



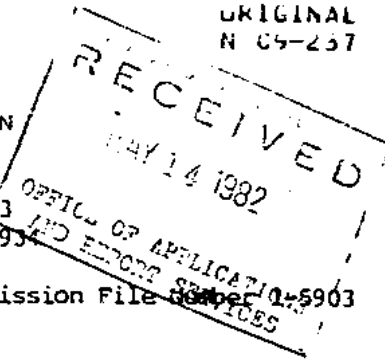
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ORIGINAL
N 05-237

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Quarterly Report Under Section 13
of the Securities Exchange Act of 1934



For Quarter Ended: March 31, 1982

Commission File Number 13-5903

RELiance ELECTRIC COMPANY

Delaware
(State of Incorporation)

13-6095242
(IRS Employer Identification No.)

29325 Chagrin Boulevard
Cleveland, Ohio 44122
(Address of Principal Executive Offices)

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Registrant's telephone number including area code: (216) 266-7000

THE REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS G(a) (1) and (2) of FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT AS PERMITTED BY SAID GENERAL INSTRUCTIONS.

Indicated by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by the report.

Common Stock
(without par value)

107 shares outstanding
March 31, 1982

RELIANCE ELECTRIC COMPANY AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 1982

Note A - Basis of Presentation

The accompanying unaudited consolidated condensed financial statements include all adjustments which in the opinion of management are necessary to a fair statement of the results of operations and changes in financial position for the interim periods presented. Such adjustments consist only of normal recurring accruals. Certain 1981 income and expense accounts have been reclassified to conform to December 31, 1981 reporting classifications. The results of operations for the three months ended March 31, 1982 and 1981, are not necessarily indicative of the results to be shown for the years ended December 31, 1982 and 1981.

Note B - Inventories

Components of inventory were as follows:

	As of <u>March 31, 1982</u>	As of <u>December 31, 1981</u>
Raw materials	\$164,393	\$192,732
Work in process	254,945	251,267
Finished goods	<u>187,000</u>	<u>165,014</u>
	<u>\$606,338</u>	<u>\$609,013</u>

Note C - Contingencies

Matters Regarding Federal Pacific Electric Company

Since the acquisition of Federal Pacific Electric Company ("Federal Pacific") from UV Industries, Inc. ("UV") in 1979, the Company has learned that the Underwriters Laboratories, Inc. ("UL") listings on circuit breakers made by Federal Pacific had previously been obtained through the use of deceptive and improper practices. Such improper test practices were terminated after the acquisition and, as a result, most of the circuit protective products manufactured by Federal Pacific, at some point thereafter, lost their UL listing. The Company is in the process of correcting product deficiencies in order to regain the lost listings and continues to submit such circuit protective products for UL listing. Sales of circuit protective systems amounted to approximately \$100,000,000 in 1979. The Company has suspended the sale of certain models until the results of tests can be evaluated, and production and sale of certain other models have been suspended until such time as the UL listing for such models is regained. Circuit protective products bearing UL listings currently being manufactured by Federal Pacific meet the requirements of UL tests. In addition, tests conducted in-house by the Company indicated a possible defect in some of the past production of the Stab-Lok line of two-pole, 220 volt circuit breakers. The Company retained an independent testing laboratory to conduct additional tests to determine whether a significant hazard exists with regard to these devices. The Company also notified the Consumer Product Safety Commission ("CPSC") of its

Note C - Contingencies (continued)

investigation. The independent testing laboratory has completed its testing and concluded that based upon tests simulating "real-life" situations, the tested circuit breakers provided adequate protection. The report of the independent testing laboratory has been provided to the CPSC. Members of the CPSC staff have indicated to the Company that the staff does not agree with the independent laboratory report.

The Company has also identified potential problems with certain molded case circuit breakers which are used predominantly in commercial and industrial applications and reported such information to the CPSC. On February 17, 1981, Federal Pacific announced that it will voluntarily replace or field modify certain models of its molded case circuit breaker line. Accordingly, the Company accrued \$31,000,000 (\$16,750,000 after applicable income taxes) in 1980 for such replacements and modifications.

Management is unable at this time to determine the validity or amount of any possible unasserted claims resulting from these situations as related to past sales of subject products.

