

SETTLEMENT AGREEMENT

This Agreement is made and entered into effective as of July 2, 2004, by and among: (1) KB Home, Kaufman & Broad of Northern California, Inc., Kaufman & Broad of Southern California, Inc., Kaufman & Broad Land Company, Kaufman & Broad of San Diego, Inc., Lewis Homes of California, and Lewis Development Company (collectively, the "KB Entities"); (2) Inland Heating, Inc. ("Inland"); (3) Air Design Systems, Inc. ("Air Design"); (4) Lotshaw Air Conditioning, Inc. ("Lotshaw"); (5) Rancho Air, Inc. ("Rancho"); and (6) Consolidated Industries Corp. ("Consolidated") (collectively, the "Parties").

I. FACTUAL RECITALS

1.1 This Agreement is entered into with reference to the following facts:

1.2 Between approximately 1983 and 1993, the KB Entities developed, built, and/or constructed numerous residences containing furnaces manufactured by Consolidated under various trade and brand names (the "Consolidated Furnaces"). As of the date of this Agreement, the KB Entities and/or owners of homes built by the KB Entities have collectively replaced and/or repaired more than 2,000 Consolidated Furnaces (the "Replaced Consolidated Furnaces"). Inland, Air Design, Lotshaw, and Rancho installed and allegedly supplied certain of the Replaced Consolidated Furnaces.

1.3 Certain disputes and disagreements have arisen or may arise between the Parties concerning the Replaced Consolidated Furnaces.

1.4 As a result of the disputes and disagreements referred to in paragraph 1.3 above, the KB Entities commenced a lawsuit which is now pending in Los Angeles County Superior Court, entitled KB Home, et al. v. Consolidated Industries, Corp., et al., Case No. BC 250181 (the "KB Action"). In the KB Action, the KB Entities assert claims for strict liability,

EXHIBIT "B"

negligence, breach of warranty, and fraud, and, as to each such claim, seek damages in excess of \$5 million.

1.5 In consideration of the mutual promises contained herein, the Parties agree as follows:

II. COURT APPROVAL OF THE SETTLEMENT

2.1 Within fifteen business days after both the full execution of this Agreement and notice of the entry of the Good Faith Order regarding the prior settlement between the KB Entities and Consolidated, Consolidated shall file a motion in the United States Bankruptcy Court, Northern District of Indiana, Hammond Division at Lafayette, Case No. 98-40533, for an order granting approval of this Agreement (the "Bankruptcy Court Approval Order").

III. SETTLEMENT TERMINATION

3.1 This Agreement and each of the obligations set forth herein are subject to and expressly conditioned upon the entry of the orders referenced in Section 2.1 in a form agreeable to the Parties and upon such orders becoming final. Orders and rulings shall be final for purposes of this Agreement when the time for any appeal has expired or, if any appeal is taken, when the orders or rulings are affirmed and no further or additional review is available. If (a) the Bankruptcy Court Approval Order is not entered by the bankruptcy court by December 31, 2005 and/or (b) if any ruling that reverses or sets aside the Bankruptcy Court Approval Order becomes final, this Agreement shall automatically terminate. If this Agreement is terminated for any reason after any of the payments referenced in Sections 4.2 through 4.5, inclusive, are made, the Parties receiving such payments shall return such payments within fifteen days after notice of such termination.

IV. CONSIDERATION

4.1 By re-entering the settlement class in the Salah action, the KB Entities assigned certain rights to Consolidated. Subject to the other provisions of this Agreement, Consolidated hereby assigns back to the KB Entities any and all such claims that the KB Entities had against Inland, Air Design, Rancho, and Lotshaw arising out of the Replaced Consolidated Furnaces.

4.2 Within five days after the full execution of this Agreement, Inland shall mail to Greg Dillion at Newmeyer & Dillion LLP a check in the amount of \$2,500 and made payable to KB Home and shall mail to Jeff Richardson at Mitchell Silberberg & Knupp LLP a check in the amount of \$2,500 and made payable to Daniel L. Freeland, Trustee for the Bankruptcy Estate of Consolidated Industries Corp., Debtor (Bankruptcy Case No. 98-40533).

