

EATON CORP

FORM 10-K (Annual Report)

Filed 02/25/11 for the Period Ending 12/31/10

Address	EATON CTR 1111 SUPERIOR AVE CLEVELAND, OH 44114-2584
Telephone	2165235000
CIK	0000031277
Symbol	ETN
SIC Code	3590 - Miscellaneous Industrial And Commercial
Industry	Electronic Instr. & Controls
Sector	Technology
Fiscal Year	12/31

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the year ended December 31, 2010

Commission file number 1-1396

EATON CORPORATION

(Exact name of registrant as specified in its charter)

Ohio

34-0196300

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification Number)

Eaton Center
Cleveland, Ohio

44114-2584

(Address of principal executive offices)

(Zip code)

(216) 523-5000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on
which registered

Common Share (\$.50 par value)

The New York Stock Exchange
The Chicago Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate 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 and (2) has been subject to such filing requirements for the past ninety days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of Common Stock held by non-affiliates of the registrant as of June 30, 2010 was \$11.0 billion.

As of January 31, 2011, there were 340.4 million Common Shares outstanding, as adjusted to give effect to the two-for-one stock split as described in Item 1. Business.

Documents Incorporated By Reference

Portions of the Proxy Statement for the 2011 annual shareholders meeting are incorporated by reference into Part III.

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Part I

Item 1. Business.

Eaton Corporation is a diversified power management company with 2010 sales of \$13.7 billion. The Company is a global technology leader in electrical components and systems for power quality, distribution and control; hydraulics components, systems and services for industrial and mobile equipment; aerospace fuel, hydraulics and pneumatic systems for commercial and military use; and truck and automotive drivetrain and powertrain systems for performance, fuel economy and safety. Eaton has approximately 70,000 employees in over 50 countries and sells products to customers in more than 150 countries.

Eaton electronically files or furnishes reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) to the United States Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy and information statements, as well as any amendments to those reports. As soon as reasonably practicable, these reports are available free of charge through the Company's Internet web site at <http://www.eaton.com>. These filings are also accessible on the SEC's Internet web site at <http://www.sec.gov>.

On January 27, 2011, Eaton's Board of Directors announced a two-for-one stock split of the Company's common shares effective in the form of a 100% stock dividend. The record date for the stock split was February 7, 2011, and the additional shares will be distributed on February 28, 2011. Accordingly, all per share amounts, average shares outstanding, shares outstanding, shares repurchased and equity based compensation presented in the consolidated financial statements and notes have been adjusted retroactively to reflect the stock split. Shareholders' equity has been retroactively adjusted to give effect to the stock split for all periods presented by reclassifying the par value of the additional shares issued in connection with the stock split to Common shares from Retained earnings and Capital in excess of par value.

In 2010, Eaton acquired businesses for combined net cash purchase prices of \$222 million. The Consolidated Statements of Income include the results of these businesses from the dates of the transactions. These transactions are summarized below:

Acquired business	Date of transaction	Business segment	Annual sales (in millions)
Chloride Phoenixtec Electronics <i>A China-based manufacturer of uninterruptible power supply (UPS) systems. Eaton acquired the remaining shares to increase its ownership from 50% to 100%.</i>	October 12, 2010	Electrical Rest of World	\$25 for the year ended September 30, 2010
CopperLogic, Inc. <i>A United States-based manufacturer of electrical and electromechanical systems.</i>	October 1, 2010	Electrical Americas	\$35 for the year ended September 30, 2010
Wright Line Holding, Inc. <i>A United States provider of customized enclosures, rack systems, and air-flow management systems to store, power, and secure mission-critical IT data center electronics.</i>	August 25, 2010	Electrical Americas	\$101 for the year ended June 30, 2010
EMC Engineers, Inc. <i>A United States energy engineering and energy services company that delivers energy efficiency solutions for a wide range of governmental, educational, commercial and industrial facilities.</i>	July 15, 2010	Electrical Americas	\$24 for 2009

On January 1, 2011, Eaton closed the acquisition of the Tuthill Coupling Group, a division of the Tuthill Corporation. This business, located in the United States and France, manufactures pneumatic and hydraulic quick coupling solutions and leak-free connectors used in industrial, construction, mining, defense, energy and power applications. This business had sales of \$35 for the year ended November 30, 2010 and will be included in the Hydraulics business segment.

On January 20, 2011, Eaton reached an agreement to acquire ACTOM (Pty) Limited's low-voltage electrical business in South Africa. This business is a manufacturer and supplier of motor control components, engineered electrical distribution systems, and uninterruptible power supply systems and had sales of \$58 for the year ended December 31, 2010. The terms of the agreement are subject to regulatory approvals and other customary closing conditions. The acquisition is expected to close during the first half of 2011. This business will be included in the Electrical Rest of World segment.

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Business Segment Information

Information by business segment and geographic region regarding principal products, principal markets, methods of distribution, net sales, operating profit and assets is presented in Note 14 of the Notes to the Consolidated Financial Statements on pages 48 through 52. Additional information regarding Eaton's segments and business is presented below.

Electrical Americas and Electrical Rest of World

Principal methods of competition in these segments are performance of products and systems, technology, customer service and support, and price. Eaton has a strong competitive position in relation to many competitors in this segment and, with respect to many products, is considered among the market leaders. In normal economic cycles, sales of these segments are historically lower in the first quarter and higher in the third and fourth quarters of a year. In 2010, one large distributor of electrical products represented 11% of the sales of the Electrical Americas segment and two large distributors of electrical products represented 10% of the sales of the Electrical Rest of World segment.

Hydraulics

Principal methods of competition in this segment are product performance, geographic coverage, service and price. Eaton has a strong competitive position in relation to the many competitors in this segment and, with respect to many products, is considered among the market leaders. Sales of this segment are historically higher in the first and second quarters and lower in the third and fourth quarters of the year.

Aerospace

Principal methods of competition in this segment are total cost of ownership, product and system performance, quality, design engineering capabilities and timely delivery. Eaton has a strong competitive position in relation to the many competitors in this segment and, with respect to many products and platforms, is considered among the market leaders. In 2010, 11% of this segment's sales were made to one large manufacturer of aircraft.

Truck

Principal methods of competition in this segment are product performance, global service, and price. Eaton has a strong competitive position in relation to the many competitors in this segment and, with respect to many products, is considered among the market leaders. In 2010, 63% of this segment's sales were made to five large manufacturers of heavy-, medium-, and light-duty trucks and off-highway vehicles.

Automotive

Principal methods of competition in this segment are product performance, global service, and price. Eaton has a strong competitive position in relation to the many competitors in this segment and, with respect to many products, is considered among the market leaders. Sales of this segment historically are lower in the third quarter of the year as a result of the normal seasonal pattern of automotive industry production. In 2010, 53% of this segment's sales were made to five large manufacturers of vehicles.

Information Concerning Eaton's Business in General

Raw Materials

Eaton's major requirements for raw materials include iron, steel, copper, nickel, aluminum, brass, silver, lead, molybdenum, titanium, vanadium, rubber, plastic, electronic components, and insulating materials. Materials are purchased in various forms, such as extrusions, castings, powder metal, metal sheets and strips, forging billets, bar stock and plastic pellets. Raw materials, as well as parts and other components, are purchased from many suppliers and, under normal circumstances, the Company had no difficulty obtaining them. In 2010, prices increased for many materials purchased by Eaton throughout the year. The Company mitigated these increases through a variety of cost out projects. Eaton maintained appropriate levels of inventory to guard against basic shortages, and did not experience any general availability constraints in 2010 with the exception of electronic components. These shortages were caused by an industry-wide capacity constraint. This constraint has eased throughout the year and Eaton successfully managed through it with negligible impact.

