BBB NATIONAL PROGRAMS
DISPUTES OVER COVERAGE UNDER
WARRANTY EXTENSION PROVIDED BY
HYUNDAI ENGINE CLASS ACTION SETTLEMENT

IMPORTANT INFORMATION

BBB National Programs (“BBB National Programs”) is a nonprofit organization providing independent and impartial dispute resolution services to resolve disputes between a business and its customers.

Hyundai Motor America (“HMA”) has agreed to participate in an arbitration process administered by BBB National Programs to resolve certain disputes arising under the warranty extension provided by the class action settlement in the case of In re: Hyundai and Kia Engine Litigation, Civil Action No. 8:17-cv-00838-JLS-JDE (C.D. Cal.).* Please note the addendum to these rules (pages 15-22) further defining Commercial Entity and clarifying exceptional neglect as referenced in the class settlement.

You can find more information about the class action and settlement agreement at the following link: HyundaiThetaEngineSettlement.com

Arbitration in this program is available only to claimants who have a dispute with HMA concerning coverage under the short block assembly extended warranty provided under the terms of the class action settlement. The arbitrator’s decision is final and binding on both parties.

This document describes the arbitration process and includes the arbitration rules.

How do I contact BBB National Programs?

You can reach BBB National programs by calling 1.800.246.2808, emailing ClassActionDR@bbbnp.org, or through our website at https://bbbprograms.org/programs/all-programs/ arbitration-under-class-action-settlements-program.

All documents, correspondence, notices and requests for records should be sent to BBB National Programs, Inc. at 1676 International Drive, Suite 550, McLean, VA 22102.

Documents and case-related information also may be faxed to BBB National Programs at 703-247-9700. Please include your case number on all documents submitted.
Beginning the process

Within 60 days of declined warranty coverage, you must complete the arbitration request form and submit it to BBB National Programs with any required documentation.

Should you encounter difficulty obtaining required information, please let us know.

What is arbitration?

Arbitration under this program is an informal process in which the claimant and HMA present their positions to an impartial third party, an arbitrator. The specific issues the arbitrator is asked to consider will be outlined in a document called the Agreement to Arbitrate, which will be drafted by BBB National Programs as described in the attached arbitration rules.

The arbitration will take place by written submission from the parties unless the arbitrator determines that a telephonic hearing is also needed to decide the case.

Who is the arbitrator?

Arbitrators are attorneys or other persons with arbitration experience who are interested in the fair and expeditious resolution of consumer disputes. They are trained and certified by BBB National Programs.

A single arbitrator will be assigned to decide your claim. Your arbitrator will be neutral and will be selected in a manner to avoid any conflict of interest. Prior to the arbitration we will provide you with a biography with the arbitrator’s qualifications and background.

What will happen at the hearing?

For hearings conducted by document review, the arbitrator will issue a decision based only on the written submissions of the parties. Initial positions will be exchanged between the parties for rebuttal comments prior to being sent to the arbitrator.

For hearings conducted by telephone conference call, both parties will have the opportunity to present their positions orally and may also submit written evidence to the arbitrator.
Suggestions for preparing your case:

Any written submissions should be clear, concise, and supported by relevant documentation.

Please submit to BBB National Programs a copy of all documents and testimony you wish the arbitrator to consider.

If you have relevant witnesses, please contact them and ask them to provide a written statement or oral testimony (for telephone hearings). You are responsible for your witnesses’ submission of evidence.

Documentation and testimony from both parties should provide the arbitrator with all arguments and evidence you believe are relevant to the question of coverage under the warranty extension provided by the class action settlement.
BBB NATIONAL PROGRAMS

ARBITRATION RULES FOR DISPUTES
OVER COVERAGE UNDER
WARRANTY EXTENSION PROVIDED BY
HYUNDAI AND KIA ENGINE CLASS ACTION SETTLEMENT

1. DEFINITIONS

The following list defines key words as they are used in these Rules:

A. “Arbitration” means the process in which an impartial person hears and decides disputes between a Claimant and HMA over coverage under the Warranty Extension.

B. “BBB National Programs” means BBB National Programs, Inc., administrator of the Arbitration.

C. “Claimant” means a Settlement Class member or any other person whose claim for coverage under the Warranty Extension has been denied by HMA.