4.3 Within five days after the full execution of this Agreement, Air Design shall mail to Greg Dillion at Newmeyer & Dillion LLP a check in the amount of \$3,750 and made payable to KB Home and shall mail to Jeff Richardson at Mitchell Silberberg & Knupp LLP a check in the amount of \$3,750 and made payable to Daniel L. Freeland, Trustee for the Bankruptcy Estate of Consolidated Industries Corp., Debtor (Bankruptcy Case No. 98-40533).

4.4 Within five days after the full execution of this Agreement, Rancho shall mail to Greg Dillion at Newmeyer & Dillion LLP a check in the amount of \$5,000 and made payable to KB Home and shall mail to Jeff Richardson at Mitchell Silberberg & Knupp LLP a check in the amount of \$5,000 and made payable to Daniel L. Freeland, Trustee for the Bankruptcy Estate of Consolidated Industries Corp., Debtor (Bankruptcy Case No. 98-40533).

4.5 Within five days after the full execution of this Agreement, the KB Entities shall mail to Alexander Gelman at Gelman Law Group a check in the amount of \$1,000 and made payable to Gelman Law Group.

4.6 Within five days after receipt of the last payment referenced in Sections 4.2 through 4.5, inclusive, the KB Entities shall execute, file, and serve a request for dismissal

with prejudice of the remainder of the KB Action. The Court shall retain jurisdiction to set aside such dismissal *nunc pro tunc* in the event that this Agreement is terminated for any reason.

V. RELEASES

5.1 Except for the obligations and rights created by this Agreement, the KB Entities, Air Design, Inland, Lotshaw, and Rancho, and each of them, on behalf of themselves and their agents, representatives, partners, joint venturers, affiliates, attorneys, predecessors, successors, heirs, assigns, insurers, and any other person or entity claiming by or through them, in their capacities as such (the "Releasing Parties"), hereby release and absolutely and forever discharge each other and each other's respective insurers, in their capacities as such, of and from any and all claims, demands, debts, damages, liabilities, accounts, obligations, costs, expenses, liens, rights, matters, losses, actions, and causes of action of every kind or nature whatsoever, whether now known or unknown, suspected or unsuspected, asserted or unasserted, which the Releasing Parties now have, or at any time ever had, or hereafter may have, regardless of legal theory or type or amount of relief or damages claimed, which in any way arises out of, is based on, or relates in any way to the Replaced Consolidated Furnaces, the disputes or disagreements referred to in paragraph 1.3 above, and/or the matters alleged concerning the Replaced Consolidated Furnaces or that could have been alleged in the KB Action (all of which are hereinafter referred to as and are included within "the Released Matters").

5.2 It is the intention of the Releasing Parties in executing this Agreement and in receiving the consideration called for in this Agreement that this Agreement shall be effective as a full and final general release of the Released Matters. The Releasing Parties acknowledge that they are familiar with California Civil Code Section 1542, which provides as follows:

A general release does not extend to claims to which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

The Releasing Parties waive and relinquish any right or benefit which they have or may have under Section 1542 to the full extent that they may lawfully waive such rights and benefits pertaining to the subject matter of this Agreement. In connection with such waiver and relinquishment, the Releasing Parties acknowledge that they are aware that they or their attorneys may hereafter discover claims or facts in addition to or different from those which they now know or believe to exist with respect to the subject matter of this Agreement or any Party hereto; but it is the Releasing Parties' intention to fully, finally, and forever settle and release all of the claims and matters released in paragraph 5.1 above, whether known or unknown, suspected or unsuspected, which now exist, hereinafter may exist, or heretofore may have existed. In furtherance of this intention, the releases herein shall be and remain in effect as full and complete general releases of the Released Matters by the Releasing Parties of the releasees, notwithstanding the discovery or existence of any such additional or different claims or facts.