Patents and Trademarks

Eaton considers its tradename and trademark to be significant value to its business as a whole. The Company's products are marketed with a portfolio of patents, trademarks, licenses or other forms of intellectual property that expire at various dates in the future. Eaton develops and acquires new intellectual property on an ongoing basis and considers all of its intellectual property to be valuable. Based on the broad scope of the Company's product lines, management believes

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that the loss or expiration of any single intellectual property right would not have a material effect on Eaton's consolidated financial statements or its business segments. The Company's policy is to file applications and obtain patents for its new products including product modifications and improvements.

Order Backlog

Since a significant portion of open orders placed with Eaton by original equipment manufacturers of trucks, off-highway vehicles and passenger cars are historically subject to month-to-month releases by customers during each model year, these orders are not considered firm. In measuring backlog orders, the Company includes only the amount of orders to which customers are firmly committed. Using this criterion, total backlog at December 31, 2010 and 2009 was approximately \$3.2 billion and \$2.7 billion, respectively. Backlog should not be relied upon as being indicative of results of operations for future periods.

Research and Development

Research and development expenses (in millions) for new products and improvement of existing products in 2010, 2009 and 2008 were \$425, \$395 and \$417, respectively. Over the past five years, the Company has invested approximately \$1.9 billion in research and development.

Environmental Contingencies

Operations of the Company involve the use and disposal of certain substances regulated under environmental protection laws. Eaton continues to modify certain processes on an ongoing, regular basis in order to reduce the impact on the environment, including the reduction or elimination of certain chemicals used in, and wastes generated from, operations. Compliance with federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, are not expected to have a material adverse effect upon earnings or the competitive position of the Company. Eaton's estimated capital expenditures for environmental control facilities are not expected to be material for 2011 and 2012. Information regarding the Company's liabilities related to environmental matters is presented in Note 7 of the Notes to the Consolidated Financial Statements on pages 36 through 37.

Foreign Operations

Financial information related to Eaton's foreign operations is presented in Note 14 of the Notes to the Consolidated Financial Statements on page 52. Information regarding risks that may affect foreign operations is presented in Item 1A of this Form 10-K Report.

Item 1A. Risk Factors.

Among the risks that could materially adversely affect Eaton's businesses, financial condition or results of operations are the following:

Volatility of end markets that Eaton serves.

Eaton's segment revenues, operating results and profitability have varied in the past and may vary from quarter to quarter in the future. Profitability can be negatively impacted by volatility in the end markets that Eaton serves. The Company has undertaken measures to reduce the impact of this volatility through diversification of markets it serves and expansion of geographic regions in which it operates. Future downturns in any of the markets could adversely affect the Company's revenues, operating results and profitability.

Eaton's operating results depend in part on continued successful research, development and marketing of new and/or improved products and services, and there can be no assurance that Eaton will continue to successfully introduce new products and services .

The success of new and improved products and services depends on their initial and continued acceptance by Eaton's customers. The Company's businesses are affected, to varying degrees, by technological change and corresponding shifts in customer demand, which could result in unpredictable product transitions or shortened life cycles. Eaton may experience difficulties or delays in the research, development, production or marketing of new products and services which may prevent Eaton from recouping or realizing a return on the investments required to bring new products and services to market. The end result could be a negative impact on the Company's operating results.

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Eaton's operations depend on production facilities throughout the world, many of which are located outside the United States and are subject to greater risks of disrupted production .

Eaton manages businesses with manufacturing facilities worldwide. In recent years, the Company's operations outside the United States have increased significantly in relative size in comparison to its total operations. The Company's manufacturing facilities and operations could be disrupted by a natural disaster, or labor strike, war, political unrest, terrorist activity or public health concerns. Some of Eaton's non-United States manufacturing facilities also may be more susceptible to economic and political upheaval than United States facilities. Any such disruption could cause delays in shipments of products and the loss of sales and customers, and insurance proceeds may not adequately compensate the Company for the losses.

Eaton's substantial foreign sales subject it to economic risk as Eaton's results of operations may be adversely affected by changes in local government regulations and policies and foreign currency fluctuations.

As noted above in Item 1 "Foreign Operations," a significant portion of Eaton's sales are to customers outside the United States, and the Company expects sales in foreign markets to continue to represent a significant portion of its total sales. Foreign sales and operations are subject to changes in local government regulations and policies, including those related to tariffs and trade barriers, investments, property ownership rights, taxation, exchange controls and repatriation of earnings. Changes in the relative values of currencies occur from time to time and could affect Eaton's operating results. While the Company monitors exchange rate exposures and attempts to reduce these exposures through hedging activities, these risks could adversely affect the Company's operating results.

Eaton uses a variety of raw materials and components in its businesses, and significant shortages, price increases, or supplier insolvencies could increase operating costs and adversely impact the competitive positions of Eaton's products.

Eaton's major requirements for raw materials are described above in Item 1 "Raw Materials". Significant shortages could affect the prices Eaton's businesses are charged and the competitive position of their products and services, all of which could adversely affect the Company's results of operations.

Further, Eaton's suppliers of component parts may increase their prices in response to increases in costs of raw materials that they use to manufacture component parts. As a result, the Company may not be able to increase its prices commensurately with its increased costs. Consequently, the Company's results of operations could be materially and adversely affected.

Finally, while Eaton carefully monitors the viability of each of its suppliers, the global economic downturn has, and may continue to have, an adverse impact on Eaton's suppliers' liquidity and solvency. Should one or more of material suppliers become insolvent, Eaton could be required to pay increased prices for affected raw materials or components, or experience difficulty in replacing the insolvent supplier, either of which could adversely affect Eaton's results of operations.

Eaton engages in acquisitions and joint ventures, and may encounter unexpected difficulties identifying, pricing or integrating those businesses.

Eaton seeks to grow, in part, through strategic acquisitions and joint ventures, which are intended to complement or expand the Company's businesses, and expects to continue to do so in the future. The success of this strategy will depend on Eaton's ability to identify, price, finance and complete these transactions or arrangements. Success will also depend on the Company's ability to integrate the businesses acquired in these transactions and to develop satisfactory working arrangements with the Company's strategic partners in the joint ventures. Eaton may encounter unexpected difficulties in completing and integrating acquisitions with Eaton's existing operations, and in managing strategic investments. Furthermore, the Company may not realize the degree, or timing, of benefits Eaton anticipated when it first entered into a transaction. Any of the foregoing could adversely affect the Company's business and results of operations.

Eaton may be unable to adequately protect its intellectual property rights, which could affect the Company's ability to compete.

Protecting Eaton's intellectual property rights is critical to its ability to compete and succeed. The Company owns a large number of United States and foreign patents and patent applications, as well as trademark and copyright registrations that are necessary, and contribute significantly, to the preservation of Eaton's competitive position in various markets. Although management believes that the loss or expiration of any single intellectual property right would not have a material effect on the results of operations or financial position of Eaton or its business segments, there can be no assurance that any one, or more, of these patents and other intellectual property will not be challenged, invalidated or circumvented by third parties. Eaton enters into confidentiality and invention assignment agreements with the Company's employees, and into non-disclosure agreements with Eaton's suppliers and appropriate customers so as to limit access to and disclosure of the Company's proprietary information. These measures may not suffice to deter misappropriation or independent third party development of similar technologies. Moreover, the protection provided to Eaton's intellectual

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property by the laws and courts of foreign nations may not be as advantageous to Eaton as the remedies available under United States law.

