

MEGA TAX CREDIT AGREEMENT
Eaton Aeroquip Inc.

This Agreement between the Michigan Economic Growth Authority ("MEGA"), whose address is 300 North Washington Square, Lansing, Michigan 48913 and Eaton Aeroquip Inc. (the "Company"), a Michigan corporation, whose address is 300 South East Avenue, Jackson, Michigan 49203 and whose Employer Identification Number is



RECITALS

WHEREAS, the MEGA has been created by the Michigan Economic Growth Authority Act, Act No. 24 of Public Acts of 1995, as amended (the "Act"), with the power to provide tax credits to businesses involved in manufacturing, mining, research and development, wholesale and trade, or office operations.

WHEREAS, the Legislature has determined that it is in the public interest to promote economic growth and to encourage private investment, job creation and job upgrading for the residents of the State of Michigan.

WHEREAS, the MEGA has determined that providing tax credits to the Company for job creation and retention will promote and serve the purposes of the Act.

WHEREAS, the MEGA and the Company desire to set forth the terms and conditions for a MEGA Tax Credit.

NOW, THEREFORE, the parties agree as follows:

1.0 DEFINITIONS

(a) "Act" means Public Act 24 of 1995, as amended.

(b) "Affiliated Business" means Eaton Aerospace LLC, Federal Employment number 34-1926527.

(c) "Agreement" means this written agreement.

(d) "Application" means any information submitted to the MEGA in support of the Company's request for a Tax Credit.

(e) "Anniversary Date" means December 31, 2007.

(f) "Associated Business" means Eaton Corporation, Employer Identification Number 34-0196300.

(g) "Authority" or "MEGA" means the Michigan Economic Growth Authority created by the Act.

(h) "Average Weekly Wage" means the total salaries and wages paid during the applicable tax year to employees performing Retained Jobs at the Project, divided by 52, divided by the number of Retained Jobs at the Project.

(i) "Certificate" or "Tax Credit Certificate" means the certificate required to be issued by the Act which states that the Company is an authorized business, the amount of the Tax Credit authorized for a tax year, and the Company's federal employer identification number or Michigan Treasury number.

(j) "Certificate Application" or "Application for a MEGA Tax Credit Certificate" means the written information submitted each year in support of the Company's request for a Tax Credit Certificate.

(k) "Facility" means the "Project" or the site(s) within this state at which the Company has committed to locating Retained Jobs.

(l) "Full-time Job" means a job performed by an individual who is employed for consideration for 35 hours or more each week and for which the Company, the Associated Business, or the Affiliated Business withholds income and social security taxes.

(m) "MEGA Employment Credit" or "Employment Credit" means a credit against the Single Business Tax authorized by Section 38g(20)(a) of Public Act 143 of 2000.

(n) "MEGA Tax Credit" or "Tax Credit" means a MEGA Employment Credit.

(o) "Person" means an individual, proprietorship, joint venture, partnership, trust, business trust, syndicate, association, joint stock company, corporation, cooperative, limited liability company or any other organization.

(p) "Project" means the Facility at which the Company will locate Retained Jobs as described under Project Description.

(q) "Retained Job" means a Full-Time Job held by a Michigan resident employed by the Company, the Associated Business, or the Affiliated Business that is located at the Project after the date of execution of this Agreement.

(r) "Salaries and Wages" means wages, tips and other compensation reported in Box 1 of the employees' W-2 forms.

(s) "Statement of Eligibility" or "Statement" means the certified statement required by Section 4.2 of this Agreement.

2.0 REPRESENTATIONS

2.1 Representations by the MEGA. With respect to the Agreement, the MEGA

makes the following representations and warranties as of the date of execution of this Agreement:

(a) The MEGA is a public body established and acting pursuant to the Act.

(b) The MEGA has the necessary power under the Act to grant MEGA Tax Credits and has duly taken all action on its part required to authorize, execute and deliver this Agreement. This Agreement, when executed, will be valid, binding and enforceable in accordance with its terms.