5.3 Subject to the parties' compliance with the terms of this Agreement and the accuracy of the representations made in this Agreement, the Parties agree that each will use its best efforts to cause the Bankruptcy Court to approve this Agreement and that each shall not take any action or allow any other person or entity acting on its behalf to take any action which would have the effect of causing the Bankruptcy Court to not enter the Bankruptcy Court Approval Order.

VI. GENERAL

6.1 This Agreement constitutes and contains the entire agreement and understanding concerning the subject matter hereof between the Parties and supersedes and replaces all other prior negotiations, proposed agreements, or agreements, written or oral, pertaining to the subject matter hereof.

6.2 Each Party acknowledges to every other Party that neither the other Parties nor any agent or attorney of the other Parties has made any promise, representation, or warranty whatsoever, express or implied, written or oral, not contained herein concerning the subject matter hereof to induce it to execute this Agreement, and each Party acknowledges that it has not executed this Agreement in reliance on any promise, representation, or warranty not contained herein.

6.3 Each Party acknowledges to every other Party that it has been represented by independent legal counsel of its own choice throughout all of the negotiations which preceded the execution of this Agreement and that it has executed this Agreement with the consent and on the advice of such independent legal counsel. Each Party further acknowledges that it and its counsel have had adequate opportunity to make whatever investigation or inquiry they may deem necessary or desirable in connection with the subject matter of this Agreement prior to the execution hereof and delivery and acceptance of the consideration specified herein.

6.4 This Agreement in all respects shall be interpreted, enforced, and governed by and under the laws of the State of California applicable to instruments, persons, and transactions which have legal contacts and relationships solely within the State of California. Any action pertaining to the terms of this Agreement shall be brought in a court of competent jurisdiction located in the State of California, County of Los Angeles.

6.5 This Agreement has been jointly negotiated and drafted. The language of this Agreement shall be construed as a whole according to its fair meaning, and not strictly for or against any Party.

6.6 The Parties shall perform such further acts and execute such further documents as may be reasonably necessary or appropriate to effectuate the terms and purpose of this Agreement.

6.7 This Agreement may be executed in counterparts and shall be effective when each Party has signed a counterpart.

6.8 Each person executing this Agreement warrants and represents to the other Parties that he/she has authority to execute this Agreement, that he/she has read and fully understands this Agreement, and that he/she is entering into this Agreement freely and voluntarily.

6.9 The Parties acknowledge and agree that each of them will bear their own costs, expenses and attorneys' fees arising out of and/or connected with the claims, actions, and/or the negotiation, drafting and execution of this Agreement, and all matters arising out of or connected therewith; except that, in the event any action is brought by any Party to interpret or enforce this Agreement, the prevailing party in such action shall be entitled to all reasonable attorneys', paralegals' and experts' fees, costs and expenses, in addition to all other legal and equitable relief to which that party or those parties may be entitled.

6.10 This Agreement and its terms may be disclosed only under the following circumstances: (1) in connection with motions to obtain the Bankruptcy Court Approval Order; (2) as required by court order or governmental rule or regulation or stock exchange rule; (3) to any reinsurer or retrocessionaire or reinsurance intermediary of the Insurers in connection with

reinsurance obligations; (4) to a Party's attorneys, consultants, auditors or accountants; (5) in any action or proceeding where the existence or terms of this Agreement are at issue; (6) by the Trustee and/or his counsel in connection with the administration of the bankruptcy estate; and (7) by written agreement of the Parties.

6.11 This Agreement shall be binding upon and shall inure to the benefit of the Parties' successors and to any assignees of the KB Entities, Inland, Air Design, Lotshaw, and Rancho approved by the Trustee.

IN WITNESS WHEREOF, the Parties have set their hands and seals as of the day and year first written above.

KB HOME

By: _____
Its: _____

KAUFMAN & BROAD OF
NORTHERN CALIFORNIA, INC.