D. “Class Action Settlement” means the agreement by the parties in resolution of In re: Hyundai and Kia Engine Litigation, Civil Action No. 8:17-cv-00838-JLS-JDE (C.D. Cal.)

E. “Class Vehicles” include all 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, and certain 2019 model year Hyundai Sonata vehicles, 2013, 2014, 2015, 2016, 2017, 2018, and certain 2019 model year Hyundai Santa Fe Sport vehicles, and all 2014, 2015, 2018, and certain 2019 model year Hyundai Tucson vehicles, originally equipped with or replaced with a genuine Theta II 2.0 liter or 2.4 liter gasoline direct injection engine within OEM specifications, that were purchased or leased in the United States, excluding the territories, and including those that may have been purchased while the owner was abroad on active U.S. military duty. For 2019 model year vehicles listed above, the Class shall include those vehicles that were manufactured before the Knock Sensor Detection System technology described in this agreement was incorporated into their production.¹

F. “Dispute Resolution Specialist” means the BBB National Programs staff person assigned to help you resolve your dispute.

G. “HMA” means HMA Motor America, Inc.

¹ Excluded from the claims of the Class are Class Vehicles previously deemed a total loss (i.e. salvage or junkyard vehicle). For the full list of exclusions, please refer to the Settlement Agreement.
H. “Knock Sensor Detection Software” (or “KSDS”) refers to the engine monitoring technology developed by Defendants that, with software innovations, leverages existing hardware of the subject Class Vehicles to continuously monitor engine performance for symptoms that may precede engine failure and that is being offered as a software update to Settlement Class members free of charge pursuant to the product improvement campaigns referenced herein.

I. “Parties” refers to the Claimant and HMA.

J. “Rules” refers to Arbitration Rules for Disputes Over Coverage Under Warranty Extension Provided by Hyundai and HMA Engine Class Action Settlement.

K. “Settlement Class” has the same meaning as that term is defined in the Class Action Settlement.

L. “Warranty Extension” means the Lifetime Warranty provided under the terms of the Class Action Settlement that extends the Powertrain Warranty in Class Vehicles to cover the (1) short block assembly (engine block, crankshaft and bearings, connecting rods and bearings, and pistons) due to connecting rod bearing failure, and (2) damage caused to the long block assembly due to connecting rod bearing failure. KSDS provided free of charge to owners of Class Vehicles under KSDS Service Campaign must have been completed prior to the engine failure for the Warranty Extension to apply. The Court approved the Warranty Extension, subject to KSDS completions, regardless of whether current or subsequent owners of Class Vehicles actually received courtesy notices from HMA. As part of its settlement obligations, after Final Approval was granted by the Court, HMA delivered to all class members a Brochure which explained the Warranty Extension and the free KSDS Service Campaign and encouraged all owners to visit dealers to receive the KSDS Service².

M. “We” and “Us” refers to BBB National Programs.

N. “You” refers to the Parties involved in the dispute being arbitrated.

² Vehicle purchases before or on 7/1/2020 that have not had the KSDS product improvement campaign performed, BBB National Programs may require additional information from the consumer to determine if notice of the KSDS product improvement campaign (Service Campaign) was issued by HMA. BBB National Programs will instruct the consumer on what documents are needed. Failure to provide these documents may result in the claim being ruled ineligible. Vehicles purchased after 7/1/2020, must have had the KSDS product improvement campaign performed on the Class Vehicle for the Warranty Extension to apply regardless of whether current or subsequent owners of Class Vehicles actually received notice of the KSDS update from HMA.
2. **SCOPE OF ARBITRATION**

Arbitration is limited to disputes filed by or on behalf of a Claimant over coverage under the class action settlement Warranty Extension.

3. **SETTLEMENT**

The Dispute Resolution Specialist may assist in efforts to resolve your dispute prior to arbitration if requested by the parties. If you and the HMA representative agree to a settlement, please inform your Dispute Resolution Specialist as soon as possible.

If both parties voluntarily decide to settle the dispute at any time before a decision is made by the arbitrator, the settlement will end the dispute and no decision will be made by the arbitrator. The Dispute Resolution Specialist will send each party a letter detailing the terms of the settlement.

4. **AGREEMENT TO ARBITRATE**

The Dispute Resolution Specialist shall prepare an Agreement to Arbitrate that lists the remedy sought by the Claimant.

The Agreement to Arbitrate shall include only the issues that fall within the scope of the Class Action Settlement and these *Rules*.