(c) Upon execution of this Agreement, the MEGA will issue the Company's initial Tax Credit Certificate in the form attached to this Agreement.

2.2 Representations by the Company. With respect to the Agreement, the Company makes the following representations and warranties as of the date of execution of this Agreement:

(a) Existence and Power. The Company is validly existing and is in good standing under the laws of the State of Michigan, and is duly qualified to transact business in Michigan.

(b) Corporate Authority. The execution, delivery and performance by the Company of this Agreement have been duly authorized by all necessary corporate action and will not violate any provision of law or of its articles of incorporation or its bylaws.

(c) Full Disclosure. Neither this Agreement, the Company's Application, nor any written statements furnished by the Company to the MEGA in connection with the authorization of a MEGA Tax Credit contain any untrue statement of a material fact or omit a material fact.

(d) Eligibility. The Company will maintain Retained Jobs at the Project generally classified under SIC Code 3492.

(e) Project Description. The Company will consolidate its production and testing of hose assemblies and retain up to 563 jobs at the Facility at 300 South East Avenue, Jackson, and 2800 West Argyle Road, Blackman Township, Jackson County. The Project will result in the maintenance of the statutory minimum of 300 Retained Jobs no later than December 31, 2007, of which no more than fourteen can be maintained by the Associated Business, and no more than nine can be maintained by the Affiliated Business. The Retained Jobs will pay an Average Weekly Wage of at least \$1,027 and at no time will the average wage paid for the Retained Jobs be less than 150 percent of the federal minimum wage.

The Project is economically sound and the investment capital and/or financing needed to complete the Project is now committed or will soon be available to the Company.

(f) Need for MEGA Tax Credits. The Tax Credits authorized by this Agreement address the competitive disadvantages of locating in Michigan instead of a site outside this State. The Project will not occur in Michigan without the tax credits offered by this Agreement and the Act.

(g) Site Reuse. The Company has considered the reuse or redevelopment of property previously used for an industrial or commercial purpose and the Company has determined the use of such property is feasible in locating the Project.

(h) Certification. The Company has made the certifications required by Section 8(3)(f) of the Act, which are attached to this Agreement as Schedule B.

(i) Binding Agreement. When executed by both parties, this agreement will be a valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

3.0 MEGA TAX CREDIT

Based upon the Application and the Company's representations and warranties in this Agreement, the Authority authorizes the following tax credits subject to the conditions in Section 4.0 of this Agreement.

3.1 Employment Credit

(a) An Employment Credit equal to 100 percent of the state's personal income tax rate, as it exists at the beginning of the Company's tax year for which the credit is being sought, multiplied by the total Salaries and Wages, before deducting any personal or dependency exemptions of employees performing Retained Jobs. The Employment Credit is authorized for seven consecutive tax years beginning with the Company's tax year ending December 31, 2007.

(b) No more than 563 Retained Jobs may be used in calculating the Employment Credit as provided in Section 38g(20)(a) of Public Act 143 of 2000.

4.0 CONDITIONS OF THE MEGA TAX CREDITS

4.1 Eligibility. The Company shall not be eligible for the Tax Credit on Retained Jobs provided in Section 3.0 of this Agreement unless:

(a) A minimum of 360 Retained Jobs have been located at the Project, no later than the Anniversary Date.

(b) A minimum of 360 Retained Jobs are maintained at the Project in any year for which the Company receives the credit.

(c) The Average Weekly Wage paid to all employees performing Retained Jobs is at least \$1,027.

4.2 Statement of Eligibility (Retention). Any time after 360 Retained Jobs have been located at the Project, but in no case later than 30 days after the Anniversary Date, and in all cases prior to or concurrent with the first application for a Tax Credit Certificate, the Company shall file a Certified Statement of Eligibility in a form specified by the Authority. The Statement shall contain the following information:

- (a) The number of Retained Jobs.
- (b) The Average Weekly Wage paid to employees with Retained Jobs.
- (c) A certification by an authorized officer of the Company that the information provided in the Statement of Eligibility is true.

