

Exxon buys a scandal along with a company

Exxon Corp.'s \$1.2 billion purchase of Cleveland's Reliance Electric Co. last year was designed to give Exxon a base for developing a new energy-saving technology to improve the efficiency of electric motors. What the purchase seems to have bought as well, however, is custody over a burgeoning scandal that involves the charge that defective electrical equipment may have been installed in perhaps 10% of all homes built or renovated over the past decade or more.

The charge, startlingly enough, is being made by Reliance itself. In a little-noticed suit filed in U. S. District Court in Cleveland on June 26, the company accused its own subsidiary, Federal Pacific Electric Co., of having employed "materially deceptive and improper manufacturing, testing, and certification practices" in the production of one of the nation's most widely used lines of circuit breakers. The suit asked the court either

to rescind Reliance's March, 1979, purchase of Federal Pacific from UV Industries Inc. or to order UV to repay the \$345 million purchase price, plus damages.

A week later Reliance notified the Consumer Product Safety Commission (CPSC) that in-house testing of its Stab-Lok line of two-pole, 220-volt circuit breakers indicates that some are prone to failure after repeated use "at relatively low over-current conditions." Reliance says it has not yet determined whether there is a significant hazard in using the device, and there have been few public complaints against it. But the company has stopped shipment of the product and requested distributors to halt further sales until tests are completed. Other unspecified problems also have been identified on three-pole Stab-Lok and molded-case circuit breakers. Says Reliance President B. Charles Ames: "The circuit breaker business at Federal Pacific has virtually ground to a halt."

Who is responsible? That may be only the beginning. The items involved cost only \$16.60 apiece. But if the CPSC determines that they should be recalled, the outlay could be enormous since it would require the services of professional electricians. The cost per house could be as much as \$100, trade sources say.

The underlying question in the Cleveland case is who bears the responsibility for this substantial potential liability. The principal defendant is UV Industries, which, after its sale of Federal Pacific, profitably liquidated itself last year over the strong objections of its major stockholder, Sharon Steel Corp. Following the liquidation, Sharon, controlled by Miami financier Victor Posner, bought the remaining assets—and presumably the liabilities—of UV for \$518 million in cash and debentures. Distribution of the proceeds was scheduled to take place on July 21, but Reliance is asking for the imposition of a "constructive trust" to prevent "dissipation" of UV's assets. Aside from Sharon's 22% interest in UV's liquidating trust, most of the company's shares are now in the hands of Wall Street arbitrageurs.

Procedural delays. UV Chairman Martin Horwitz strongly denies that he knew anything about Federal Pacific's alleged problems and says the case will be contested. A hearing on a motion to dismiss or transfer the case to New York was set for July 11, probably only the first of a long series of procedural maneuvering.

The Reliance complaint is vague in its allegations of what went on at Federal Pacific. Reliance charges that the company's financial success "was due substantially, if not entirely, to a pattern of materially deceptive and improper practices in the manufacture, testing, and sale" of its circuit breakers. Specifically,

the suit claims Federal Pacific used such practices to obtain certification for its equipment from Underwriters Laboratories (UL), whose label is usually required for a product to meet local electrical codes. The CPSC has not yet been told details of the alleged deceptive practices, but a commission staff engineer who

Exxon's new company is suing its own subsidiary for 'deceptive' practices

once worked for UL suggests that the practices may have involved rigging equipment at Federal Pacific's own test facilities in a way that would mislead UL's on-site inspectors.

UL professes surprise at the charge that its inspectors were somehow duped, and its general counsel, David Hoffman, insists that "there is no evidence to support the conclusion that products out in the field pose a substantial hazard to the user." Hoffman further says that because relationships between UL and its client, Federal Pacific, are "proprietary," he cannot even publicly confirm Reliance's open statements that its subsidiary's circuit breaker products were delisted after failing various tests.

The delisting occurred after UL changed testing procedures for circuit breakers following CPSC concern that the product might pose fire hazards. The commission last year asked the National Bureau of Standards to design new test equipment to determine performance under actual conditions in the home. The Reliance case could thus turn into an inquiry affecting the entire \$600 million circuit breaker industry.

It was apparently UL's action last fall in delisting nearly 400 circuit breaker labels that started the whole legal process. Reliance says it was originally told that such delisting was routine. But sales had slid so much by early May that it was obvious that the real problem was not the failure of circuit breakers to gain UL approval but "deception" in obtaining certification over a long period of years.

Reliance has suspended with pay Federal Pacific President Harry E. Knudson Jr. and four other key executives. "The men are long-term employees and their integrity is not being called into question," Reliance said in a statement distributed on July 1 to all Federal Pacific employees. Contacted at his home in Watchung, N. J., Knudson refused comment.