

**THE UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS**

**In re Volkswagen and Audi
Warranty Extension Litigation**

:
: **Docket No. 1:07-md-01790**
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This Document Relates to All Cases

AGREEMENT OF SETTLEMENT

Dated: September 2, 2010

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WHEREAS, Volkswagen Group of America, Inc., formerly known as Volkswagen of America, Inc. ("VWGoA"), Volkswagen AG, and Audi AG (collectively, "Defendants") and the undersigned representatives of Plaintiffs and the proposed Settlement Class defined herein (the "Settlement Class Representatives") (together, the "Parties") hereby agree to propose a nationwide Class Action Settlement which would resolve, on the terms set forth in this Settlement Agreement, "Settled Claims" against Defendants and other "Released Parties" based on allegations of Sludge-related engine problems in model year 1997-2004 Audi A4 vehicles equipped with the 1.8-liter turbo engine and model year 1998-2004 Volkswagen Passat vehicles equipped with the 1.8-liter turbo engine pending in various courts, which have been transferred for coordinated or consolidated pretrial proceedings to the United States District Court for the District of Massachusetts, Boston Division, under Docket No. MDL 1790 (collectively, the "Action"); and

WHEREAS, this Settlement Agreement shall not be construed as evidence of or as an admission by Defendants of any liability or wrongdoing whatsoever or as an admission by the Settlement Class Representatives or members of the Settlement Class as defined herein ("Class Members" or "Settlement Class Members") of any lack of merit in their Claims.

WHEREAS, in August 2004 VWGoA issued an eight year warranty extension covering certain "oil sludge" related repairs for certain Volkswagen and Audi vehicles, copies of which extensions are annexed hereto as Exhibit 3 and incorporated herein by reference (collectively, the "Eight Year Extended Warranty").

NOW THEREFORE, Defendants and the Settlement Class Representatives hereby agree, subject to Final Judicial Approval, compliance with applicable legal requirements, and other conditions, all as set forth below, that the Settled Claims against Defendants and the other Released Parties, as defined herein, will be settled, compromised, and released, in accordance with the following terms.

I. DEFINITIONS

For purposes of this Settlement Agreement, the following terms (designated by initial capitalization throughout this Settlement Agreement) shall have the meanings set forth in this Section. Terms used in the singular shall be deemed to include the plural and vice versa.

1. "Business Day" shall mean any day other than Saturday, Sunday, or New Year's Day, Birthday of Martin Luther King, Jr., Presidents Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, Christmas Day, and any other day appointed as a holiday by the President or the Congress of the United States.
2. "Claim for Reimbursement" or "Claim for Settlement Benefits" shall mean the submission of a form in which a Class Member seeks to claim reimbursement available to Settlement Class Members pursuant to this Settlement Agreement.

3. "Class Counsel" shall mean those attorneys executing this Settlement Agreement on behalf of the Plaintiffs and Settlement Class Representatives, or such other attorneys as shall be approved by the Court as counsel to the Settlement Class.
4. "Class Notice" shall have the meaning provided in Section VI.B.
5. "Conditional Certification" shall mean the Federal District Court's conditional certification of the Settlement Class pursuant to applicable provisions of Rule 23, Fed.R.Civ.P., and entry of an order or orders providing for issuance of notice to the Settlement Class.
6. "Conditional Certification Date" shall mean the date on which conditional approval by the Federal District Court occurs.
7. "Court" and/or "Trial Court" and/or "Federal District Court" shall mean the United States District Court for the District of Massachusetts, Boston Division, presiding over *In re Volkswagen and Audi Warranty Extension Litigation*, Case No. 1:07-MD-01790.
8. "Eight Year Extended Warranty" shall mean the warranties issued by VWGoA as set forth in Exhibit 3.
9. "Engine Repair(s)" or "Sludge Related Engine Repair(s)" shall mean repair(s) set forth in Exhibit 4 of this Settlement Agreement required to be made because of impaired engine lubrication caused by Sludge.
10. "Engine Replacement(s)" or "Sludge Related Engine Replacement(s)" shall mean replacement(s) set forth in Exhibit 4 of this Settlement Agreement required to be made because of impaired engine lubrication caused by Sludge.
11. "Enhanced Oil Sludge Warranty Extension" shall mean the benefits, terms and limitations as specified in Section III.B.1-4 of this Settlement Agreement.
12. "Final Judicial Approval" shall mean the approval of this Settlement Agreement as a whole by the Federal District Court and such approval becoming final by the exhaustion of all appeals, if any, without substantial modification of the order or orders granting such approval. Final Judicial Approval shall be deemed not to have been obtained in the event that Trial Court Approval is denied, and the period for appealing such denial has expired without any such appeal having been taken.
13. "Final Judicial Approval Date" means the date on which Final Judicial Approval occurs.
14. "Oil Change Discount" shall have the meaning provided in Section III.B.4.