4.3 Tax Credit Certificate. To obtain a Tax Credit Certificate in connection with the tax credits authorized in this Agreement for Retained Jobs in any tax year, the Company shall:

- (a) Maintain the minimum number of Retained Jobs at the Project as required by Schedule A of this Agreement, for the applicable tax year. In computing the number of Retained Jobs at the Project in any tax year, the Company shall determine the number of Retained Jobs at the Project as of the last day of each of the four quarters of the applicable tax year, total the results for the four quarters, and divide the sum by four (4).
- (b) Pay an Average Weekly Wage in connection with the Retained Jobs of at least the amount required by Schedule A of this Agreement for the applicable tax year.

(c) Pay an average hourly wage in connection with Retained Jobs that equals or exceeds 150 percent of the highest hourly federal minimum wage in effect for the applicable tax year.

(d) Make an Application to the MEGA for a Tax Credit Certificate as provided in Section 5.0 of this Agreement.

(e) Provided that the Company has initially satisfied the requirements of Section 4.1 and 4.2, failure of the Company to satisfy the requirements of Section 4.1 and 4.3 in any given year does not preclude the Company from qualifying for and obtaining a Tax Credit in any other year, if authorized by Section 3.1 of this Agreement.

4.4 Audit and Verification. The information provided in the Application, the Application for a MEGA Tax Credit Certificate, and the Statement of Eligibility are subject to audit and verification by the Authority or its designee. Upon reasonable advance notice to the Company by the Authority, the Company shall permit the Authority or its designee, during normal business hours, to inspect the files of the Company solely for the purpose of verifying eligibility for the Tax Credits authorized by this Agreement. The files subject to inspection include, but are not limited to, those relevant to wage and hour records, job classification, job assignments and employment histories.

The Authority or its designee shall use all information received pursuant to inspection of the Company's files solely for the purpose of verifying eligibility for the Tax Credits authorized by this Agreement. The Company may request confidentiality pursuant to Section 5(3) of the Act on financial or proprietary information retained by the Authority in the course of its inspection of the files.

4.5 Administrative Fee. The Company must pay an administrative fee of \$30,130 to MEGA upon submission of the Certified Statement of Eligibility required by Section 4.2. The administrative fee is one-half of one percent of the MEGA Cost, as reported in current dollars, in the cost/benefit analysis of the Project, as presented to the MEGA at the time the Tax Credit was authorized, except in no case will the Administrative Fee exceed \$100,000.

5.0 ANNUAL APPLICATION FOR TAX CREDIT CERTIFICATE

5.1 For each year that it seeks a Tax Credit under this Agreement, the Company shall complete an Application for a MEGA Tax Credit Certificate.

5.2 The Certificate Application shall be filed with the Authority at least 45 days prior to the day the Company's Single Business Tax return is due. If the Company receives an extension of the deadline to file its Michigan Single Business Tax return, the Company shall notify the MEGA of the extension and the Certificate Application shall be filed with the Authority at least 45 days prior to the extended deadline.

5.3 The form of the Certificate Application shall be as specified by the Authority from time to time. The Certificate Application shall contain the following information:

(a) The number of Retained Jobs at the Project as of the end of each of the four quarters in the applicable tax year.

(b) The total Salaries and Wages, before deducting any personal or dependency exemptions, paid to employees who had Retained Jobs at the Project during the applicable tax year.

(c) Any other information which is reasonably related to determining the applicable Tax Credit.

(d) A certification by an Authorized Officer of the Company that the information provided in a Certificate Application is true.

5.4 The information in a Certificate Application is subject to audit and verification by the Authority or its designee consistent with Section 4.4 of this Agreement.