Eaton is subject to litigation and environmental regulations that could adversely impact Eaton's businesses.

At any given time, Eaton may be subject to litigation, the disposition of which may have a material adverse effect on the Company's businesses, financial condition or results of operations. Information regarding the Company's current legal proceedings is presented in Note 7 of the Notes to the Consolidated Financial Statements on page 36.

Eaton participates in markets that are competitive and Eaton's results could be adversely impacted by competitors' actions.

Eaton's businesses operate in competitive markets. The Company competes against other global manufacturers and service providers on the basis of product performance, quality and price, in addition to other factors. While Eaton's product development and quality initiatives have been competitive strengths in the past, actions by Eaton's competitors could lead to downward pressure on prices and/or a decline in the Company's market share, either of which could adversely affect Eaton's results.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Eaton's world headquarters is located in Cleveland, Ohio. The Company maintains manufacturing facilities at 216 locations in 31 countries. The Company is a lessee under a number of operating leases for certain real properties and equipment, none of which is material to its operations. Management believes that the existing manufacturing facilities are adequate for operations, and these facilities are maintained in good condition.

Item 3. Legal Proceedings.

Information regarding the Company's current legal proceedings is presented in Note 7 of the Notes to the Consolidated Financial Statements on page 36.

Item 4. (Removed and Reserved).

None.

Executive Officers of the Registrant

Information regarding executive officers of the Company is presented in Item 10 of this Form 10-K Report.

Part II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common shares are listed for trading on the New York and Chicago stock exchanges. Information regarding cash dividends paid, and the high and low market price per common share, for each quarter in 2010 and 2009 is presented in "Quarterly Data" on page 65. At December 31, 2010, there were 8,113 holders of record of the Company's common shares. Additionally, 17,463 current and former employees were shareholders through participation in the Eaton Savings Plan (ESP), Eaton Personal Investment Plan (EPIP), and the Eaton Electrical de Puerto Rico Inc. Retirement Savings Plan.

Information regarding equity compensation plans required by Regulation S-K Item 201(d) is provided in Item 12 of this Form 10-K Report.

Item 6. Selected Financial Data.

Information regarding selected financial data is presented in the "Ten-Year Consolidated Financial Summary" on page 66.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" is presented on pages 53 through 64.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Information regarding market risk is presented in "Market Risk Disclosure" on pages 62 through 63.

Item 8. Financial Statements and Supplementary Data.

The report of the independent registered public accounting firm, consolidated financial statements, and notes to consolidated financial statements are presented on pages 14 through 52.

Information regarding selected quarterly financial information for 2010 and 2009 is presented in "Quarterly Data" on page 65.

Item 9. Change in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures — Pursuant to SEC Rule 13a-15, an evaluation was performed under the supervision and with the participation of Eaton's management, including Alexander M. Cutler — Chairman and Chief Executive Officer; President; and Richard H. Fearon — Vice Chairman and Chief Financial and Planning Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, Eaton's management concluded that the Company's disclosure controls and procedures were effective as of December 31, 2010.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Pursuant to Section 404 of the Sarbanes Oxley Act of 2002 and the rules and regulations adopted pursuant thereto, Eaton has included a report of management's assessment of the effectiveness of internal control over financial reporting, which is presented on page 17.

"Report of Independent Registered Public Accounting Firm" relating to internal control over financial reporting as of December 31, 2010 is presented on page 16.

During the fourth quarter of 2010, there was no change in Eaton's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, Eaton's internal control over financial reporting.

Item 9B. Other Information.

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required with respect to the directors of the Company is set forth under the caption "Election of Directors" in the Company's definitive Proxy Statement to be filed on or about March 18, 2011, and is incorporated by reference.

A listing of the Company's executive officers, their ages, positions and offices held over the past five years, as of February 1, 2011, follows:

Name	Age	Position (Date elected to position)
Alexander M. Cutler	59	Chairman and Chief Executive Officer; President (August 1, 2000 — present) Director (September 22, 1993 — present)

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Name	Age	Position (Date elected to position)
Richard H. Fearon	54	Vice Chairman and Chief Financial and Planning Officer (April 24, 2002 — present)
Craig Arnold	50	Vice Chairman and Chief Operating Officer — Industrial Sector (February 1, 2009 — present) Chief Executive Officer — Fluid Power Group (October 25, 2000 — January 31, 2009)
Thomas S. Gross	56	Vice Chairman and Chief Operating Officer — Electrical Sector (February 1, 2009 — present) President — Power Quality and Control Business (April 1, 2008 — January 31, 2009) Vice President and President — Power Quality Solutions Operations (May 16, 2005 — March 31, 2008)
James W. McGill	55	Executive Vice President — Chief Human Resources Officer (January 1, 2010 — present) President — Asia-Pacific Region (April 1, 2008 — December 31, 2009) Vice President — Asia-Pacific (April 1, 2006 — March 31, 2008) Vice President — Eaton Business System (July 29, 2004 — March 31, 2006)
Mark M. McGuire	53	Executive Vice President and General Counsel (December 1, 2005 — present)
Thomas E. Moran	46	Senior Vice President and Secretary (October 1, 2008 — present) Assistant Secretary and Managing Counsel, The Dow Chemical Company (2002 — 2008)
Billie K. Rawot	59	Senior Vice President and Controller (March 1, 1991 — present)
Kurt B. McMaken	41	Senior Vice President — Corporate Development and Treasury (February 1, 2009 — present) Vice President — Corporate Development and Planning (January 1, 2008 — January 31, 2009) Director — Corporate Planning (April 1, 2006 — December 31, 2007) Director — Corporate Development (October 1, 2004 — March 31, 2006)

There are no family relationships among the officers listed, and there are no arrangements or understandings pursuant to which any of them were elected as officers. All officers hold office for one year and until their successors are elected and qualified, unless otherwise specified by the Board of Directors; provided, however, that any officer is subject to removal with or without cause, at any time, by a vote of a majority of the Board of Directors.

Information required with respect to compliance with Section 16(a) of the Exchange Act is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement to be filed on or about March 18, 2011, and is incorporated by reference.

The Company has adopted a Code of Ethics, which applies to the Directors, officers and employees worldwide. This document is available on the Company's website at <http://www.eaton.com>.

There were no changes during fourth quarter 2010 to the procedures by which security holders may recommend nominees to the Company's Board of Directors.

Information related to the Company's Audit Committee, and members of the Committee that are financial experts, is set forth under the caption "Board Committees — Audit Committee" in the Company's definitive Proxy Statement to be filed on or about March 18, 2011, and is incorporated by reference.

Item 11. Executive Compensation.

Information required with respect to executive compensation is set forth under the caption "Executive Compensation" in the Company's definitive Proxy Statement to be filed on or about March 18, 2011, and is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required with respect to securities authorized for issuance under equity compensation plans is set forth under the caption "Equity Compensation Plans" in the Company's definitive Proxy Statement to be filed on or about March 18, 2011, and is incorporated by reference.

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Information required with respect to security ownership of certain beneficial owners, is set forth under the caption "Share Ownership Tables" in the Company's definitive Proxy Statement to be filed on or about March 18, 2011, and is incorporated by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required with respect to certain relationships and related transactions is set forth under the caption "Review of Related Person Transactions" in the Company's definitive Proxy Statement to be filed on or about March 18, 2011, and is incorporated by reference.

Information required with respect to director independence is set forth under the caption "Director Independence" in the Company's definitive Proxy Statement to be filed on or about March 18, 2011, and is incorporated by reference.

Item 14. Principal Accounting Fees and Services.