15. "Oil Sludge Settlement Administrator" shall mean any person or persons, to be engaged by Defendants and subject to approval of the Special Master (Honorable Allan van Gestel or his duly appointed successor), to disseminate Class Notice and administer Claims for Reimbursement pursuant to this Settlement Agreement.
16. "Opt-Out Period" shall mean the period to be established by the Court during which Class Members may exercise the Opt-Out right described in Section V.
17. "Plaintiffs' Counsel" shall mean Class Counsel.
18.
 - a. "Proof" of payment for Engine Repairs and/or Engine Replacements and/or Reasonable Associated Expenses shall mean copies of cancelled checks, credit or debit card receipts, and/or repair invoices or repair orders, which documents, singly or cumulatively, show that Sludge-Related Engine Repairs and/or Sludge Related Engine Replacements and/or Reasonable Associated Expenses were made and paid for by the Settlement Class Member, including the date of repair and/or replacement, facility where the repair and/or replacement was performed and cost of parts and labor.
 - b. "Proof" of oil changes and/or maintenance shall mean copies of cancelled checks, credit or debit card receipts, oil maintenance receipts from oil change facilities and written confirmations or verifications from oil change facilities which documents, singly or cumulatively, show that the oil change was actually performed using the required oil. For those Class Members who did their own oil changes, Proof of the oil changes and/or maintenance shall consist of receipts, cancelled checks or credit or debit card receipts for the purchase of oil and an affidavit, which documents, singly or cumulatively, show the date and mileage of the oil change and proof of purchase of the required oil. Where VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00 oil is required for any relief set forth in this Settlement Agreement, the Proof shall also show such oil was used.
19. "Reasonable Associated Expenses" shall mean (a) towing costs and (b) rental car costs not to exceed a combined total of \$250.00 reasonably incurred by the Settlement Class Member in connection with an Engine Repair or Engine Replacement which is eligible for reimbursement under the terms of this Settlement Agreement in addition to the costs or expenses of such Engine Repair or Engine Replacement. Reasonable Associated Expenses does not include items such as, but not limited to: (a) bodily injury claims; (b) claims for property damage other than claims of Settlement Class Members for Sludge Related Engine Repairs or Engine Replacements; or (c) claims for lost time, lost earnings, lost revenue or profit, loss of use of the vehicle or other consequential damages.
20. "Released Claims" or "Settled Claims" shall mean any and all claims, including assigned claims, whether known or unknown, asserted or unasserted, regardless of the legal theory, existing now or arising in the future by Plaintiffs and any or all

members of the Settlement Class arising out of or relating to Sludge-related engine problems in Settlement Class Vehicles, and/or any and all claims that were or could have been asserted in the Action. These "Released Claims" include, without limitation and by way of example, all claims for damages or remedies of whatever kind or character, known or unknown, that are now recognized by law or that may be created or recognized in the future by statute, regulation, judicial decision, or in any other manner.

21. "Released Parties" shall mean Defendants, all manufacturers and assemblers of Settlement Class Vehicles, and each of their component parts, the companies supplying the aforementioned companies with components, their parent companies, subsidiary companies, affiliated companies, divisions and suppliers, any and all authorized Volkswagen and Audi dealers and distributors, and the past, present and future officers, directors, shareholders, employees, predecessors, affiliates, parents, subsidiaries, divisions, administrators, agents, servants, successors, trustees, vendors, representatives, heirs, executors, and assigns of all of the foregoing Parties and entities.
22. "Settlement Class Member" shall mean all current and former owners and lessees of model year 1997-2004 Audi A4 vehicles or model year 1998-2004 Volkswagen Passat vehicles equipped with the 1.8 liter turbo engine ("Settlement Class Vehicles") imported or distributed for sale or lease in the United States by VWGoA. Settlement Class Vehicles include a total of 479,768 vehicles, as identified in Section 11.B. Settlement Class Vehicles, however, do not include vehicles for which motor oil meeting VW specification 502 00 was required as part of scheduled maintenance (2004 model year Audi A4 vehicles with VIN numbers of or above WAULC68E44A152304 and 2004 model year Audi A4 Cabriolet vehicles with VIN numbers of or above WAUAC48H04K014467). There are 11,962 model year 2004 Audi A4 vehicles which are not within the Settlement Class. Subject to the confidentiality provision of Section VI.E below, defendants will provide Class Counsel with a list of the vehicle identification numbers of the Settlement Class Vehicles and of the 2004 Audi A4 vehicles which are not within the Settlement Class. Excluded from the Settlement Class are (a) all federal court judges who have presided over this case and their spouses, (b) all persons and entities who elect to exclude themselves from the Settlement Class, and (c) Defendants' current employees, officers, directors, agents, and representatives.
23. "Settlement Class Representatives" shall mean James Craig, Laura Cole-Breit, Scott Ryder, Eric Emanuelson and Margaret Moreau, Matthew Leonetti and Stacy Leonetti, David and Carrie Marks, Marie Montag, Carol Carter, Judith Yarkony, Megan Shero, Eugenia Diveroli, and Ken Winokur.
24. "Sludge" shall mean the deposits, including coking, which can form in the 1.8 liter turbo engine due to excessive degradation of engine oil and which impairs the lubrication of the engine.