5.5 Within 45 days of receiving a complete Certificate Application, the MEGA will review that application to determine whether the requirements of this Agreement have been satisfied and, if so, will calculate the credit authorized under this Agreement and issue a Tax Credit Certificate to the Company.

6.0 ADJUSTMENT, REDUCTION, OR TERMINATION OF CREDITS

6.1 If, by the Anniversary Date, the Company does not comply with the conditions required in Section 4.1, this Agreement is void, the Company is no longer an authorized business for purposes of the Act and no Tax Credits will be authorized under this Agreement.

6.2 Failure of the Company to comply with any provision of this Agreement, other than as a result of a clerical or technical error which is corrected when it is discovered to be an error, may result in revocation of the Company's designation as an authorized business or the reduction or loss of Tax Credits for which a Certificate has not yet been issued.

6.3 A Tax Credit authorized by the Authority is subject to adjustment in any tax year following the tax year for which a Tax Credit Certificate was issued, if the information on which the tax credit certification was based is found to be incorrect or cannot be verified.

6.4 If the Authority determines that the Company misrepresented information in order to qualify for, or increase the amount of a Tax Credit, the Authority may revoke the

Company's designation as an authorized business and notify the Michigan Department of Treasury of that revocation. Any tax credits that have been received based upon a misrepresentation may be subject to recover by the State of Michigan.

6.5 Prior to taking any adverse action against the Company under Sections 6.1, 6.2, 6.3, or 6.4, the Authority shall provide the Company with written notification of its intent to take such action and the basis for that action shall provide the Company with a reasonable opportunity to respond.

7.0 RECOVERY OF CREDIT

7.1 If the Company's total employment at the Project, including a maximum of fourteen Retained Jobs of the Associated Business and nine Retained Jobs of the Affiliated Business, falls below 320 full-time jobs in any tax year during the life of the tax credit, the Company shall repay the most recent year of tax credits collected under this Agreement, including any Amendments that may be made to the Agreement. However, if the Company has repaid the most recent year of tax credits collected under this Agreement, including any Amendments that may be made to the Agreement, it shall not be required to repay those or prior year(s) tax credits again.

7.2 Any amounts owed the state of Michigan pursuant to this Section 7.1 are due and payable within 90 days of the end of the calendar year in which the employment level falls as described in Section 7.1.

7.3 Notwithstanding any other provision of this Section 7.0, no credits collected based on Retained Jobs at a particular facility are subject to repayment if the Company, Affiliated Business, or Associated Business failed to maintain the minimum employment level at the Project because the Company, Affiliated Business, or Associated Business

was unable to reach agreement on a new contract or a contract extension with its union for the year the minimum employment level was not achieved. This Subsection 7.3 shall not apply if the National Labor Relations Board determines that the Company and/or the Affiliated Business or Associated Business was engaged in an unlawful lockout at the particular facility or failed to bargain in good faith on the contract or contract extension.

7.4 The repayment provisions of this Section shall not apply in the event that any tax credits authorized under this Agreement, become invalid, unavailable, or diminished because of an action or inaction by the Legislature or as a result of a court ruling that such tax credits are illegal or unconstitutional.

7.5 Neither party shall be liable for any failure or delay in performance under this Agreement to the extent said failures or delays are due proximately to (i) Acts of God, (ii) wars, (iii) insurrections or (iv) other conditions beyond that party's reasonable control and occurring without its fault or negligence, including, without limitation, failure of suppliers, subcontractors, and carriers, provided that, as a condition to the claim of non-liability, the party experiencing the difficulty shall give the other prompt written notice, with full details following the occurrence of the cause relied upon. Dates by which performance obligations are scheduled to be met will be extended for a period of time equal to the time lost due to any delay so caused.

8.0 MISCELLANEOUS

8.1 Assignment of Credits. The Tax Credits authorized by this Agreement shall not be transferred or assigned to any other Person. In the event a Person acquires all or

substantially all of the assets or stock of the Company in Michigan, after the date of this Agreement, the Authority shall authorize the transfer of the company's rights under this Agreement to that Person if:

(a) The Person agrees in writing to assume all of the responsibilities of the Company under this Agreement.