The Agreement to Arbitrate shall be sent to the parties along with the notice setting the initial deadline by which parties should submit their initial written positions, documentation, and any other evidence. If the Agreement to Arbitrate does not correctly describe the dispute you wish to address at the arbitration, immediately inform your Dispute Resolution Specialist.

5. **SELECTING YOUR ARBITRATOR**

BBB National Programs maintains a pool of arbitrators who have been trained and certified by BBB National Programs. Arbitrators do not necessarily have mechanical or legal expertise.

BBB National Programs shall select the arbitrator in a procedure designed to avoid any conflict of interest and provide the parties with a neutral arbitrator. If a known financial, competitive, professional, family, or social relationship exists with any party (even if the arbitrator believes the relationship is so minor that it will have no effect on the decision), it shall be revealed to the parties and either party may request an alternative arbitrator.

If the arbitrator believes he or she cannot make an impartial decision in your case, he or she shall refuse to serve as an arbitrator. BBB National Programs reserves the right to reject an arbitrator for any reason(s) it believes will affect the credibility of the program.
6. COMMUNICATING WITH THE ARBITRATOR

You or anyone representing you shall not communicate in any way with the arbitrator about the dispute.

All communication with the arbitrator must be sent through the Dispute Resolution Specialist.

Violation of this rule compromises the impartiality of the arbitration process and may result in your case being discontinued.

7. REPRESENTATION & COSTS

You may present your own case or have someone represent you at your own expense (including Class Counsel representing the Plaintiffs in the Class Action Settlement).

If your representative is a lawyer, you must give the lawyer’s name, address and telephone number to BBB National Programs at least 10 days before the telephonic hearing, if one is scheduled. Your Dispute Resolution Specialist will notify the other party to give it an opportunity to obtain a lawyer.

HMA will cover the arbitration fees, unless the arbitrator finds that the Claimant’s claims were brought in bad faith. HMA will not bear the costs of the Claimant’s attorneys’ fees, if any.

8. HEARING FORMAT

Most hearings will be conducted by document review.

Hearings may also be conducted by telephone if the arbitrator determines that one is needed. We will set a date and time for the telephone hearing and will send you notice of that date at least 10 days in advance of the hearing.

If an emergency prevents you from attending the hearing, call BBB National Programs at 1.800.246.2808 prior to the scheduled hearing time. We will decide if it can be rescheduled.

We reserve the right to make a final determination as to the time and date for the hearing.

9. PROCEDURES FOR DOCUMENT REVIEW HEARINGS

For hearings conducted by document review, the arbitrator will issue a decision based on written information that the parties have provided. We will send a notice setting an initial deadline for the parties to submit their initial written positions, documentation, and any other evidence they wish the arbitrator to consider. We will exchange both parties’ initial written submissions and provide the parties with an opportunity to submit responses. We will send a notice setting a final deadline for responses to the initial submissions. You will be sent notice of final deadline at least 10 days in advance of the deadline date. After the final deadline date, no further information will be accepted or provided to the arbitrator.
10. PROCEDURES FOR TELEPHONE HEARINGS

Oath of participants
The parties and witnesses shall be placed under oath. Attorney representatives are not required to be placed under oath.

Presentation of case
Each party will be given an opportunity to make a presentation of its case and hear the other party’s presentation. Parties may present witnesses and evidence in support of their case, and shall have the opportunity to explain or rebut information presented by the other party. Parties may also question the other parties, their witnesses and their evidence. After everyone has presented his or her case, each party will be given an opportunity to make a closing statement.

You may present your case without being restricted by courtroom rules of evidence. However, you should be sure your evidence is relevant to the case.

The arbitrator may limit a party’s presentation if the arbitrator believes it is repetitious or irrelevant.

No new or additional evidence may be submitted after the hearing unless requested by the arbitrator.

Submission of documents and taped/recorded evidence
Parties should submit any written documents or evidence they wish to rely on to the Dispute Resolution Specialist at least three days before the hearing. If submitted timely, we will make every effort to provide this information to the other party and the arbitrator before the hearing.

If you have a witness who cannot attend the hearing, you may present that person’s written statement to the arbitrator. You must submit a copy to the Dispute Resolution Specialist to share with the other party and the arbitrator.