Information required with respect to principal accountant fees and services is set forth under the caption "Audit Committee Report" in the Company's definitive Proxy Statement to be filed on or about March 18, 2011, and is incorporated by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules.

(a) (1) The report of the independent registered public accounting firm, consolidated financial statements and notes to consolidated financial statements are included in Item 8 above:

Report of Independent Registered Public Accounting Firm — Page 14

Consolidated Statements of Income — Years ended December 31, 2010, 2009 and 2008 — Page 18

Consolidated Balance Sheets — December 31, 2010 and 2009 — Page 19

Consolidated Statements of Cash Flows — Years ended December 31, 2010, 2009 and 2008 — Page 20

Consolidated Statements of Shareholders' Equity — Years ended December 31, 2010, 2009 and 2008 — Pages 21 through 23

Notes to Consolidated Financial Statements — Pages 24 through 52

All other schedules for which provision is made in Regulation S-X of the SEC are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(3) Exhibits

3 (i) Amended Articles of Incorporation (amended and restated as of April 24, 2008) — Incorporated by reference to the Form 10-Q Report for the three months ended March 31, 2008

3 (ii) Amended Regulations (amended and restated as of February 24, 2010) — Incorporated by reference to the Form 8-K Report dated February 24, 2010

4 (a) Pursuant to Regulation S-K Item 601(b) (4), the Company agrees to furnish to the SEC, upon request, a copy of the instruments defining the rights of holders of its other long-term debt

10 Material contracts

(a) Senior Executive Incentive Compensation Plan (effective January 1, 2008) — Incorporated by reference to the definitive Proxy Statement dated March 14, 2008

(b) Executive Incentive Compensation Plan (effective January 1, 2005) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2005

(c) 2005 Non-Employee Director Fee Deferral Plan (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007

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- (d) Deferred Incentive Compensation Plan II (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (e) Excess Benefits Plan II (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (f) Incentive Compensation Deferral Plan II (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (g) Limited Eaton Service Supplemental Retirement Income Plan II (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (h) Supplemental Benefits Plan II (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (i) Form of Restricted Share Unit Agreement (2 year vesting) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (j) Form of Restricted Share Unit Agreement (4 year vesting) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (k) Form of Restricted Share Agreement (2 year vesting) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (l) Form of Restricted Share Agreement (4 year vesting) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (m) Form of Restricted Share Agreement (Non-Employee Directors) — Incorporated by reference to the Form 8-K Report filed February 1, 2010
- (n) Form of Stock Option Agreement for Executives (2008) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (o) Form of Stock Option Agreement for Executives — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2006
- (p) Form of Stock Option Agreement for Non-Employee Directors (2008) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (q) 2002 Stock Plan — Incorporated by reference to the definitive Proxy Statement dated March 15, 2002
- (r) 2004 Stock Plan — Incorporated by reference to the definitive Proxy Statement dated March 19, 2004
- (s) 2008 Stock Plan — Incorporated by reference to the definitive Proxy Statement dated March 14, 2008
- (t) 2009 Stock Plan — Incorporated by reference to the definitive Proxy Statement dated March 13, 2009
- (u) Plan for the Deferred Payment of Directors' Fees (originally adopted in 1985 and amended effective September 24, 1996, January 28, 1998, January 23, 2002, February 24, 2004, December 8, 2004 and, in certain respects, January 1, 2005) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (v) 1996 Non-Employee Director Fee Deferral Plan (amended and restated effective January 1, 2005) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2006
- (w) Form of Change of Control Agreement entered into with officers of Eaton Corporation — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2008

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- (x) Form of Indemnification Agreement entered into with officers of Eaton Corporation — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (y) Form of Indemnification Agreement entered into with directors of Eaton Corporation — Incorporated by reference to the Form 8-K Report filed January 26, 2007
- (z) Executive Strategic Incentive Plan (amended and restated January 1, 2008) — Incorporated by reference to the definitive Proxy Statement dated March 14, 2008
- (aa) Executive Strategic Incentive Plan II (effective January 1, 2001) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (bb) Supplemental Executive Strategic Incentive Plan (effective as of June 25, 2008) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2008
- (cc) Deferred Incentive Compensation Plan (amended and restated effective November 1, 2007) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2009
- (dd) 1998 Stock Plan — Incorporated by reference to the definitive Proxy Statement dated March 13, 1998
- (ee) Incentive Compensation Deferral Plan (amended and restated October 1, 1997) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2000
- (ff) Trust Agreement — Officers and Employees (dated December 6, 1996) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (gg) Trust Agreement — Non-employee Directors (dated December 6, 1996) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (hh) Group Replacement Insurance Plan (GRIP) (effective June 1, 1992) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 1992
- (ii) 1991 Stock Option Plan — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (jj) Excess Benefits Plan (amended and restated effective January 1, 1989) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (kk) Supplemental Benefits Plan (amended and restated January 1, 1989) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (ll) Eaton Corporation Board of Directors Policy on Incentive Compensation, Stock Options and Other Equity Grants upon the Restatement of Financial Results — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (mm) Amended and Restated Grantor Trust Agreement for Non-Employee Directors' Deferred Fees Plans — effective January 1, 2010 - Filed in conjunction with this Form 10-K report*
- (nn) Amended and Restated Grantor Trust Agreement for Employees' Deferred Compensation Plans — effective January 1, 2010 - Filed in conjunction with this Form 10-K report*

12 Ratio of Earnings to Fixed Charges — Filed in conjunction with this Form 10-K Report *

14 Code of Ethics — Incorporated by reference to the definitive Proxy Statement filed on March 14, 2008

21 Subsidiaries of Eaton Corporation — Filed in conjunction with this Form 10-K Report *

23 Consent of Independent Registered Public Accounting Firm — Filed in conjunction with this Form 10-K Report *

24 Power of Attorney — Filed in conjunction with this Form 10-K Report *

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- 31.1 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 302) — Filed in conjunction with this Form 10-K Report *
- 31.2 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 302) — Filed in conjunction with this Form 10-K Report *
- 32.1 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 906) — Filed in conjunction with this Form 10-K Report *
- 32.2 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 906) — Filed in conjunction with this Form 10-K Report *

- 101.INS XBRL Instance Document *
- 101.SCH XBRL Taxonomy Extension Schema Document *
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document *
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document *
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document *
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document *

* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language):
(i) Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008, (ii) Consolidated Balance Sheets at December 31, 2010 and 2009, (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008 (iv) Notes to Consolidated Financial Statements for the year ended December 31, 2010.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

(b) Exhibits

Certain exhibits required by this portion of Item 15 are filed as a separate section of this Form 10-K Report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Eaton Corporation
Registrant

Date: February 25, 2011

/s/ Richard H. Fearon

Richard H. Fearon
Vice Chairman and Chief Financial and Planning Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: February 25, 2011

Signature _____ Title _____

*

Alexander M. Cutler _____ Chairman and Chief Executive Officer;
President;
Principal Executive Officer; Director

*

Billie K. Rawot _____ Senior Vice President and Controller;
Principal Accounting Officer

Todd M. Bluedorn _____ Director

Christopher M. Connor _____ Director

Michael J. Critelli _____ Director

Charles E. Golden _____ Director

Ernie Green _____ Director

Arthur E. Johnson _____ Director

Ned C. Lautenbach _____ Director

Deborah L. McCoy _____ Director

Gregory R. Page _____ Director

Gary L. Tooker _____ Director

*By /s/ Richard H. Fearon

Richard H. Fearon, Attorney-in-Fact
for the officers and directors signing
in the capacities indicated

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Eaton Corporation

We have audited the accompanying consolidated balance sheets of Eaton Corporation as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eaton Corporation at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Eaton Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio
February 25, 2011

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MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS

We have prepared the accompanying consolidated financial statements and related information of Eaton Corporation included herein for the three years ended December 31, 2010. The primary responsibility for the integrity of the financial information included in this annual report rests with management. The financial information included in this annual report has been prepared in accordance with accounting principles generally accepted in the United States based on our best estimates and judgments and giving due consideration to materiality. The opinion of Ernst & Young LLP, Eaton's independent registered public accounting firm, on those financial statements is included herein.