By: _____
Its: _____

KAUFMAN & BROAD OF
SOUTHERN CALIFORNIA, INC.

By: _____
Its: _____

KAUFMAN & BROAD LAND COMPANY

By: _____
Its: _____

reinsurance obligations; (4) to a Party's attorneys, consultants, auditors or accountants; (5) in any action or proceeding where the existence or terms of this Agreement are at issue; (6) by the Trustee and/or his counsel in connection with the administration of the bankruptcy estate; and (7) by written agreement of the Parties.

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IN WITNESS WHEREOF, the Parties have set their hands and seals as of the day and year first written above.

KB HOME
By: _____
Its: Assistant Secretary

KAUFMAN & BROAD OF
NORTHERN CALIFORNIA, INC.
By: _____
Its: Assistant Secretary

KAUFMAN & BROAD OF
SOUTHERN CALIFORNIA, INC.
By: _____
Its: Assistant Secretary

KAUFMAN & BROAD LAND COMPANY
By: _____
Its: Assistant Secretary

KAUFMAN & BROAD OF SAN DIEGO, INC.

By: _____
Its: Assistant Secretary

LEWIS HOMES OF CALIFORNIA

By: _____
Its: Assistant Secretary

LEWIS DEVELOPMENT COMPANY

By: _____
Its: Assistant Secretary

INLAND HEATING, INC.

By: _____
Its: _____

AIR DESIGN SYSTEMS, INC.

By: _____
Its: _____

LOTSHAW AIR CONDITIONING, INC.

By: _____
Its: _____

RANCHO AIR, INC.

By: _____
Its: _____

KAUFMAN & BROAD OF SAN DIEGO, INC.

By: _____
Its: _____

LEWIS HOMES OF CALIFORNIA

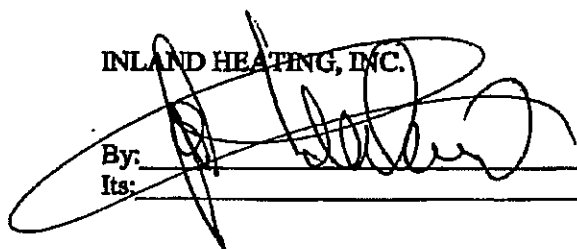
By: _____
Its: _____

LEWIS DEVELOPMENT COMPANY

By: _____
Its: _____

INLAND HEATING, INC.

By: _____
Its: _____



AIR DESIGN SYSTEMS, INC.

By: _____
Its: _____

LOTSHAW AIR CONDITIONING, INC.

By: _____
Its: _____

RANCHO AIR, INC.

By: _____
Its: _____

KAUFMAN & BROAD OF SAN DIEGO, INC.

By: _____
Its: _____

LEWIS HOMES OF CALIFORNIA

By: _____
Its: _____

LEWIS DEVELOPMENT COMPANY

By: _____
Its: _____

INLAND HEATING, INC.

By: _____
Its: _____

AIR DESIGN SYSTEMS, INC.

By: James L. Kerner
Its: President

LOTSHAW AIR CONDITIONING, INC.

By: _____
Its: _____

RANCHO AIR, INC.

By: _____
Its: _____

KAUFMAN & BROAD OF SAN DIEGO, INC.

By: _____
Its: _____

LEWIS HOMES OF CALIFORNIA

By: _____
Its: _____

LEWIS DEVELOPMENT COMPANY

By: _____
Its: _____

INLAND HEATING, INC.

By: _____
Its: _____

AIR DESIGN SYSTEMS, INC.

By: _____
Its: _____

LOTSHAW AIR CONDITIONING, INC.

By: Charles Lotshaw
Its: _____

RANCHO AIR, INC.

By: _____
Its: _____

LEWIS DEVELOPMENT COMPANY

By: _____
Its: _____

INLAND HEATING, INC.