Please inform the Dispute Resolution Specialist at least five days prior to the hearing if you will submit any taped or digitally recorded evidence for the hearing. The Dispute Resolution Specialist will make arrangements for this information to be provided to the other party and the arbitrator.

Before the arbitrator makes a decision, a party may ask the arbitrator for a reasonable number of days to respond to a written statement, document or taped/recorded evidence presented by the other party that was not shared prior to the telephone hearing. The arbitrator may grant the request at his or her discretion.

Failure to appear at telephonic hearing
If one party does not attend a hearing after receiving proper notice, the arbitrator will proceed with the hearing and receive evidence from the other party. The party who did not attend the hearing will be given the opportunity to present a position in writing within the time limits set by the Dispute Resolution Specialist. If that party’s position is received in a timely manner, the Dispute Resolution Specialist will send a copy to the other party for comments before providing it to the arbitrator. If the absent party does not submit a response within the set time limits, the arbitrator may make a decision without that party’s position.
11. RECORD OF HEARING

BBB National Programs will maintain basic file information including documents and other evidence presented by the Parties. Copies of these materials and official arbitration forms relating to your case will be given to you upon request. A reasonable copying fee may be charged.

12. ARBITRATOR REQUEST FOR NEW OR ADDITIONAL EVIDENCE

The arbitrator may request new or additional evidence at any time before a decision is made. The arbitrator will specify a deadline for submission of that evidence to BBB National Programs. The arbitrator may also request that new/additional evidence be presented at a telephone hearing, if necessary.

New or additional evidence requested by the arbitrator must be received by BBB National Programs within the time period specified by the arbitrator. The Dispute Resolution Specialist will send a copy of any new/additional evidence submitted by one party to the other party with a request for a response within a specified time period. Both the new/additional evidence and any timely response shall be submitted by the Dispute Resolution Specialist to the arbitrator.

When the arbitrator is satisfied that all testimony and evidence have been presented, your hearing will be closed.

13. TIME LIMITS

We shall make every effort to obtain a decision in your case within 60 days from the time your claim is filed.

14. THE DECISION

When the arbitrator has reached a decision in your case, all parties will receive a written decision accompanied by the arbitrator’s reasons for the decision. We will not read a decision to a party over the phone.

A. Scope of Decision

A decision shall be one that the arbitrator considers fair and falls within the arbitrator’s authority under these Rules and the terms of the Class Action Settlement. The arbitrator’s decision shall be binding on both parties.

B. Relief That May Be Awarded

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3 Denial of Warranty Extension benefits must have come from an authorized HMA dealer to be eligible for these remedies (i.e. not a third-party repair shop).
The arbitrator may award the following remedies:

- Inspection and/or repair by HMA at an authorized dealer for defects or damage determined by the arbitrator to be covered by the Warranty Extension. At the consumer’s request, HMA will provide a comparable class of loaner vehicle (subject to availability at dealer location) at no cost. If no loaner vehicle is available at the dealership at the time of the request, HMA shall provide reimbursement of reasonable rental car expenses not to exceed $40 per day until the repair is completed.

- Payment for costs associated with inspections and repairs at an authorized HMA dealer for defects or damage covered by the Warranty Extension.

- Awarded Relief will not include costs unassociated with the inspection and repair of the defects and damages covered by the Warranty Extension. Such unassociated costs include, but are not limited to, the following: economic losses, diminution in the vehicle’s value, reimbursement for fees related to the ownership of the vehicle (e.g., loan/lease payments, insurance payments, vehicle registration renewal) or general inconvenience.

Eligibility of Lifetime Warranty

- The Class Action Settlement requires that HMA provide a Lifetime Warranty for all eligible Class Vehicles that extends their existing Powertrain Warranty to cover the short block assembly (consisting of the engine block, crankshaft and bearings, connecting rods and bearings, and pistons) for repairs needed due to connecting rod bearing failure in vehicles owned by individual consumers that have completed the Knock Sensor Detection Software (KSDS) update in connection with HMA’s product improvement campaigns. This warranty extension also applies to any damage caused to the long block assembly due to connecting rod bearing failure and/or symptoms associated with connecting rod bearing failure. Except for cases of Exceptional Neglect (as that term is defined by the Class Action Settlement), and subject to the existing terms, limitations, and condition of the Class Vehicles’ original Powertrain Warranty, the Lifetime Warranty otherwise endures irrespective of the Class Vehicle’s mileage or duration of ownership.