(b) The Authority determines that the transfer would serve the purposes of the Act and this Agreement.

8.2 Reporting. The Company shall provide the MEGA with the information regarding its participation in the Tax Credit Program as the MEGA may reasonably require while this Agreement is effective.

8.3 Severability. If any provision of this Agreement is held illegal or invalid by any court, the invalidity of that provision shall not affect the remainder of this Agreement, and the Agreement shall be construed and enforced as if such illegal or invalid provision had not been in the Agreement.

8.4 Notices. All notices, certificates, requests or other communications hereunder shall be sufficiently given when delivered, if delivered by registered or certified mail, return receipt requested, or by messenger or professional courier service, addressed as follows:

If to the MEGA: Michigan Economic Growth Authority
Michigan Economic Development Corporation
300 North Washington Square
Lansing, Michigan 48913

If to the Company: Eaton Corporation
Attention: Tax Department
1111 Superior Avenue
Cleveland, Ohio 44114

8.5 Entire Agreement and Amendment. Subject to the Act, this Agreement and the attached Schedules contain the entire Agreement between the Company and the MEGA with respect to the matters described in the Agreement. This Agreement may not be amended except with the written consent of the Authority and the Company.

8.6 Captions. The captions in this Agreement are for convenience only and in no way limit the intent of any provision of this Agreement.

8.7 Interpretation. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Michigan.

8.8 Acceptance. The terms of this Agreement are accepted this ^{27th KAA}~~15th~~ day of March, 2007.

Michigan Economic Growth Authority

By Karen Ammarman
Karen Ammarman
Secretary to the MEGA Board

Eaton Aeroquip Inc.

By J. Steven Burnside
J. Steven Burnside
Senior Manager—State and Local Taxes

Eaton Aeroquip Inc.

**Schedule A: Minimum Employment and Wage Levels
to Qualify for the Retained Jobs Tax Credits**

<u>Year of Credit</u>	<u>Tax Year Ending December 31</u>	<u>Minimum # of Retained Jobs</u>	<u>Minimum Average Weekly Wage</u>
1	2007	360	\$1,027
2	2008	360	\$1,027
3	2009	360	\$1,027
4	2010	360	\$1,027
5	2011	360	\$1,027
6	2012	360	\$1,027
7	2013	360	\$1,027

Eaton Aeroquip Inc.

Schedule B

Eaton Aeroquip Inc. certifies that:

1. It will follow a competitive bid process, open to all Michigan residents and firms, for the construction, rehabilitation, development or renovation of the facility, and that it will not discriminate against any contractor on the basis of its affiliation or non-affiliation with any collective bargaining organization.

2. It will make a good faith effort to employ, if qualified, Michigan residents at the facility.

3. It will make a good faith effort to employ or contract with Michigan residents and firms to construct, rehabilitate, develop, or renovate the facility.

Certified this 15th day of March, 2007.

By: J. Steven Burnside

J. Steven Burnside
Senior Manager – State and Local Taxes

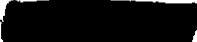
Certificate Number



Initial Tax Credit Certificate

Issued this 28th day of March, 2007, by the

Michigan Economic Growth Authority

to Eaton Aeroquip Inc., Employer Identification Number  which is an Authorized Business pursuant to Public Act 24 of 1995, as amended.

The MEGA authorizes to Eaton Aeroquip Inc., an Employment Credit of 100 percent for seven consecutive tax years, beginning with the Company's tax year ending December 31, 2007 under Section 38g(20)(a) of Public Act 228 of 1975.

The Michigan Legislature encourages recipients of MEGA Tax Credits to make a good faith effort to use Michigan-based suppliers and vendors when purchasing goods and services.

By Karen Ammann
Secretary to the MEGA Board