By: _____
Its: _____

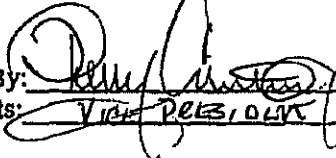
AIR DESIGN SYSTEMS, INC.

By: _____
Its: _____

LOTSHAW AIR CONDITIONING, INC.

By: _____
Its: _____

RANCHO AIR, INC.

By:  _____
Its: VICE PRESIDENT _____

CONSOLIDATED INDUSTRIES CORP.

By: _____
Its: _____

Daniel L. Freeland, . . .
U.S. Bankruptcy Trustee for
Consolidated Industries Corp.

CONSOLIDATED INDUSTRIES CORP.

By: _____

Its: Trustee _____

Daniel L. Freeland,
U.S. Bankruptcy Trustee for
Consolidated Industries Corp.

AGREED AS TO FORM:

NEWMAYER & DILLION LLP

By: _____

Gregory L. Dillion

Attorneys for KB Home; Kaufman & Broad of
Northern California, Inc.; Kaufman & Broad of
Southern California, Inc.; Kaufman & Broad
Land Company; Kaufman & Broad of San Diego, Inc.;
Lewis Homes of California; and
Lewis Development Company

BRADY, VORWERCK & RYDER
A Law Corporation

By: _____

John Wilcoxson

Attorneys for Inland Heating, Inc. and
Air Design Systems, Inc.

BULLARD, BROWN & BEAL LLP

By: _____

James E. Bullard


Attorneys for Inland Heating, Inc.

CONSOLIDATED INDUSTRIES CORP.

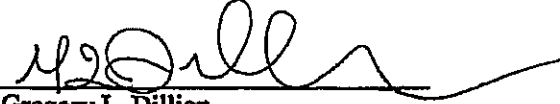
By: _____

Its: _____

Daniel L. Freeland,
U.S. Bankruptcy Trustee for
Consolidated Industries Corp.

AGREED AS TO FORM: *as to their respective clients* 

NEWMAYER & DILLION LLP

By: 

Gregory L. Dillion

Attorneys for KB Home; Kaufman & Broad of Northern California, Inc.; Kaufman & Broad of Southern California, Inc.; Kaufman & Broad Land Company; Kaufman & Broad of San Diego, Inc.; Lewis Homes of California; and Lewis Development Company

BRADY, VORWERCK & RYDER
A Law Corporation

By: _____

Kevin K. Broerman

Attorneys for Inland Heating, Inc. and Air Design Systems, Inc.

BULLARD, BROWN & BEAL LLP

By: _____

James E. Bullard

Attorneys for Inland Heating, Inc.

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Gregory L. Dillion

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Southern California, Inc.; Kaufman & Broad
Land Company; Kaufman & Broad of San Diego, Inc.;
Lewis Homes of California; and
Lewis Development Company

BRADY, VORWERCK & RYDER
A Law Corporation

By: 
Kevin K. Eyoerman

Attorneys for Inland Heating, Inc. and
Air Design Systems, Inc.

BULLARD, BROWN & BEAL LLP

By: Withdrawn as counsel
James E. Bullard

Attorneys for Inland Heating, Inc.

GELMAN LAW GROUP

By: _____
Alexander M. Gelman

Attorneys for Lotshaw Air Conditioning, Inc.

GELMAN LAW GROUP

By: _____

Alexander M. Gelman

Attorneys for Lotshaw Air Conditioning, Inc.

FREDERICKSON, MAZEIKA & GRANT LLP

By: _____

Michelle I. Morelli

Attorneys for Rancho Air, Inc.

MITCHELL SILBERBERG & KNUPP LLP

By: _____

Jeffrey L. Richardson

Attorneys for Daniel L. Freeland,
U.S. Bankruptcy Trustee for
Consolidated Industries Corp.

FREDERICKSON, MAZEIKA & GRANT LLP

By: 

Michelle I. Morelli
Attorneys for Rangho Air, Inc.

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