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4 For vehicles that may otherwise need a new engine pursuant to the Warranty Extension at or above 150,000 miles and more than eight (8) years from the original in-service date, HMA shall have the option, in lieu of replacing the engine under warranty, to either of the following at the vehicle owner’s election:

- Repurchase the vehicle at Bluebook value (very good/private party) or
- Pay the owner $2,000.00 in lieu of an engine replacement, provided that the owner has installed the KSDS; payment will require that the owner agree in writing to assume all risk going forward and to void the vehicle’s remaining Warranty Extension.

5 Claimant is only eligible for reimbursement of costs paid to an authorized HMA dealer for inspections and repairs determined as having been performed due to a connecting rod bearing failure.

6 The Exceptional Neglect exception to the Lifetime Warranty is reviewed throughout the life of the vehicle, not just during the current ownership.
• If the class vehicle has been at an **authorized HMA dealership** and there was a legitimate opportunity⁷ for the KSDS update to be performed, even if that was not the primary reason for the visit, the vehicle will not be excluded from the Lifetime Warranty.

• The Lifetime Warranty does not apply and is not available to commercial entities such as used car dealers, franchisees, or automobile auction houses.

• The Lifetime Warranty covers all costs associated with inspections and repairs at an authorized dealer including, without limitation, the costs associated with replacement parts, labor, diagnoses, and mechanical or cosmetic damage to the Class Vehicle caused by the engine malfunction (e.g., engine failure or fire). Notwithstanding any provision(s) to the contrary in any express warranty provided by HMA in conjunction with the sale or lease of Class Vehicles, the Lifetime Warranty persists in its full duration regardless of any transfer in ownership or lease of a Class Vehicle.

• HMA is not required to provide new engines under the Lifetime Warranty or provide any other compensation or reimbursement for otherwise inoperative vehicles (e.g., branded, salvage, or junkyard vehicles not otherwise roadworthy) unless such inoperability is directly caused by a connecting rod bearing failure.

• The Class Action Settlement provides that no Lifetime Warranty inspection or repairs shall be denied for a Class Vehicle on the grounds that the Qualifying Repair was necessitated by the owner or lessor failing to properly service or maintain the vehicle, except in instances of Exceptional Neglect.

C. Clarifying the Decision

You may request that the arbitrator clarify a decision if you do not understand what action is required by the decision, or if you and the other party disagree about what action is required by the decision.

You may not ask the arbitrator to clarify the reasons for a decision. A request for clarification will not be accepted if it attempts only to challenge the conclusions of the arbitrator or reargue your case.

A request for clarification must be in writing and received by the BBB National Programs before the time performance is required under the decision.

An appropriate request for clarification of the decision will be sent to the other party for response. We will send your clarification request and any response to the arbitrator, who may either clarify

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⁷ The authorized HMA dealership must have had the opportunity to perform the KSDS update and the arbitrator may take the circumstances surrounding the opportunity into account, e.g., whether the Claimant refused the KSDS update, whether the vehicle was being serviced or the Claimant came in for another reason.
the decision or let the decision stand as written. Before making a decision on the clarification request, the arbitrator may request a telephone conference with all parties.

D. Correcting the decision or reasons for decision

You may request correction of the decision or reasons for decision only if the decision or reasons contain a mistake of fact, contain a miscalculation of figures, or exceed the arbitrator’s authority – as defined below.

A mistake of fact is not a conclusion of the arbitrator with which you disagree; it is a true error in an objective fact such as a date, time, place or name, and may justify correction only if it concerns the essence of the decision.

A miscalculation of figures is not a dollar figure you consider to be unfair; it is an arithmetic error.

The arbitrator has exceeded his or her authority if the award does not fall within the arbitrator’s authority under these Rules or the terms of the Class Action Settlement.

A request for correction of a decision must be in writing and received by BBB National Programs before the time performance is required by the decision.

If your written statement to us is an appropriate request for correction, it will be handled in the same manner as a clarification request.

E. Decision is impossible to perform or to perform on time

If any party believes the arbitrator’s decision cannot be performed within the established time limit or at all, that party should immediately inform us in writing. We will process your submission in the same manner as a request for clarification.

The arbitrator may request additional evidence or do anything necessary to confirm or deny the claim of impossibility of performance. If the arbitrator confirms such impossibility, the original decision may then be changed to include any remedy falling within the scope of these Rules.

