

SETTLEMENT AGREEMENT

This Settlement Agreement (Agreement) is entered into by and between the California Air Resources Board (CARB), with its principal office at 1001 I Street, Sacramento, California, and Hobby Lobby with its principal place of business at 7707 SW 44 Street, Oklahoma City, Oklahoma.

RECITALS

1. The Aerosol Coating Products Regulation, title 17, California Code of Regulations, section 94520 et seq. (17 CCR section 94520 et seq.) applies to any person who sells, supplies, offers for sale, or manufactures aerosol coating products for use in California.
2. The Table of Reactivity Limits located in 17 CCR section 94522(a)(2) sets forth the maximum Product-Weighted Maximum Incremental Reactivity (PWMIR) for aerosol coating products in the Floral Coating category sold after the January 1, 2015 effective date. Floral Coating aerosol products must meet the Reactivity Limit of 0.85 grams of ozone formed per gram of product.
3. A manufacturer of an aerosol coating product regulated by 17 CCR section 94522 is required to display on each product container: the applicable aerosol coating category as defined in 17 CCR section 94521, or an abbreviation of the coating category and the corresponding Reactivity Limit for that category as specified in 17 CCR section 94522(a).
4. Failure to comply with the Aerosol Coating Products Regulation is a violation of state law resulting in penalties. Among other penalties, Health and Safety Code (H&SC) sections 42400-42403 authorize strict liability penalties up to \$10,000 for each day that the violation occurs.
5. CARB alleges that Hobby Lobby sold, supplied, and offered for sale in California, Gemini Dried Floral Preservative that is subject to the Reactivity Limit for the Floral Coating category specified in 17 CCR section 94522(a)(2).
6. CARB alleges that Gemini Dried Floral Preservative referenced in Recitals paragraph 5 had a PWMIR value that exceeded the Reactivity Limit for the Floral Coating category specified in 17 CCR section 94522(a)(2).
7. CARB alleges that Gemini Dried Floral Preservative referenced in Recitals paragraph 5 did not display on each product container, as specified in 17 CCR section 94524(b)(1): the applicable Reactivity Limit for the product that is specified in section 94522(a); and the aerosol coating category as defined in section 94521, or an abbreviation of the coating category.

8. CARB alleges that if the allegations described in Recitals paragraphs 5, 6, and 7 were proven, civil penalties could be imposed against Hobby Lobby as provided in H&SC section 42402 et seq. for each and every unit involved in the violations.
9. Hobby Lobby admits the allegations described in Recitals paragraphs 5, 6, and 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. Hobby Lobby has taken, or agrees to take, the actions enumerated below within the Terms and Conditions. CARB accepts this Agreement in termination and settlement of this matter.

TERMS AND CONDITIONS

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

11. Hobby Lobby shall not manufacture, sell, supply, or offer for sale in California, any consumer products in violation of CARB consumer products regulations set forth in 17 CCR section 94500 et seq.; the terms and conditions set forth in this Agreement will remain valid and enforceable notwithstanding any future violations that may occur.
12. Hobby Lobby, in settlement of the above-described violations of 17 CCR section 94520 et seq., agrees to pay a penalty to CARB in the amount of four thousand nine hundred twenty dollars (\$4,920.00) 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 Hobby Lobby and its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations and upon CARB 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 CARB 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 CARB against Hobby Lobby, 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 CARB and Hobby Lobby concerning the claims and settlement in this Agreement, and this Agreement fully supersedes and replaces any and all prior negotiations and agreements of any kind or nature, whether written or oral, between CARB and Hobby Lobby concerning these claims.
17. The Effective Date of this Agreement shall be the date upon which it is fully executed.
18. This Agreement is deemed to have been drafted equally by CARB and Hobby Lobby; 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 CARB 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 42402 et seq. because Hobby Lobby sold, supplied, offered for sale, or manufactured for sale aerosol coating products for commerce in California in violation of the Aerosol Coating Products Regulation (17 CCR section 94520 et seq.). The penalty provisions of H&SC section 42402 et seq. apply to violations of the Aerosol Coating Products Regulation because the regulations were adopted under authority of H&SC section 41712, which is in Part 4 of Division 26.

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

H&SC section 42402 et seq. provides strict liability penalties of up to \$10,000 per day for violations of the Aerosol Coating Products Regulation with each day being a separate violation. In cases like this, involving unintentional violations of the Aerosol Coating Products Regulation where the violator cooperates with the investigation, CARB has obtained penalties based on excess PWMIR values. Administrative penalties are also obtained in some cases.

In this case, the total penalty is \$4,920 for administrative and Reactivity Limit violations. The per-unit penalty was based on 0.41 tons of excess ozone formed. The penalty in this case was reduced because this was a strict liability first-time violation and Hobby Lobby found and corrected the violation before being notified by CARB.

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 quantifiable 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 ton basis.

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

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 Aerosol Coating Products Regulation does not prohibit emissions above a specified level, but PWMIR values of regulated aerosol coatings have maximum limits. In this case, a quantification of the excess emissions attributable to the violations was practicable because the product formulation and sales data necessary to make this quantification was available to CARB. Based upon this

information (which Hobby Lobby has designated as confidential), the violations were calculated to have 0.41 tons of excess ozone emitted in California.

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 parties shall exchange signed copies of this Agreement. Facsimile or photocopied signatures shall be considered as valid signatures as of the date hereof, although the original signature pages shall thereafter be appended to this Agreement.
25. 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: Dr. Todd P. Sax
Title: Chief, Enforcement Division
Date: 10/5/18

Hobby Lobby

By: 
Name: PETER DOBECK
Title: SVP
Date: 9-19-18