25. "Trial Court Approval" shall mean the granting, by order, of the approval of this Settlement Agreement by the Federal District Court.
26. "Trial Court Approval Date" shall mean the date upon which Trial Court Approval occurs.
27. "Unpaid Claims" shall mean reimbursement by Defendants of less than one hundred percent (100%) for Sludge Related Engine Repairs and/or Sludge Related Engine Replacements and Reasonable Associated Expenses including claims for Sludge Related Engine Repairs and/or Sludge Related Engine Replacements and Reasonable Associated Expenses not previously submitted to Defendants for reimbursement under the Eight Year Extended Warranty.

II. SCOPE OF THE SETTLEMENT CLASS

- A. The Parties shall seek certification by the Federal District Court of the Settlement Class solely for Settlement purposes.
- B. This Settlement Class will consist of:

All current and former owners and lessees of model year 1997-2004 Audi A4 vehicles or model year 1998-2004 Volkswagen Passat vehicles equipped with the 1.8 liter turbo engine (collectively, "Settlement Class Vehicles") imported or distributed for sale or lease in the United States by VWGoA. Settlement Class Vehicles include a total of 479,768 vehicles imported or distributed for sale or lease in the United States by VWGoA. The breakdown of Settlement Class Vehicle population by model year, make and model is as follows:

SETTLEMENT CLASS VEHICLES			
Model Year	Make	Model	Vehicle Population
1997	Audi	A4	8,375
1998	Audi	A4	9,950
1999	Audi	A4	17,122
2000	Audi	A4	13,862
2001	Audi	A4	24,944
2002	Audi	A4	24,373
2003	Audi	A4	30,190
2003	Audi	A4 Cabriolet	2,461
2004	Audi	A4	16,011
2004	Audi	A4 Cabriolet	2,767
1998	Volkswagen	Passat	22,682
1999	Volkswagen	Passat	52,525
2000	Volkswagen	Passat	36,157
2001	Volkswagen	Passat	41,217

2002	Volkswagen	Passat	57,898
2003	Volkswagen	Passat	67,592
2004	Volkswagen	Passat	51,642

TOTAL = 479,768

Settlement Class Vehicles, however, do not include vehicles for which motor oil meeting VW specification 502 00 was required as part of the scheduled maintenance (2004 model year Audi A4 vehicles with VIN numbers of or above WAULC68E44A152304 and 2004 model year Audi A4 Cabriolet vehicles with VIN numbers of or above WAUAC48H04K014467). Excluded from the Settlement Class are (a) all federal court judges who have presided over this case and their spouses, (b) all persons and entities who elect to exclude themselves from the Settlement Class, and (c) Defendants' current employees, officers, directors, agents, and representatives.

III. CLASS MEMBER RIGHTS AND BENEFITS

A. ENTIRE SETTLEMENT CLASS

1. Unpaid Claims: All Unpaid Claims by Settlement Class Members under the existing Eight Year Extended Warranty may be submitted for examination. In order to receive such examination, Settlement Class Members may submit or resubmit their Unpaid Claims to the Oil Sludge Settlement Administrator. Payment for Unpaid Claims will be made as follows:
 - (a) *100% Payment of Repair Costs*: The Settlement Class Member shall be compensated one hundred percent (100%) for Engine Repair and/or Engine Replacement and Reasonable Associated Expenses provided the Settlement Class Member submits Proof that the last two required oil changes prior to the Sludge-related problem or engine failure were performed within the recommended time and mileage intervals, with a permissible variance of twenty percent (20%) of the time and mileage intervals.
 - (b) *50% Payment of Repair Costs*: The Settlement Class Member shall be compensated fifty percent (50%) for Engine Repair and/or Engine Replacement and Reasonable Associated Expenses where the Settlement Class Member cannot submit Proof that the last two required oil changes prior to the Sludge-related problem or engine failure were performed within the recommended time and mileage intervals, with a permissible variance of twenty percent (20%) of the time and mileage intervals.

- (c) To qualify for reimbursement under (a) and (b) above, the Settlement Class Member shall be required to submit a Claim form, signed under penalty of perjury (in form annexed hereto to Class Notices, Exhibits 9, 13, 17 and 21) and Proof of a Sludge Related Engine Repair or Sludge Related Engine Replacement and Reasonable Associated Expenses. To qualify for reimbursement under (a) above, the Settlement Class Member shall also be required to submit Proof of the last two oil and filter changes required by the maintenance schedule applicable to the Settlement Class Vehicle prior to the Engine Repair and/or Engine Replacement, in accordance with the maintenance schedule applicable to the Settlement Class Vehicle, with a permissible variance of twenty percent (20%) of the time and mileage intervals, if 100% reimbursement is claimed.
- (d) Any Unpaid Claims referred to in Section III-A-(a)-(c) must be submitted to the Oil Sludge Settlement Administrator no later than six (6) months after the date that Class Notice is mailed. Subject to a Settlement Class Member's verification that they did not receive mailed notice, the Settlement Class Member shall have an additional two (2) months to submit a claim for reimbursement.