If HMA has exceeded the time for performance specified in the decision, the Claimant should notify us in writing. We will immediately contact HMA and attempt to determine the reasons for its noncompliance.

F. Mathematical errors/correction

BBB National Programs reserves the right to correct obvious mathematical errors in the decision and/or obvious errors in the description of any person, thing or monetary amount.
G. Suspending the time to perform

If a party submits to us a written statement relating to clarification, correction or impossibility of performing the decision, the time for performance of the decision shall be suspended until the issue is resolved.

H. After decision is issued

BBB National Programs will send the arbitrator’s decision to the Claimant and HMA. Once the decision has been issued:

- The parties will be bound to abide by the decision and comply with its terms.
- If HMA fails to perform according to the arbitrator’s decision, the Claimant should notify BBB National Programs, who will then notify Class Counsel and HMA’s Counsel.

15. TIMELY OBJECTIONS

Any failure to follow these Rules that may significantly affect the independence, impartiality or fairness of the arbitration process should be brought to the attention of the BBB National Programs at the earliest opportunity.

Any party raising such objections should attempt to document the specific harm cause by the failure to follow these Rules. We may request that party put its objection in writing. We will make a final decision on the appropriate action to be taken if we determine a failure to follow these Rules has significantly affected the independence, impartiality or fairness of the arbitration process.

16. CONFIDENTIALITY OF RECORDS

It is our policy that records of the dispute resolution process are private and confidential.

BBB National Programs will not release the results of an individual case to any person or group that is not a party to the arbitration unless all parties agree or unless such release is required by state law or regulation or pertinent to judicial or governmental administrative proceedings. This provision shall not apply to Class Counsel, as the class action settlement requires HMA to provide Class Counsel with copies of all communications concerning any arbitration review.

BBB National Programs may use information in our records to conduct general research, which may lead to the publication of aggregate data but will not result in the reporting or publication of any personal information provided to us by a party.

17. LEGAL PROCEEDINGS/EXCLUSIONS OF LIABILITY

In submitting to arbitration under these Rules, the parties agree that the arbitrator shall not be subpoenaed by either party in any subsequent legal proceeding.
The parties further agree that BBB National Programs (including its employees) and/or the arbitrator shall not be liable for any act or omission in connection with any Arbitration.

18. INTERPRETATION OF RULES/RIGHTS TO DISCONTINUE ARBITRATION

BBB National Programs reserves the right, consistent with applicable state or federal law and the Class Action Settlement, to make the final decision on procedural questions, the scope of the issues to be arbitrated, eligibility of a claim for arbitration, and any other questions concerning the application and interpretation of these Rules.

BBB National Programs at all times reserves the right to discontinue or decline administration of arbitration for any case(s) due to the behavior of a party or a conflict with the Class Action Settlement or any state or federal law or regulation.

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Joint Statement HMA/KIA & Theta Class Counsel

Definition of “Commercial Entity” for use in BBB Theta Arbitration Program

Under Section I.E of the Settlement Agreement, “new and used motor vehicle dealerships engaged in the business of buying, selling, or dealing in motor vehicles” are excluded from the settlement class. Counsel for Plaintiffs agree that this provision should be interpreted to also exclude individuals engaged in the business of buying, selling, or dealing in motor vehicles, and individuals employed by or acting on behalf of new and used motor vehicle dealerships, franchisees, vehicle brokers, or automobile auction houses. While individual consumers generally gain in the benefit of the lifetime warranty following a sale; sham creations of individual ownership should not be tolerated. If a vehicle is presented by a dealership owner for repairs and is denied, the denial should be final. However, just because a dealership has previously had possession of a vehicle with a denied failure does not deprive a subsequent owner from making a claim, so long as the subsequent owner shows an (1) arm’s length purchase (2) of a working and (3) non-salvage vehicle (4) following the previous denial.
Exceptional Neglect – Theta BBB Clarification

The “Exceptional Neglect” definition in the settlement agreement in In re: Hyundai and Kia Engine Litigation, No. 8:17-cv-00838-JLS-JDE (C.D. Cal.), was directed primarily toward excluding vehicles that had been recovered from salvage yards, but also included vehicles with engine failures that result from significant maintenance neglect. The parties agreed that clearer guidance should be offered to identify such vehicles with engine failures that result from significant maintenance neglect under the definition of “Exceptional Neglect” definition in the follow-on settlement (In re: Hyundai & Kia Engine Litigation II, No. 8:18-cv-02223 (C.D. Cal.)) by expressly precluding engine replacements when a customer has failed to meet specified oil change intervals. Thus, the parties are offering the following guidelines to assist the arbitrators in better evaluating claims to which “Exceptional Neglect” may apply.