Eaton has high standards of ethical business practices supported by the Eaton Code of Ethics and corporate policies. Careful attention is given to selecting, training and developing personnel, to ensure that management's objectives of establishing and maintaining adequate internal controls and unbiased, uniform reporting standards are attained. Our policies and procedures provide reasonable assurance that operations are conducted in conformity with applicable laws and with the Company's commitment to a high standard of business conduct.

The Board of Directors pursues its responsibility for the quality of Eaton's financial reporting primarily through its Audit Committee, which is composed of five independent directors. The Audit Committee meets regularly with management, the internal auditors and the independent registered public accounting firm to ensure that they are meeting their responsibilities and to discuss matters concerning accounting, control, audits and financial reporting. The internal auditors and independent registered public accounting firm have full and free access to senior management and the Audit Committee.

/s/ Alexander M. Cutler

Chairman and Chief Executive
Officer; President

/s/ Richard H. Fearon

Vice Chairman and Chief Financial
and Planning Officer

/s/ Billie K. Rawot

Senior Vice President
and Controller

February 25, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Eaton Corporation

We have audited Eaton Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Eaton Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Eaton Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Eaton Corporation as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010 and our report dated February 25, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Cleveland, Ohio
February 25, 2011

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Eaton Corporation is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act rules 13a-15(f)).

Under the supervision and with the participation of Eaton's management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In conducting this evaluation, we used the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework*. Based on this evaluation under the framework referred to above, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2010.

The independent registered public accounting firm Ernst & Young LLP has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. This report is included herein.

/s/ Alexander M. Cutler
Chairman and Chief Executive
Officer; President

/s/ Richard H. Fearon
Vice Chairman and Chief Financial
and Planning Officer

/s/ Billie K. Rawot
Senior Vice President
and Controller

February 25, 2011

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EATON CORPORATION CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31		
(In millions except for per share data)	2010	2009	2008
Net sales	\$13,715	\$11,873	\$15,376
Cost of products sold	9,633	8,782	11,191
Selling and administrative expense	2,486	2,252	2,513
Research and development expense	425	395	417
Interest expense-net	136	150	157
Other (income) expense-net	(1)	(9)	(42)
Income from continuing operations before income taxes	1,036	303	1,140
Income tax expense (benefit)	99	(82)	73
Income from continuing operations	937	385	1,067
Income from discontinued operations	—	—	3
Net income	937	385	1,070
Less net income for noncontrolling interests	(8)	(2)	(12)
Net income attributable to Eaton common shareholders	\$ 929	\$ 383	\$ 1,058
Net income per common share — diluted			
Continuing operations	\$ 2.73	\$ 1.14	\$ 3.25
Discontinued operations	—	—	0.01
Total	\$ 2.73	\$ 1.14	\$ 3.26
Net income per common share — basic			
Continuing operations	\$ 2.76	\$ 1.16	\$ 3.29
Discontinued operations	—	—	0.01
Total	\$ 2.76	\$ 1.16	\$ 3.30
Weighted-average number of common shares outstanding			
Diluted	339.5	335.8	324.6
Basic	335.5	332.7	320.4
Cash dividends paid per common share	\$ 1.08	\$ 1.00	\$ 1.00

Net income per common share, weighted-average number of common shares outstanding and cash dividends paid per common share have been restated to give effect to the two-for-one stock split. See Note 1 for additional information.

The notes on pages 24 to 52 are an integral part of the consolidated financial statements.

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EATON CORPORATION CONSOLIDATED BALANCE SHEETS

	December 31	
(In millions)	2010	2009
Assets		
Current assets		
Cash	\$ 333	\$ 340
Short-term investments	838	433
Accounts receivable-net	2,239	1,899
Inventory	1,564	1,326
Deferred income taxes	303	377
Prepaid expenses and other current assets	229	149
Total current assets	<u>5,506</u>	<u>4,524</u>
Property, plant and equipment		
Land and buildings	1,494	1,459
Machinery and equipment	4,485	4,241
Gross property, plant and equipment	5,979	5,700
Accumulated depreciation	(3,502)	(3,255)
Net property, plant and equipment	<u>2,477</u>	<u>2,445</u>
Other noncurrent assets		
Goodwill	5,454	5,435
Other intangible assets	2,272	2,441
Deferred income taxes	1,001	973
Other assets	542	464
Total assets	<u>\$17,252</u>	<u>\$16,282</u>
Liabilities and shareholders' equity		
Current liabilities		
Short-term debt	\$ 72	\$ 113
Current portion of long-term debt	4	5
Accounts payable	1,408	1,057
Accrued compensation	465	256
Other current liabilities	1,284	1,258
Total current liabilities	<u>3,233</u>	<u>2,689</u>
Noncurrent liabilities		
Long-term debt	3,382	3,349
Pension liabilities	1,429	1,586
Other postretirement benefits liabilities	743	754
Deferred income taxes	487	550
Other noncurrent liabilities	575	536
Total noncurrent liabilities	<u>6,616</u>	<u>6,775</u>
Shareholders' equity		
Common shares (339.9 million outstanding in 2010 and 332.3 million in 2009)	170	166
Capital in excess of par value	4,093	3,947
Retained earnings	4,455	3,893
Accumulated other comprehensive loss	(1,348)	(1,208)
Deferred compensation plans	(8)	(21)
Total Eaton shareholders' equity	<u>7,362</u>	<u>6,777</u>
Noncontrolling interests	41	41
Total equity	<u>7,403</u>	<u>6,818</u>
Total liabilities and equity	<u>\$17,252</u>	<u>\$16,282</u>

The number of common shares outstanding, Common shares, Capital in excess of par value and Retained earnings have been restated to give effect to the two-for-one stock split. See Note 1 for additional information.

The notes on pages 24 to 52 are an integral part of the consolidated financial statements.



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EATON CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Year ended December 31		
	2010	2009	2008
Operating activities			
Net income	\$ 937	\$ 385	\$ 1,070
Adjustments to reconcile to net cash provided by operating activities			
Depreciation and amortization	551	573	571
Deferred income taxes	26	(191)	(225)
Pension expense	179	270	215
Contributions to pension plans	(403)	(271)	(210)
Changes in working capital			
Accounts receivable-net	(305)	440	128
Inventory	(219)	292	118
Accounts payable	322	(73)	(208)
Other-net	194	(17)	(18)
Net cash provided by operating activities	<u>1,282</u>	<u>1,408</u>	<u>1,441</u>
Investing activities			
Capital expenditures for property, plant and equipment	(394)	(195)	(448)
Cash paid for acquisitions of businesses	(222)	(10)	(2,807)
(Purchases) sales of short-term investments-net	(392)	(64)	100
Other-net	(4)	44	(35)
Net cash used in investing activities	<u>(1,012)</u>	<u>(225)</u>	<u>(3,190)</u>
Financing activities			
Borrowings with original maturities of more than three months			
Proceeds	55	558	1,656
Payments	(65)	(887)	(984)
Borrowings with original maturities of less than three months-net (primarily commercial paper)	(37)	(424)	(5)
Cash dividends paid	(363)	(334)	(320)
Sale of common shares	—	—	1,522
Exercise of employee stock options	157	27	47
Purchase of common shares	—	—	(100)
Other-net	(8)	(1)	(1)
Net cash (used in) provided by financing activities	<u>(261)</u>	<u>(1,061)</u>	<u>1,815</u>
Effect of foreign exchange rate changes on cash	(16)	30	(20)
Total (decrease) increase in cash	(7)	152	46
Cash at the beginning of the year	340	188	142
Cash at the end of the year	<u>\$ 333</u>	<u>\$ 340</u>	<u>\$ 188</u>

The notes on pages 24 to 52 are an integral part of the consolidated financial statements.