2. Education/Information Program: Defendants will prepare as part of the Class Notice acceptable education/information containing relevant information concerning Sludge and customer measures, including the use of VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00, along with appropriate user behavior which may help to control and/or ameliorate Sludge formation. An owner's manual supplement, along with an engine compartment sticker with instructions for affixation by the Settlement Class Member, regarding the use of VW specification 502 00 oil or synthetic oil certified as complying with VW specification 502 00, will also be provided in this education/information program. The education/information program shall be implemented as follows:

- (a) a customer letter, owner's manual supplement and engine compartment sticker, in form as attached hereto as Exhibits 10, 14, 18, 22, 11, 15, 19, 23 and 2, will be included with the Class Notice provided to current owners or lessees of Settlement Class Vehicles;
- (b) a list of oils which are certified as complying with VW specification 502 00 will be included with the Engine Oil Supplement provided to current owners and lessees of Settlement Class Vehicles; and

- (c) information as to the available engine oils which are certified as complying with VW specification 502 00 will be maintained and updated from time to time on the Settlement website.

B. MODEL YEAR 2001-2004 SETTLEMENT CLASS VEHICLES

1. Enhanced Oil Sludge Warranty Extension

VWGoA will offer an Enhanced Oil Sludge Warranty to ten (10) years or 120,000 miles, whichever comes first, after the date the Settlement Class Vehicle enters service in the hands of the first retail purchaser or lessee or as a company car. To maintain the Enhanced Oil Sludge Warranty the Settlement Class Members will be required to perform all scheduled oil maintenance following receipt of Class Notice at currently specified intervals using only VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00. Accordingly, to qualify for Engine Repair or Engine Replacement under the Enhanced Oil Sludge Warranty, the Settlement Class Member must provide Proof that the Settlement Class Member has used only VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00 for all oil changes required thirty (30) days after the date that Class Notice is mailed.

With respect to Sludge Related Engine Repairs or Sludge Related Engine Replacements required after the date of Class Notice, eligibility for coverage under the Enhanced Oil Sludge Warranty Extension will be as follows:

- (1) *Payment of Repair Costs After Class Notice (Two or More Required Oil Changes Using VW 502 00):* The Settlement Class Member shall be provided with Engine Repair and/or Engine Replacement at 100% parts and labor if, at the time of such Engine Repair or Engine Replacement, two or more oil and filter changes have been required by the maintenance schedule applicable to the Settlement Class Vehicle since the date of Class Notice and the Settlement Class Member submits Proof of all such oil changes after receipt of Class Notice using VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00.
- (2) *Payment of Repair Costs After Class Notice (One Required Oil Change Using VW 502 00):* (a) The Settlement Class Member shall be provided with Engine Repair and/or Engine Replacement at 100% parts and labor if, at the time

of such Engine Repair/Engine Replacement, only one oil and filter change has been required by the maintenance schedule applicable to the Settlement Class Vehicle since the date of the Class Notice and the Settlement Class Member submits (i) Proof of one oil and filter change after receipt of Class Notice using VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00 and (ii) Proof of the last oil and filter change required by the maintenance schedule applicable to the Settlement Class Vehicle prior to the date of the Class Notice with oil quality as originally specified in the owner's manual applicable to the Settlement Class Vehicle.

(b) If Proof that one oil and filter change using VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00 is submitted, but Proof of the last oil and filter change required by the maintenance schedule applicable to the Settlement Class Vehicle prior to the date of the Class Notice with oil quality as originally specified in the owner's manual applicable to the Settlement Class Vehicle is not submitted, then the Settlement Class Member shall be compensated fifty percent (50%) for the Engine Repair and/or Engine Replacement.

(3) *Payment of Repair Costs After Class Notice (No Required Oil Change Using VW 502 00):* (a) The Settlement Class Member shall be provided with Engine Repair and/or Engine Replacement at 100% parts and labor if, at the time of such Engine Repair/Engine Replacement, no oil and filter change has been required by the maintenance schedule applicable to the Settlement Class Vehicle since the date of Class Notice and the Settlement Class Member submits Proof of the last two oil and filter changes required by the maintenance schedule applicable to the Settlement Class Vehicle prior to receiving the Class Notice with oil quality as originally specified by the owner's manual applicable to the Settlement Class Vehicle.

(b) If Proof of the last two oil and filter changes required by the maintenance schedule applicable to the Settlement Class Vehicle prior to receiving the Class Notice with oil quality as originally specified by the owner's manual applicable to the Settlement Class Vehicle is not submitted, the Settlement Class Member shall be compensated fifty

percent (50%) for the Engine Repair and/or the Engine Replacement.

