

EATON

Internal Correspondence

Date: January 6, 1987
To: F. M. Kovalik
Axle & Brake - Galesburg
A. Bau, O. Bryant, G. Cotter, D. Doty, J. Elser, W. Gieseler,
Copy: R. Williams, W. Hoenes, Marketing Manager, R. Anders, R. Rooke, R. Scott,
N. Valentine, M. Olson, F. Hols, M. Samples, B. Wolfe, N. Wade, C. Bokar
From: Robert Ille - Axle & Brake Division Headquarters-Galesburg
Subject: MONTHLY REPORT- DECEMBER, 1986

RABA

A complete review of the RABA response to the Eaton reconciliation was sent to Fred Kovalik on December 15, 1986. This review shows Eaton and RABA to be \$10,700,000.00 apart in their reconciliations. RABA's claim for unutilized capacity and cost incurred by RABA for spider and anchor pin problems are responsible for more than half of the difference.

RABA has offered to ship all 41,400 shoes with asbestos brake lining currently being held at RABA to Eaton for no cost. Eaton will sell the shoes at \$5.00 a piece and realize \$207,000 of the more than three and a half million it claims from RABA. To date, no shipment notification has been received for these shoes.

In general response to Mr. Romvari's reconciliation letter, Fred Kovalik has telexed indicating that we were very insulted by the tone of the language and the fact that RABA is making claims for unutilized capacity which is expressly forbidden in the contract. Fred has further stated that as a result, we see no reason for the meeting which was planned in Gyor for the week of January 12, and have, therefore, cancelled the meeting. No response has been received from RABA to date.

On December 11 and 12, members of the Commerce Department were in Gyor for verification of the first annual review of the Suspension Agreement. Our initial reports from RABA's lawyers, as well as the Commerce Department, seemed to indicate that the review went well.

The major questions still seems to be how warranty and quality costs, which are claimed by Eaton, will be handled. Commerce had stated an initial position that it felt that those must be considered as part of the costs of manufacturing of the axle. Jerry Zaucha, our lawyer, is taking a firm stand against this. He is firmly convinced that Commerce has no basis in law for making this claim, and quite frankly, does not understand why the claim is being made in the first place. Meetings are scheduled with Zaucha, Art Downey, and the Commerce Department for the middle of January in an attempt to clear this up. A report on the first annual review is due from Commerce by the middle of February.

EXHIBIT
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