DEALER AT THE TIME OF INSTALLATION. TO OBTAIN WARRANTY SERVICE YOU MUST PRESENT YOUR VEHICLE AND PROOF OF PURCHASE TO A GREEN CHIP DEALER AT THE TIME OF SERVICE DURING THE WARRANTY PERIOD.

Conditions, Limitation and Exclusions

If you make a warranty claim to A123Systems, A123 (or its authorized representative) reserves the right to inspect your Product before repairing or replacing your Product directly or through Green CHIP Dealer. If upon inspection of your Product no defect in material or workmanship is found, then you may be assessed a labor charge for the diagnostic work. A123 or the Green CHIP Dealer in its sole discretion will determine whether your Product has a defect in material or workmanship.

This warranty does not cover any Product that is installed, removed, serviced or modified by anyone other than A123 or a Green CHIP Dealer. This warranty is void if (a) the Product’s date code or serial number is defaced, missing or altered; (b) the Product has been damaged by or the claim results from accident, misuse, improper charging, neglect, or improper service, (c) the Product has been modified or used in a manner contrary to its intended purpose or as provided in the user manual, or (d) the Product has been opened by any unauthorized person including the purchaser. This warranty does not cover damages that result from abuse, accidents, or fire, flood or other acts of God. Removal, installation transportation, labor, inconvenience, damage or other components, personal damage or injury and/or any injury or liability to other persons or property are specifically excluded from this limited warranty.

Interaction With Prius Factory Limited Parts and Labor Warranty

A123 warrants that if, as a direct or indirect result of the Product, Toyota Motor Sales, USA., Inc (“Toyota”) voids a warranty claim on your Prius under their express warranty (“Toyota Express Warranty”) which, but for the demonstrable installation of Product by A123 or a Green CHIP Dealer and the interaction of the Product with your Prius, would not have resulted in the warranty claim, A123 at its sole option shall either (a) reimburse you for the actual cost of the parts and labor for the repair which would have otherwise been covered by the Toyota Express Warranty or (2) reimburse our Green CHIP Dealer (provided such Green CHIP Dealer is also an authorized Toyota dealer) for the actual cost of the parts and labor for the repair which would have otherwise been covered by the Toyota Express Warranty, provided however, that prior to initiating the repair services you receive pre-authorization from A123 for any repair. In the event you make a warranty claim to Toyota for either a failure of your emission control system during the 15 year warranty period from the date of original purchase or a failure of the Toyota original equipment battery during the 10 year warranty period from the date of original purchase, and Toyota rejects such a claim on the basis that the Product has been the direct or indirect cause of such a system failure, A123 will cause such repair to be made and in consideration assume the rights to any claims you may have against Toyota. A123 shall not be responsible for any parts and labor costs which (a) did not receive the required pre-authorization or (b) arise from a Toyota Express Warranty that is voided for reasons other than those set forth above.

To receive warranty service for your Prius you must present your vehicle to any authorized Toyota dealer in accordance with the terms of the Prius warranty. Should you require pre-authorization approval from A123 for Prius warranty service, please contact A123 Hymotion Customer Service.

General Provisions

The following provisions apply to the limited warranties set forth in section 1 and 2 above.

This warranty applies only to your Product installed in your original Prius. This warranty cannot be transferred to your Product installed in another vehicle and is void if the Product is removed from your vehicle without authorization from A123. If you are the original purchaser of the Product, you may transfer this warranty to a new owner of the vehicle in which the Product was originally installed, provided the new owner contacts A123 during the Warranty Period in order to register the Product. Under no circumstances shall such transfer extend the duration of the Warranty Period.

Your Product is the first generation of commercially available new technology and may be modified or improved over time in subsequent versions of the Product. A123 reserves the right to make changes to future versions of the Product without assuming any

obligation to make such changes on your previously installed or manufactured Product. Your Product has been engineered and tested by A123 during product development to operate effectively and without detrimental effect to your Prius. A123 does not anticipate detrimental interaction with your Prius or other defects in the Product. However, as A123 gains additional field experience with the Product, if A123 determines that there is a systematic defect in the Product, A123 may initiate a voluntary Product recall. In the event of a voluntary Product recall, A123 will reimburse you the price you paid for your Product amortized over the Warranty Period and will ensure that your Prius is returned to its original state at the time of purchase at no additional cost to you. The remedies set forth in this paragraph are your sole and exclusive remedy in the event of a voluntary recall. In the event you choose not to participate in a voluntary recall, to the extent permitted by law, the express warranties set forth in Section 1 and 2 above shall be void.

EXCEPT AS EXPRESSLY SET FORTH ABOVE, NO OTHER WARRANTIES ARE EXPRESSED OR IMPLIED, INCLUDING BUT NOT LIMITED TO, ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND A123 EXPRESSLY DISCLAIMS ALL WARRANTIES NOT EXPRESSLY STATED HEREIN.

THE DURATION OF ANY IMPLIED WARRANTY INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE SHALL BE LIMITED TO THE DURATION OF THE APPLICABLE EXPRESS WARRANTY SET FORTH ABOVE. IN THE EVENT THAT A PRODUCT PROVES TO BE DEFECTIVE IN MATERIAL OR WORKMANSHIP WITHIN THE WARRANTY PERIOD, YOUR SOLE AND EXCLUSIVE REMEDY SHALL BE REPAIR OR REPLACEMENT AS PROVIDED HEREIN. IN NO EVENT SHALL A123 SYSTEMS BE LIABLE FOR ANY LOSS OR DAMAGES WHETHER DIRECT, INCIDENTAL, CONSEQUENTIAL OR OTHERWISE RESULTING FROM A BREACH OF ANY EXPRESS OR IMPLIED WARRANTIES OR FROM THE USE OR OPERATION OF THE PRODUCT, EXCEPT AS EXPRESSLY SET FORTH HEREIN.

This warranty gives you specific legal rights and you may also have other rights that vary from state to state. Some states do not allow the exclusion or limitation of incidental or consequential damages, or do not allow disclaimers of implied warranties or limitation on the duration of implied warranties, so the above limitations and exclusions may not apply to you.