- (4) *Payment of Repair Costs Before the Date of Class Notice and After Expiration of the Eight Year Extended Engine Warranty:* (a) The Settlement Class Member shall be reimbursed 100% for Engine Repair and/or Engine Replacement and Reasonable Associated Expenses if the Settlement Class Member submits Proof of the last two oil and filter changes required by the maintenance schedule applicable to the Settlement Class Vehicle prior to the Engine Repair and/or Engine Replacement, in accordance with the maintenance schedule applicable to the Settlement Class Vehicle, with a permissible variance of twenty percent (20%) of the time and mileage intervals.

(b) If Proof of the last two oil and filter changes required by the maintenance schedule applicable to the Settlement Class Vehicle prior to the Engine Repair and/or Engine Replacement, in accordance with the maintenance schedule applicable to the Settlement Class Vehicle with a permissible variance of twenty percent (20%) of the time and mileage intervals, is not submitted, the Settlement Class Member shall be compensated fifty percent (50%) for the Engine Repair and/or Engine Replacement.

(c) To qualify for reimbursement under this provision, the Settlement Class Member shall be required to submit a Claim form, signed under penalty of perjury (in form annexed hereto at Exhibits 9, 13, 17 or 21) and Proof of all Reasonable Associated Expenses plus Proof of the last two oil and filter changes required by the maintenance schedule applicable to the Settlement Class Vehicle prior to the Engine Repair and/or Engine Replacement, in accordance with the maintenance schedule applicable to the Settlement Class Vehicle. Any claims for this reimbursement must be made within six (6) months after the date that Class Notice is mailed.

2. The Settlement Class Member is allowed to change his own oil and may submit Proof as defined above in Definition Section 18, of purchase of the oil and filter.
3. Settlement Class Vehicles sold as "certified pre-owned" will also receive the Enhanced Oil Sludge Warranty Extension conditioned upon the use of VW specification 502 00 oil or a synthetic oil certified as complying with

VW specification 502 00 for all oil changes required after the date of Class Notice.

4. Oil Change Discount

VWGoA will provide a one-time \$25 oil change discount for each model year 2001-2004 Settlement Class Vehicle, redeemable within one (1) year after the Final Judicial Approval Date, for a \$25 reduction in the price of an oil and filter change using VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00 at any authorized Volkswagen/Audi dealership. This benefit shall be described in the Class Notice and implemented by all Volkswagen/Audi dealers as part of a mandatory notification program instituted at all such dealers designed to capture all eligible Settlement Class Vehicles that enter the dealership for an oil/filter change.

C. VEHICLES NOT ELIGIBLE FOR ENHANCED OIL SLUDGE WARRANTY EXTENSION

1. Model Year 1997-2000 Settlement Class Vehicles

Model year 1997-2000 Settlement Class Vehicles are not eligible for the 10 year/120,000 mile Oil Sludge Warranty Extension. The Eight Year Extended Warranty (unlimited mileage) remains in force for these vehicles. Oil meeting recommendations in the original owner's manual will continue to be sufficient for coverage under the Eight Year Extended Warranty. Any Unpaid Claim for Sludge Related Repairs or Engine Replacement may be submitted pursuant to the Eight Year Extended Warranty (unlimited mileage), unless the sludge problem occurred after the Eight Year Extended Warranty (unlimited mileage) period has expired. The Class Notice shall inform all Settlement Class Members that they may submit any Unpaid Claim and how to submit the Claim. The Class Notice shall inform all Settlement Class Members that the Settlement Agreement provides for re-examination of Unpaid Claims.

2. Model Year 2001-2004 Settlement Class Vehicles

Model year 2001-2004 Settlement Class Vehicles are not eligible for the 10 year/120,000 mile Oil Sludge Warranty Extension unless the vehicle is maintained with VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00. If the Settlement Class Member chooses to continue maintaining his vehicle with the oil recommended in the owner's manual, then the Eight Year Extended Warranty (unlimited mileage) will apply. Any Unpaid Claim for Sludge related Repairs or Engine Replacements may be submitted pursuant to the Eight Year Extended Warranty (unlimited mileage), unless the sludge

problem occurred after the Eight Year Extended Warranty (unlimited mileage) period has expired.

IV. CLAIMS ADMINISTRATION

A. THE OIL SLUDGE SETTLEMENT ADMINISTRATOR

An impartial Oil Sludge Settlement Administrator, to be paid by Defendants, shall be engaged by Defendants, subject to approval by the Special Master (Honorable Allan van Gestel or his duly appointed successor). The parties have agreed that Defendants' counsel will retain Rust Consulting, Inc. ("Rust") as the impartial Oil Sludge Settlement Administrator. The Oil Sludge Settlement Administrator will serve until discharged by order of the Court.