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EATON CORPORATION CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions)	Common shares	Capital in excess of par value	Retained earnings	Accumulated other comprehensive loss	Deferred compensation plans	Total Eaton shareholders' equity	Noncontrolling interests	Total equity	
	Shares	Dollars							
Balance at January 1, 2008	292.0	\$ 146	\$ 2,290	\$ 3,184	\$ (423)	\$ (25)	\$ 5,172	\$ 5,231	
Net income	—	—	—	1,058	—	—	1,058	1,070	
Foreign currency translation and related hedging instruments (net of income tax benefit of \$68)	—	—	—	—	(722)	—	(722)	— (722)	
Pensions (net of income tax benefit of \$227)	—	—	—	—	(419)	—	(419)	— (419)	
Other postretirement benefits (net of income tax expense of \$31)	—	—	—	—	49	—	49	— 49	
Cash flow hedges (net of income tax benefit of \$12)	—	—	—	—	(23)	—	(23)	— (23)	
Other comprehensive loss	—	—	—	—	—	(1,115)	—	— (1,115)	
Total comprehensive loss	—	—	—	—	—	(57)	12	— (45)	
Effects of changing retirement benefit plans measurement date (net of income tax benefit of \$8)	—	—	—	(11)	—	—	(11)	— (11)	
Cash dividends paid	—	—	—	(320)	—	—	(320)	— (333)	
Issuance of shares under employee benefit plans-net (net of income tax benefit of \$16)	3.4	2	109	(2)	—	2	111	— 111	
Sale of shares	37.4	19	1,503	—	—	—	1,522	— 1,522	
Purchase of shares	(2.8)	(2)	(33)	(65)	—	—	(100)	— (100)	
Decrease in noncontrolling interests due to sale of business	—	—	—	—	—	—	(10)	— (10)	
Balance at December 31, 2008	330.0	165	3,869	3,844	(1,538)	(23)	6,317	48	6,365

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EATON CORPORATION CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions)	Common shares		Capital in excess of par value	Retained earnings	Accumulated other comprehensive loss	Deferred compensation plans	Total Eaton shareholders' equity	Noncontrolling interests	Total equity
	Shares	Dollars							
Balance at December 31, 2008	330.0	165	3,869	3,844	(1,538)	(23)	6,317	48	6,365
Net income	—	—	—	383	—	—	383	2	385
Foreign currency translation and related hedging instruments (net of income tax expense of \$45)	—	—	—	—	349	—	349	—	349
Pensions (net of income tax expense of \$42)	—	—	—	—	1	—	1	—	1
Other postretirement benefits (net of income tax benefit of \$14)	—	—	—	—	(56)	—	(56)	—	(56)
Cash flow hedges (net of income tax expense of \$19)	—	—	—	—	36	—	36	—	36
Other comprehensive income							330	—	330
Total comprehensive income							713	2	715
Cash dividends paid	—	—	—	(334)	—	—	(334)	(5)	(339)
Issuance of shares under employee benefit plans-net (net of income tax benefit of \$3)	2.3	1	78	—	—	2	81	—	81
Decrease in noncontrolling interests due to sale of business	—	—	—	—	—	—	—	(4)	(4)
Balance at December 31, 2009	332.3	166	3,947	3,893	(1,208)	(21)	6,777	41	6,818

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EATON CORPORATION CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions)	Common shares	Capital in excess of par value	Retained earnings	Accumulated other comprehensive loss	Deferred compensation plans	Total Eaton shareholders' equity	Noncontrolling interests	Total equity
	Shares	Dollars						
Balance at December 31, 2009	332.3	166	3,947	3,893	(1,208)	(21)	6,777	41
Net income	—	—	—	929	—	—	929	8
Foreign currency translation and related hedging instruments	—	—	—	—	(78)	—	(78)	—
Pensions (net of income tax benefit of \$30)	—	—	—	—	(61)	—	(61)	—
Other postretirement benefits (net of income tax benefit of \$4)	—	—	—	—	(1)	—	(1)	—
Other comprehensive loss	—	—	—	—	—	(140)	—	(140)
Total comprehensive income	—	—	—	—	—	789	8	797
Cash dividends paid	—	—	—	(363)	—	—	(363)	(8)
Issuance of shares under employee benefit plans-net (net of income tax expense of \$3)	7.6	4	146	(4)	—	13	159	—
Balance at December 31, 2010	339.9	\$ 170	\$ 4,093	\$ 4,455	\$ (1,348)	\$ (8)	\$ 7,362	\$ 41
								\$ 7,403

The number of common shares outstanding, Common shares, Capital in excess of par value and Retained earnings have been restated to give effect to the two-for-one stock split. See Note 1 for additional information.

The notes on pages 24 to 52 are an integral part of the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amounts are in millions or shares unless indicated otherwise (per share data assume dilution).

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information

Eaton Corporation (Eaton or Company) is a diversified power management company with 2010 sales of \$13.7 billion. The Company is a global technology leader in electrical components and systems for power quality, distribution and control; hydraulics components, systems and services for industrial and mobile equipment; aerospace fuel, hydraulics and pneumatic systems for commercial and military use; and truck and automotive drivetrain and powertrain systems for performance, fuel economy and safety. Eaton has approximately 70,000 employees in over 50 countries, and sells products to customers in more than 150 countries.

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and notes. Actual results could differ from these estimates.

Management has evaluated subsequent events through the date the consolidated financial statements were filed with the Securities Exchange Commission.

The consolidated financial statements include accounts of Eaton and all subsidiaries and other controlled entities. Intercompany transactions and balances have been eliminated. The equity method of accounting is used for investments in associate companies where the Company has a 20% to 50% ownership interest. These associate companies are not material either individually, or in the aggregate, to Eaton's consolidated financial statements. Eaton does not have off-balance sheet arrangements or financings with unconsolidated entities. In the ordinary course of business, the Company leases certain real properties and equipment, as described in Note 7.

On January 27, 2011, Eaton's Board of Directors announced a two-for-one stock split of the Company's common shares effective in the form of a 100% stock dividend. The record date for the stock split was February 7, 2011, and the additional shares will be distributed on February 28, 2011. Accordingly, all per share amounts, average shares outstanding, shares outstanding, shares repurchased and equity based compensation presented in the consolidated financial statements and notes have been adjusted retroactively to reflect the stock split. Shareholders' equity has been retroactively adjusted to give effect to the stock split for all periods presented by reclassifying the par value of the additional shares issued in connection with the stock split to Common shares from Retained earnings and Capital in excess of par value.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Foreign Currency Translation

The functional currency for subsidiaries outside the United States is primarily the local currency. Financial statements for these subsidiaries are translated at year-end exchange rates as to assets and liabilities and weighted-average exchange rates as to revenues and expenses. The resulting translation adjustments are recognized in Accumulated other comprehensive loss. Gains and losses related to foreign currency transactions are recognized in Other (income) expense-net.