In June, 1980, the Company and Federal Pacific brought suit in the U. S. District Court, Northern District of Ohio, against UV Industries, Inc. ("UV"), UV Liquidating Trust, and the Trustees of the UV Liquidating Trust for damages of \$345,000,000 or rescission of the sale of Federal Pacific to Reliance Electric. Sharon Steel Corporation, which has assumed the liabilities of UV, is also a defendant in the suit, as is the former President and Director of Federal Pacific. The Company asserts breaches of contract, violations of federal securities laws, and common law fraud in connection with its purchase of all the outstanding securities of Federal Pacific. The Company contends that improper and deceptive practices were employed for many years to secure UL listings for Federal Pacific's circuit protective products, and that such practices, as well as other matters, including the improper disposal of chemical waste materials by a subsidiary of Federal Pacific, were material and should have been disclosed by UV to Reliance Electric in connection with its purchase of Federal Pacific securities. The Company asserts that the financial statements of Federal Pacific, relied upon by Reliance Electric at the time of the purchase, were inaccurate since they failed to reflect material contingent liabilities. The Company also commenced, in September, 1980, a separate lawsuit in Common Pleas Court of Cuyahoga County, Ohio, against Sharon Steel Corporation for such damages as the Company claims UV owes the Company based upon the assumption of UV liabilities by Sharon Steel Corporation. The Company has also commenced separate lawsuits, in connection with the same transaction and seeking similar relief, in February, 1982, in the Court of the County of New York, New York. These actions were brought against Defendants UV, UV Liquidating Trust, the Trustees of the UV Liquidating Trust and Sharon Steel and assert breaches of contract, fraudulent conveyances, and common law fraud. The actions were brought in view of Defendants' claim that the Federal Court lacks jurisdiction to decide the issues presented to it.

Defendants UV, UV Liquidating Trust and the Trustees of UV Liquidating Trust have asserted counterclaims against the Company and four of its present and former officers in the amount of \$168,000,000 in compensatory damages and \$200,000,000 in punitive damages alleging that the bringing of the lawsuit by the Company interfered with UV Defendants' contractual relations with Sharon Steel corporation and the trust beneficiaries. Plaintiff's motion to dismiss

Note C - Contingencies (continued)

the UV counterclaims is based on the proposition that the counterclaims may not be properly asserted until after the merits of the Company's case have been determined. The Company has been advised by litigation counsel that, while the outcome of litigation is inherently uncertain, the chance of Plaintiffs suffering a material adverse change in financial position because of the UV counterclaims is remote.

Defendant Sharon Steel Corporation has asserted cross-claims and counterclaims for unspecified compensatory damages and \$100,000,000 in punitive damages against the UV defendants, the defendant former President and Director of Federal Pacific, the Company, and Federal Pacific alleging that it was misled into assuming liabilities of UV, if, in fact, such liabilities were assumed. The litigation is presently in the discovery stages. The Company intends to pursue its claims and vigorously defend against the counterclaim.

Environmental Matters

During the fiscal year, the Company has continued its investigation into the past use of chemicals containing polychlorinated biphenyls ("PCBs") at the New Bedford, Massachusetts plant of Cornell-Dubilier Electronics Corporation ("Cornell-Dubilier"), a subsidiary of Federal Pacific. In the past this facility used Aroclor and other compounds containing PCBs in its manufacture of capacitor products. All of these compounds containing PCBs were manufactured by Monsanto Corporation. Cornell-Dubilier ceased using Aroclor or these other compounds containing PCBs in 1978.

On October 10, 1980, Cornell-Dubilier was named as one of five defendants in a lawsuit filed in the Bristol County, Massachusetts Superior Court alleging that Cornell-Dubilier, Aerovox, Inc. (an unaffiliated manufacturer), the City of New Bedford, Massachusetts, and two public officials damaged the plaintiffs/fishermen and the class they purport to represent. The suit alleges that the defendants violated the civil rights of the plaintiffs and, in addition, caused them physical and emotional injury in connection with the negligent and improper disposal of PCB chemical waste materials. The complaint seeks to require the defendants to remove PCB chemical wastes from New Bedford harbor and surrounding environs, to restrain them from allegedly improperly disposing of such waste chemicals, and to recover damages of \$25,000,000.

In a separate cause of action related to the same facility, Cornell-Dubilier was named as one of three defendants in an admiralty lawsuit filed December 31, 1980 in the United States District Court for the District of Massachusetts. The suit is an action in civil and maritime tort for damages for \$20,000,000. It alleges that disposal of chemical and metal wastes (including PCB wastes) and other pollutants by Cornell-Dubilier, Aerovox, Inc., and Belleville Industries, Inc., (manufacturers unaffiliated with the Company) damaged the named plaintiffs (including the Massachusetts Lobstermen's Association, Inc.) and the class of lobstermen, shell-fishermen and other fishermen they purport to represent.

The Company intends to vigorously contest both suits. At this time, because these matters are in a preliminary stage, the Company is unable to determine the potential liability, if any, which may result therefrom.