B. CLAIMS PROCESSING PROCEDURES

1. Upon the Court's Preliminary Approval of this Settlement, the parties agree to use their best efforts to agree upon fair, transparent and just claims procedures with the input of the Oil Sludge Settlement Administrator, Rust. In the event of a disagreement, the Special Master shall determine what procedure is most appropriate, fair and consistent with the terms and conditions of the subject Settlement Agreement.
2. The Oil Sludge Settlement Administrator is required to record every inquiry and Claim for reimbursement regarding Sludge-related problems. The Oil Sludge Settlement Administrator shall maintain a database which shall contain the full name, complete address, telephone number, and email address for each person who makes a Claim or inquiry. The database shall identify the year, make, model, VIN, and mileage of the Settlement Class Vehicle, the nature of the Claim, the monetary value of the Claim, the resolution/disposition of the Claim, and the amount of payment. Class Counsel shall have reasonable access to database information, subject to the confidentiality agreement set forth in paragraph VI.E below. Class Counsel and Defendants' counsel will monitor the Claims reporting and payment process.
3. If a Claim for reimbursement is denied in whole or in part, the Oil Sludge Settlement Administrator shall specifically describe the factual basis and/or reasons for the denial or partial denial. If Class Counsel and/or Defendants' counsel determine that the Oil Sludge Settlement Administrator Claims practices are improper or unfair, Class Counsel and/or defense counsel may seek appropriate relief from the Court.
4. The Settlement Class Members may submit any Claim for reimbursement denied in whole or in part (or Claim not previously submitted) to the Oil Sludge Settlement Administrator for review. The decision of the Oil Sludge

Settlement Administrator is final. The Oil Sludge Settlement Administrator serves at the expense of Defendants. Any additional information or documentation required by the Oil Sludge Settlement Administrator may be submitted by the Class Member by mail, fax, or email attachment. The Oil Sludge Settlement Administrator shall document the factual basis and reasons for the payment, partial payment, or denial, or other action taken by the Oil Sludge Settlement Administrator. The Oil Sludge Settlement Administrator's decision shall then be sent to the Settlement Class Member by mail, fax, or email attachment, as requested by the Settlement Class Member. The Oil Sludge Settlement Administrator's decision and all supporting documentation shall also be posted to the database referenced in section IV.B.2. above. Under no circumstances shall the Class Member be required to refund any payment previously received.

5. The Oil Sludge Settlement Administrator shall decide within sixty (60) days after the Settlement Class Member submits the necessary documentation whether the Claim will be paid, paid in part, or denied. The Oil Sludge Settlement Administrator shall promptly mail, fax, or email the written decision to the Settlement Class Member.

V. OPT-OUT AND WALKAWAY RIGHTS/RELEASE OF CLAIMS

- A. The Parties agree that all Settlement Class Members shall have the right to be excluded (opt-out) from the Settlement Agreement. Defendants shall have the right to withdraw from the Settlement Agreement and render it null and void if more than twenty-five thousand (25,000) Settlement Class Members exclude themselves from this Settlement Agreement.
- B. Upon Final Judicial Approval, every Settled Claim of each Class Member shall be settled and released. Each such Class Member shall be barred from asserting any Settled Claim against Defendants, unless the person making the Claim has timely exercised his opt-out rights.

VI. SETTLEMENT IMPLEMENTATION

- A. JURISDICTION AND GOVERNING LAW
 1. The Final Order and Judgment shall reserve to the Court exclusive and continuing jurisdiction over this action, the Parties, the Settlement Class Members, the Special Master, the Oil Sludge Settlement Administrator, and this Settlement Agreement for purposes of administering, supervising, construing, and enforcing this Settlement Agreement.
 2. It is expressly understood and confirmed that the parties have not agreed to any choice, selection or waiver of state or federal law to be applied to any aspect of the construction, preliminary or final approval, or

application of any provision of this Agreement of Settlement, including but not limited to attorney fees and costs.

B. NOTICE PROVISIONS

1. Class Notice shall be provided to all Settlement Class Members by means of first class mail, one time publication of summary notice in a form annexed hereto as Exhibit 1, which shall appear in the first section of the National Edition of USA Today, and website, all at Defendants' expense. Defendants shall submit the proposed Class Notice to Class Counsel for review and approval prior to distribution to Settlement Class Members.
2. The Class Notice shall describe the certification and fairness hearing and this Settlement Agreement. The Class Notice shall provide the Settlement Class Members with information concerning the benefits they are entitled to claim for Engine Replacement costs, Engine Repair costs, reimbursement for past Engine Replacement or Engine Repair, and other Reasonable Associated Expenses.
3. The Class Notice shall advise Settlement Class Members to make a Claim if they believe they have suffered Sludge-related damages. The Class Notice shall inform Settlement Class Members of their right to challenge denial or partial denial of their Claims for reimbursement, and to object or opt out of the Settlement. In accordance with the provisions of Section III.A.2 of this Settlement Agreement, the Class Notice shall, to the extent applicable, contain education/information with relevant information concerning Sludge and customer measures, including the use of VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00 along with appropriate user behavior, which may help to control and/or ameliorate Sludge formation. The Class Notice for the Settlement Class Vehicles that require VW specification 502 00 or a synthetic oil certified as complying with VW specification 502 00 as a condition to qualify for the Enhanced Oil Sludge Warranty Extension (model years 2001 through 2004) shall plainly state this requirement and warn that failure to use VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00 will void the Enhanced Oil Sludge Warranty Extension. The Class Notice for Settlement Class Vehicles which do not qualify for the Enhanced Oil Sludge Warranty Extension (model years 1997 through 2000) shall strongly recommend the exclusive use of VW specification 502 00 oil or a synthetic oil certified as complying with VW specification 502 00.
4. The Oil Sludge Settlement Administrator shall be responsible for dissemination of the Class Notice. Moreover, as a condition of its retention, the Oil Sludge Settlement Administrator must agree that (a) it will fulfill all responsibilities and duties assigned to the Oil Sludge