Revenue Recognition

Sales of products are recognized when a sales agreement is in place, products have been shipped to unaffiliated customers and title has transferred in accordance with shipping terms (FOB shipping point, FOB destination or equivalent International Commercial (INC0) Terms), the selling price is fixed and determinable and collectability is reasonably assured, all significant related acts of performance have been completed, and no other significant uncertainties exist. Shipping and handling costs billed to customers are included in Net sales and the related costs in Cost of products sold. Although the majority of the sales agreements contain standard terms and conditions, there are agreements that contain multiple elements or non-standard terms and conditions. As a result, judgment is required to determine the appropriate accounting, including whether the deliverables specified in these agreements should be treated as separate units of accounting for recognition purposes, and, if so, how the sales price should be allocated among the elements and when to recognize sales for each element. For delivered elements, sales are recognized only when the delivered elements have standalone value, fair values of undelivered elements are known, there are no uncertainties regarding customer acceptance, and there are no customer-negotiated refund or return rights affecting the sales recognized for delivered elements. Sales for service contracts generally are recognized as the services are provided.

Long-Lived Assets

Depreciation and amortization for property, plant and equipment, and intangible assets subject to amortization, are generally computed by the straight-line method and included in Cost of products sold, Selling and administrative expense, and Research and development expense, as appropriate. Cost of buildings are depreciated generally over 40 years and

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machinery and equipment over 3 to 10 years. At December 31, 2010, the weighted-average amortization period for intangible assets subject to amortization was 18 years for patents and technology and 17 years for customer relationships, primarily as a result of the long life of aircraft platforms. Software is generally amortized over a period up to 7 years.

Long-lived assets, except goodwill and indefinite life intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Upon indications of impairment, assets and liabilities are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The asset group would be considered impaired when the estimated future net undiscounted cash flows generated by the asset group are less than its carrying value. Determining asset groups and underlying cash flows requires the use of significant judgment.

Goodwill and Indefinite Life Intangible Assets

Goodwill and indefinite life intangible assets are tested annually for impairment as of July 1 using a discounted cash flow model and other valuation techniques. Additionally, goodwill and indefinite life intangible assets are evaluated for impairment whenever events or circumstances indicate there may be a possible permanent loss of value.

Goodwill is tested for impairment at the reporting unit level, which is equivalent to Eaton's operating segments, and based on the net assets for each segment, including goodwill and intangible assets. Goodwill is assigned to each operating segment, as this represents the lowest level that constitutes a business and for which discrete financial information is available and is the level which management regularly reviews the operating results. A discounted cash flow model is used to estimate the fair value of each operating segment, which considers forecasted cash flows discounted at an estimated weighted-average cost of capital. The Company selected the discounted cash flow methodology as it believes that it is comparable to what would be used by market participants. The forecasted cash flows are based on the Company's long-term operating plan, and a terminal value is used to estimate the operating segment's cash flows beyond the period covered by the operating plan. The weighted-average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt market participants of a business enterprise. These analyses require the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the timing of expected future cash flows. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective operating segment. Sensitivity analyses are performed around these assumptions in order to assess the reasonableness of the assumptions and the resulting estimated fair values.

Indefinite life intangible assets primarily consist of trademarks. The fair value of these assets is determined using a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability.

For 2010, the fair value of Eaton's reporting units and indefinite life intangible assets substantially exceeded the respective carrying values. For additional information about goodwill and other intangible assets, see Note 4.

Derivative Financial Instruments and Hedging Activities

Eaton uses derivative financial instruments to manage the exposure to the volatility in raw material costs, foreign currency and interest rates on certain debt instruments. These instruments are marked to fair value. Changes in the fair value of derivative assets or liabilities (i.e., gains or losses) are recognized depending upon the type of hedging relationship and whether an instrument has been designated as a hedge. For those instruments that qualify for hedge accounting, Eaton designates the hedging instrument, based upon the exposure being hedged, as a cash flow hedge, a fair value hedge, or a hedge of a net investment in a foreign operation. Changes in fair value of these instruments that do not qualify for hedge accounting are recognized immediately in net income. See Note 12 for additional information about hedges and derivative financial instruments.

Warranty Accruals

Product warranty accruals are established at the time the related sale is recognized through a charge to Cost of products sold. Warranty accrual estimates are based primarily on historical warranty claim experience and specific customer contracts. Provisions for warranty accruals are comprised of basic warranties for products sold, as well as accruals for product recalls and other events when they are known and estimable. See Note 7 for additional information about warranty accruals.

Asset Retirement Obligations

A conditional asset retirement obligation is recognized at fair value when incurred if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional asset retirement obligation would be considered in the measurement of the liability when sufficient information exists. Eaton believes that for substantially all of its asset retirement obligations, there is an indeterminate settlement date because the range of time

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over which the Company may settle the obligation is unknown or cannot be estimated. A liability for these obligations will be recognized when sufficient information is available to estimate fair value.

Income Taxes

Deferred income tax assets and liabilities are determined based on the difference between the financial statement and tax basis of the respective assets and liabilities, using enacted tax rates in effect for the year when the differences are expected to reverse. Deferred income tax assets are recognized for United States and non-United States income tax loss carryforwards and income tax credit carryforwards. Judgment is required in determining and evaluating income tax provisions and valuation allowances for deferred income tax assets. Eaton recognizes the income tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Eaton evaluates and adjusts these accruals based on changing facts and circumstances. Eaton recognizes interest and penalties related to unrecognized income tax benefits in the provision for income tax expense. The Company has accrued penalties in jurisdictions where they are automatically applied to any deficiency, regardless of the merit of the position. For additional information about income taxes, see Note 8.

Stock Options and Restricted Stock Units

Eaton recognizes equity-based compensation expense based on the grant date fair value of the award over the period during which an employee is required to provide service in exchange for the award. Stock options are granted with an exercise price equal to the closing market price of Eaton common shares on the date of grant. The fair value of stock options is determined using a Black-Scholes option-pricing model, which incorporates assumptions regarding the expected volatility, the expected option life, the risk-free interest rate, and the expected dividend yield. The fair value of restricted stock units is based on the closing market price of Eaton common stock on the grant date. See Note 10 for additional information about stock options and restricted stock units.

New Accounting Standards

In 2009, the FASB issued a revised standard for accounting and disclosures of revenues related to arrangements with customers to provide multiple products and services at different points in time or over different time periods. This standard is effective for 2011. The adoption of this standard is not expected to have a material effect on Eaton's consolidated financial statements.

Note 2. ACQUISITIONS OF BUSINESSES

Eaton acquired businesses and entered into joint ventures in separate transactions for combined net cash purchase prices of \$222 in 2010, \$10 in 2009, and \$2,807 in 2008. The Consolidated Statements of Income include the results of these businesses from the dates of the transactions or formation. These transactions are summarized below:

Acquired business	Date of transaction	Business segment	Annual sales
Chloride Phoenixtec Electronics <i>A China-based manufacturer of uninterruptible power supply (UPS) systems. Eaton acquired the remaining shares to increase its ownership from 50% to 100%.</i>	October 12, 2010	Electrical Rest of World	\$25 for the year ended September 30, 2010
CopperLogic, Inc. <i>A United States-based manufacturer of electrical and electromechanical systems.</i>	October 1, 2010	Electrical Americas	\$35 for the year ended September 30, 2010
Wright Line Holding, Inc. <i>A United States provider of customized enclosures, rack systems, and air-flow management systems to store, power, and secure mission-critical IT data center electronics.</i>	August 25, 2010	Electrical Americas	\$101 for the year ended June 30, 2010

