

**QSI Press Release**  
*14 August 2008*

**MTH-Korea Brass-QSI-Real Rail Effects Settlement**

QSI is pleased to report that QSI, MTH, Korea Brass (a.k.a. KB), and Real Rail Effects have resolved their legal conflicts. The settlement includes:

- Cash payment to QSI
- Real Rail Effects dismissal of their patent infringement suit against QSI
- Resolution of long-standing legal issues between KB and QSI
- Dismissal of the patent invalidity suit against QSI by MTH
- Dismissal of the patent infringement suit against MTH by QSI
- Grant of license from Real Rail Effects
- Resolution of the judgment against KB by MTH

The latter was part of the recent lawsuit and approximately \$39,000,000 judgment in favor of MTH against defendants Lionel, and Korea Brass for misappropriating MTH's trade secrets.

"It is not often that competing companies have the opportunity to make a significant contribution to the Model Railroad Market. The opportunity came to QSI by way of very complicated legal issues that have entangled four companies directly and three companies indirectly. The settlement of these issues has freed up the companies involved to pursue the design and production of their individual model railroad products without undue concern of patent infringement or the expense of time-consuming legal action," said QSI's C.E.O. Fred Severson.

The settlement grants significant cash payment from Korea Brass to QSI, and settlement of lawsuits by Real Rail Effects against Atlas Model Trains and Tony's Train Exchange, both of which are QSI customers. Atlas sells high quality HO and N Scale locomotives, track, and all manner of model railroad products. Atlas has installed the QSI Quantum Sound System in many of their top-of-the-line locomotives. Tony's Train Exchange is a highly successful hobby supplier and a leader in DCC based products. Tony retails QSI products through QSI Solutions and distributes QSI aftermarket products to many hobby shops through his distribution company, American Hobby Distributors. The grant of License by Real Rail Effects ensures that QSI customers will not be sued for past or future infringement of the Real Rail Effects patent.

As Fred Severson said, "sure we could have pursued our lawsuit against MTH, but under the present circumstances, it would have been a disaster for the model train market. All companies concerned would have found themselves embroiled

in legal battles for years to come and perhaps some companies might go out of business with consequences for all. Considering all the time and money spent on legal problems for all companies involved, the money is better spent making better trains. Now it looks like that will happen. This is a good day for the model train market.”

QSI (a.k.a. QS Industries, Inc.) has been in business since 1983. It is a general electronic design company that specializes in model train products, Bio-medical Instrumentation, and Integrated Circuits. QSI has supplied many model train companies with high-quality state-of-the-art sound and train control systems, including Ajin, American Hobby Distributors, Atlas, Austrains, Broadway Limited Imports, Canadian Hobby Craft, House of Duddy, Charles Ro, Eureka Trains, Intermountain Railroad Company, Korea Brass, Life-Like, Lionel, Mikes Train House, MKT, Red Caboose, Scale Tin Rail, SGL Lines, Sunset Models, Tenshodo, Third-Rail Trains, Tony’s Train Exchange, Walthers, Weaver Models and Williams Electric Trains.

QSI is a privately held corporation founded by Fred Severson and Pat Quinn, both of which are experienced IC design engineers. Our expertise in IC design resulted in our QUIC-51 Application Specific Integrated Circuit (A.S.I.C.) which is now used as the heart of our Quantum Sound Systems and sold throughout the world. QSI has been granted over 15 patents, U.S. and foreign, plus additional patents pending. Along with our Copyrights, Trade Secrets, licensing agreements, and proprietary Integrated Circuits, QSI has made significant investment in Intellectual Property (IP) that we defend vigorously. In addition, our IP protects our customers by ensuring that our products are unlikely to face legal challenges.