Settlement Administrator under the terms of this Settlement Agreement, and (b) the Representative Plaintiffs, Class Counsel, Defendants and the Released Parties reserve all claims and rights, if any, for any failure by the Oil Sludge Settlement Administrator to fulfill its responsibilities and duties under the terms of this Settlement Agreement.

5. The Oil Sludge Settlement Administrator, along with Class Counsel and Defendants, shall be responsible for arranging for the mailing and publication of Class Notice pursuant to this Settlement Agreement. The Oil Sludge Settlement Administrator shall be responsible for responding to requests for or regarding the Class Notice and administration of Claims.
6. The Oil Sludge Settlement Administrator (and any third party retained by the Oil Sludge Settlement Administrator) shall sign a confidentiality agreement which shall provide that the names, addresses, and other information about specific Settlement Class Members provided by either Defendants, Class Counsel or by individual Settlement Class Members shall all be treated as confidential and shall be used by the Oil Sludge Settlement Administrator only as required by this Settlement Agreement. The form and content of such confidentiality agreement shall be mutually agreed to by Class Counsel and Defendants' counsel. The Oil Sludge Settlement Administrator will be provided name and/or mail address data obtained by Defendants, Class Counsel, and R.L. Polk of all known present and former owners and lessees of a Settlement Class Vehicle. The name and address data shall be processed by the Oil Sludge Settlement Administrator through the National Change of Address database for the purpose of updating the addresses. The Oil Sludge Settlement Administrator shall also provide a copy of the Class Notice and claim form to any Settlement Class Member who requests the Class Notice and/or claim form, promptly upon such request. The Oil Sludge Settlement Administrator shall provide declarations to the Court, with a copy to Class Counsel and Defendants' Counsel, attesting to the measures undertaken to provide Class Notice and claim forms to the Settlement Class Members.
7. Subject to the confidentiality agreement set forth in paragraph VI.E below, thirty (30) days prior to mailing, the Oil Sludge Settlement Administrator shall provide to Defendants' counsel and to Class Counsel the list of all current and former owners and lessees and a certification confirming the method by which the Settlement Class Member mailing list was compiled and the accuracy of the information therein. The mailing list may be supplemented by Class Counsel at any time prior to the date for mailing Class Notice.

Defendants shall utilize current and historic registration data from R.L. Polk to obtain information as to current and former owners and lessees.

Upon reasonable request, Defendants shall provide Class Counsel and the Oil Sludge Settlement Administrator with information provided to and/or received from R.L. Polk, subject to the confidentiality agreement set forth in paragraph VI.E below, to verify that Class Notice pursuant to this Settlement Agreement has been provided to Settlement Class Members.

8. The Oil Sludge Settlement Administrator or persons under the control and supervision of the Oil Sludge Settlement Administrator shall mail the Class Notice and the Claim form, by first-class postage prepaid United States mail, to all original and subsequent owners and lessees of Settlement Class Vehicles pursuant to the procedures set forth in this Settlement Agreement. All current owners and lessees of Settlement Class Vehicles shall also receive with the Class Notice and Claim form, the applicable customer letter, owner's manual supplement and engine compartment sticker.
9. The Oil Sludge Settlement Administrator shall also provide a copy of the Class Notice and/or Claim form to any Settlement Class Member who requests the Class Notice and/or Claim form, promptly upon such request.
10. The Oil Sludge Settlement Administrator shall establish and maintain a website, which shall make available: (a) an electronic version of the mailed Class Notice; and (b) upon entry of a Vehicle Identification Number validly identifying a Settlement Class Vehicle and the requesting party's name, an electronic copy of the Claim form that a Settlement Class Member may print out and submit to the Oil Sludge Settlement Administrator. Copies of this Settlement Agreement and other pertinent Settlement documents and information as shall be agreed by Class Counsel and Defendants' counsel shall also be posted and/or available for download on such website. The website will be maintained by the Oil Sludge Settlement Administrator until 12/31/2015.
11. The Oil Sludge Settlement Administrator shall provide declarations to the Court, with a copy to Class Counsel and Defendants, attesting to the measures undertaken to provide Class Notice and Claim forms to the Settlement Class. The Oil Sludge Settlement Administrator, upon request, shall provide to Class Counsel, subject to the confidentiality agreement set forth in paragraph VI.E below, and Defendants' counsel information and data concerning the claims made, the amount of each claim and related claims information, such that Class Counsel and Defendants' counsel may inspect and monitor the claims process.
12. Defendants shall pay all Class Notice and claims administration expenses, subject to the terms of this Settlement Agreement.