When evaluating whether Defendants’ finding of “Exceptional Neglect” is appropriate to decline coverage under the extended engine warranty, the arbitrator should consider the condition of the engine itself for signs of exceptional maintenance neglect. The language in the definition states “‘Exceptional Neglect’ means (a) when the vehicle clearly evidences a lack of maintenance or care for a significant period of time of not less than one (1) year, such that the vehicle appears dilapidated, abandoned, and/or beyond repair unless such lack of maintenance was due to a Loss Event.” The language under subsection (a) does not require narrowly reading the “vehicle” to mean only the outwardly appearance of the chassis, but rather, is intended to encompass the engine’s appearance and maintenance as well.

In evaluating whether “Exceptional Neglect” exists, the arbitrator can consider objective factors such as whether an inspection of the physical condition of the engine shows unacceptable lacquering, varnish, or sludge (unless such lack of maintenance was due to Loss Event) such that it would be considered a level 4 or 5 of valvetrain varnishing or sludge on the 1–5 scale below. For context, neglected oil changes result in level 3 visual appearance. At levels 4 or 5 of valvetrain varnishing, the engine oil’s useful life has degraded to a point that internal wear is accelerated and damage is likely to occur.

In addition to the physical condition of the engine, other objective factors include whether a holistic review of Defendants’ oil change records from dealers and Carfax (or similar reputable third parties) and maintenance records from the Claimant show unacceptable gaps in regular oil changes. For Extended Warranty purposes, Defendants or dealers must have provided at least 10 business days for a Claimant to provide maintenance records, i.e., Defendants or dealers shall not issue a denial of warranty coverage until after the Claimant has provided records, failed to provide records, or indicated they have no such records within 10 business days of a request for records.

As explained in owner’s manuals, Defendants recommend that, under normal usage scenarios, vehicles with turbo engines receive oil changes turbo engines every 5,000 miles or 12 months,
whichever comes first, and vehicles with non-turbo engines receive oil changes turbo engines every 5,000 miles or 12 months, whichever comes first, and vehicles with oil changes every 7,500 miles or 12 months, whichever comes first. Vehicles maintained according to these recommended oil change intervals will generally have a visual appearance of levels 1 or 2 on the 1–5 scale below. Vehicles with severe usage (e.g., repeatedly driving short distances of less than 5 miles, extensive idling or low speed driving for long distances, driving in heavy traffic areas over 90°F, etc.) should receive more frequent oil changes. As a guideline, unacceptable gaps in regular oil changes would thus include at least:

1. One oil change gap of greater than 7,000 miles (turbo engine vehicles) and 10,500 miles (non-turbo engine vehicles); or
2. One oil change gap of greater than 14 months.

The 1–5 scale to be used for inspection of valvetrain varnishing or sludge is as follows:

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<tr>
<th>Lv.1</th>
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<th>Lv.3</th>
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<th>Description</th>
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<tr>
<td>No sign of discoloration</td>
</tr>
<tr>
<td>Discoloration of front cam cap</td>
</tr>
<tr>
<td>Slight partial discoloration in head cover rail and head top surface</td>
</tr>
<tr>
<td>Discoloration as light brown on the all head top surface</td>
</tr>
<tr>
<td>Discoloration as dark brown on the all head top surface with including cam base circle and camshaft</td>
</tr>
<tr>
<td>Build up black sludge on the cam cap and head top surface</td>
</tr>
<tr>
<td>Discoloration as dark chocolate in the cam base circle and camshaft</td>
</tr>
</tbody>
</table>
Level 1
No sign of discoloration.
Level 2
Discoloration of front cam cap.
Slight partial discoloration in head cover rail and head top surface.
Level 3
Discoloration as light brown on the all head top surface.
**Level 4**
Discoloration as dark brown on the all head top surface with including cam base circle and camshaft.
Level 5

Build up of black sludge on the cam cap and head top surface.
Discoloration as dark chocolate in the cam base circle and camshaft.