C. ATTORNEY FEES AND COSTS

1. Class Counsel will submit an application to the Court for an award of reasonable attorneys' fees and expenses on or before a date to be set by the Court ("Fee Application"). Each Settling Party reserves all rights to appeal from a Class Counsel fees and expenses award if that Party files a timely and proper objection with the Court. The Class Counsel fees and expenses award and Final Judicial Approval shall be separate so that the appeal of one shall not constitute an appeal from the other.
2. Subject to Section VI.A.2 above, Class Counsel fees and expenses shall be paid entirely and exclusively by Defendants and shall not diminish, invade, or reduce, or be derived from, benefits afforded to Settlement Class Members under this Settlement Agreement.
3. Any Class Counsel fees and expenses awarded shall be paid by Defendants to Class Counsel within thirty (30) days of the entry of a final judgment or order by the Court with respect to Class Counsel fees and expenses, except in the event of an appeal, which shall be governed by applicable provisions of the Federal Rules of Appellate Procedure including but not limited to Rule 8. Within fifteen (15) days after the final resolution of appellate proceedings and related Court proceedings with regard to the Class Counsel fees and expense award, the amount finally awarded by the Court shall be paid to Class Counsel. All matters pertaining to an award of Class Counsel fees and expenses including, but not limited to, any dispute amongst class/plaintiffs' counsel as to their respective attorneys fees and expenses, have been referred to the Honorable Allan van Gestel, Special Master. Judge van Gestel's recommendation with respect to Class Counsel fees and expenses shall be made to the Court.

D. INCENTIVE AWARDS

1. Subject to the Court's determination, Defendants shall pay incentive awards to the following Settlement Class Representatives: James Craig, Laura Cole-Breit, Scott Ryder, Eric Emanuelson and Margaret Moreau, Matthew Leonetti and Stacy Leonetti, David Marks and Carrie Marks, Marie Montag, Carol Carter, Judith Yarkony, Megan Shero, Eugenia Diveroli, and Ken Winokur.
2. All Settlement Class Members shall have standing to object to or support the incentive awards for Class Representatives.

E. RETURN OR DESTRUCTION OF CONFIDENTIAL DOCUMENTS OF DEFENDANTS

Within thirty (30) days after Final Judicial Approval of settlement or thirty (30) days after final resolution of all appellate proceedings and related court proceedings with regard to Class Counsel fees and expenses, whichever comes later, Class Counsel shall return to Defendants or destroy all copies of confidential documents and information of Defendants produced in discovery (which term includes those stored on disks and/or electronically stored). Thereafter, Class Counsel shall not copy or distribute confidential documents of Defendants (paper documents, discs, or electronically stored documents) to any person and shall not allow any person to read the confidential documents without the prior agreement of Defendants' counsel or court approval. Class Counsel may, however, retain an original of confidential documents of Defendants in their files to the extent and for the period of time required to be maintained by the law of the state in which their office is located. After said period expires, Class Counsel shall return or destroy the original Confidential Documents and information and shall take all reasonable technological steps to ensure that all electronically stored confidential documents and information has been completely erased and overwritten in a manner which ensures that it no longer exists or can be retrieved from any computer.

Class Counsel shall maintain the confidentiality of all documents and data provided to or by the Oil Sludge Settlement Administrator and/or R.L. Polk in the same manner as the Confidential documents and data produced by Defendants in discovery. The retention, return and/or destruction of such documents and data shall be governed by this section.


Class Counsel shall return all unredacted documents produced pursuant to Judge van Gestel's 11/25/08 Order. Class Counsel shall return the following: 12/3/08 DVD; 12/3/08 CD; 7/20/09 CD; and 9/21/09 CD. Class Counsel shall destroy all paper copies of the unredacted documents and erase and overwrite all electronic copies from Class Counsel's computer system.

Counsel for Defendants will maintain custody of the returned unredacted documents for seven (7) years. During the seven (7) year retention period, upon Class Counsel's written request which states a reasonable, legitimate need, Counsel for Defendants shall return the documents to Class Counsel in their unredacted form or make appropriate application to the Court. Said unredacted documents, once no longer needed, shall be returned to defense counsel, who shall continue to maintain them as provided herein.


IN WITNESS WHEREOF, the Parties have duly executed this Settlement Agreement, by their respective counsel, as set forth below, this 2nd day of September, 2010.

DEFENDANTS' COUNSEL

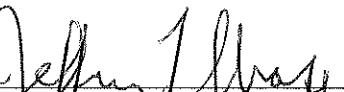
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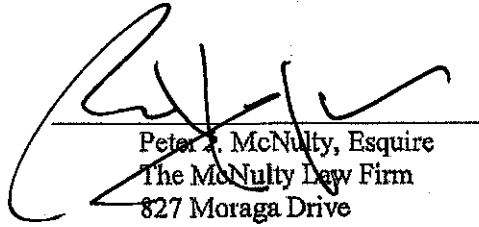
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