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Acquired business	Date of transaction	Business segment	Annual sales
EMC Engineers, Inc. <i>A United States energy engineering and energy services company that delivers energy efficiency solutions for a wide range of governmental, educational, commercial and industrial facilities.</i>	July 15, 2010	Electrical Americas	\$24 for 2009
Micro Innovation Holding AG <i>A Switzerland-based manufacturer of human machine interfaces, programmable logic controllers and input/output devices. Eaton acquired the remaining shares to increase its ownership from 50% to 100%.</i>	September 1, 2009	Electrical Rest of World	\$33 for 2008
SEG Middle East Power Solutions & Switchboard Manufacture LLC <i>A 49%-owned joint venture in Abu Dhabi that manufactures low-voltage switchboards and control panel assemblies for use in the Middle East power generation and industrial markets.</i>	July 2, 2009	Electrical Rest of World	\$10 for 2008
Integ Holding Limited <i>The parent company of Integrated Hydraulics Ltd., a United Kingdom-based manufacturer of screw-in cartridge valves, custom-engineered hydraulic valves and manifold systems.</i>	October 2, 2008	Hydraulics	\$52 for 2007
Nittan Global Tech Co. Ltd. <i>A 49%-owned joint venture to manage the global design, manufacture and supply of engine valves and valve actuation products to Japanese and Korean automobile and engine manufacturers. In addition, during the second half of 2008, several related manufacturing joint ventures were established.</i>	Operational October 1, 2008	Automotive	Joint venture
Engine Valves Business of Kirloskar Oil Engines Ltd. <i>An India-based designer, manufacturer and distributor of intake and exhaust valves for diesel and gasoline engines.</i>	July 31, 2008	Automotive	\$5 for 2007
PK Electronics <i>A Belgium-based distributor and service provider of single-phase and three-phase uninterruptible power supply (UPS) systems.</i>	July 31, 2008	Electrical Rest of World	\$9 for 2007
The Moeller Group <i>A Germany-based supplier of electrical components for commercial and residential building applications and industrial controls for industrial equipment applications.</i>	April 4, 2008	Electrical Rest of World	\$1.4 billion (€1.02 billion) for 2007
Balmen Electronic, S.L. <i>A Spain-based distributor and service provider of uninterruptible power supply (UPS) systems.</i>	March 31, 2008	Electrical Rest of World	\$6 for 2007
Phoenixtec Power Company Ltd. <i>A Taiwan-based manufacturer of single- and three-phase uninterruptible power supply (UPS) systems.</i>	February 26, 2008	Electrical Rest of World	\$515 for 2007

On January 1, 2011, Eaton closed the acquisition of the Tuthill Coupling Group, a division of the Tuthill Corporation. This

business, located in the United States and France, manufactures pneumatic and hydraulic quick coupling solutions and leak-free connectors used in industrial, construction, mining, defense, energy and power applications. This business had sales of \$35 for the year ended November 30, 2010 and will be included in the Hydraulics business segment.

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On January 20, 2011, Eaton reached an agreement to acquire ACTOM (Pty) Limited's low-voltage electrical business in South Africa. This business is a manufacturer and supplier of motor control components, engineered electrical distribution systems, and uninterruptible power supply systems and had sales of \$58 for the year ended December 31, 2010. The terms of the agreement are subject to regulatory approvals and other customary closing conditions. The acquisition is expected to close during the first half of 2011. This business will be included in the Electrical Rest of World segment.

Note 3. ACQUISITION INTEGRATION AND RESTRUCTURING CHARGES

Acquisition Integration Charges

Eaton incurs charges related to the integration of acquired businesses. A summary of these charges follows:

Business segment	2010	2009	2008
Electrical Americas	\$ 2	\$ 4	\$ 4
Electrical Rest of World	33	60	43
Hydraulics	1	3	6
Aerospace	4	12	20
Automotive	—	1	3
	40	80	76
Corporate	—	2	1
Total integration charges before income taxes	\$ 40	\$ 82	\$ 77
After-tax integration charges	\$ 27	\$ 54	\$ 51
Per common share	\$ 0.08	\$ 0.16	\$ 0.17

Charges in 2010 were related primarily to Moeller and Phoenixtec. Charges in 2009 were related primarily to Moeller, Phoenixtec and Argo-Tech. Charges in 2008 were related primarily to Moeller, Phoenixtec, the MGE small systems UPS business, Argo-Tech, PerkinElmer and Cobham. See Note 2 for additional information about business acquisitions.

Workforce Reduction and Plant Closing Charges

In 2009, Eaton took significant actions to reduce its fulltime workforce by 17% in response to the severe economic downturn. These actions resulted in the recognition of severance and pension and other postretirement benefits expense of \$182 in 2009.

In 2008, charges of \$27 were recognized related to the closure of the automotive engine valve lifters manufacturing plant in Massa, Italy. These charges, consisting of \$17 for severance, \$7 for the write-down of assets and \$3 for other costs, reduced operating profit of the Automotive segment.

A summary of liabilities related to acquisition integration, workforce reduction, and plant closing charges, follows:

	Workforce reductions		Plant closing and other	Total
	Employees	Dollars		
Balance at January 1, 2008	563	\$ 14	\$ 1	\$ 15
Liabilities recognized	422	21	87	108
Utilized	(451)	(14)	(84)	(98)
Balance at December 31, 2008	534	21	4	25
Liabilities recognized	12,073	195	69	264
Utilized	(11,189)	(173)	(61)	(234)
Balance at December 31, 2009	1,418	43	12	55
Liabilities recognized	202	7	33	40
Utilized	(1,293)	(39)	(40)	(79)
Balance at December 31, 2010	327	\$ 11	\$ 5	\$ 16

These charges were included in Cost of products sold or Selling and administrative expense, as appropriate. In Business Segment Information, the charges reduced Operating profit of the related business segment. See Note 14 for additional information about business segments.

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Note 4. GOODWILL AND OTHER INTANGIBLE ASSETS

A summary of goodwill follows:

	2010	2009
Electrical Americas	\$ 2,061	\$ 2,003
Electrical Rest of World	985	1,005
Hydraulics	1,007	1,016
Aerospace	1,037	1,047
Truck	151	147
Automotive	213	217
Total goodwill	\$ 5,454	\$ 5,435

The increase in goodwill in 2010 was due to businesses acquired during 2010, the finalization of purchase price allocations related to businesses acquired in 2009, and foreign currency translation. For additional information regarding acquired businesses, see Note 2.

A summary of other intangible assets follows:

	2010		2009	
	Historical cost	Accumulated amortization	Historical cost	Accumulated amortization
Intangible assets not subject to amortization (primarily trademarks)	<u>\$ 451</u>		<u>\$ 451</u>	
Intangible assets subject to amortization				
Customer relationships	\$ 1,187	\$ 274	\$ 1,181	\$ 204
Patents and technology	835	260	885	245
Other	441	108	456	83
Total other intangible assets	<u>\$ 2,463</u>	<u>\$ 642</u>	<u>\$ 2,522</u>	<u>\$ 532</u>

Expense related to intangible assets subject to amortization in 2010, and for each of the next five years, follows:

2010		\$152
2011		150
2012		149
2013		140
2014		134
2015		130

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Note 5. DEBT

Short-term debt of \$72 at December 31, 2010 included \$50 of short-term commercial paper in the United States which had a weighted-average interest rate of 0.45%, \$15 of other short-term debt in the United States, and \$7 of short-term debt outside the United States. Borrowings outside the United States are generally denominated in local currencies. Operations outside the United States have available short-term lines of credit of \$975 from various banks worldwide at December 31, 2010.

A summary of long-term debt, including the current portion, follows:

	2010	2009
5.75% notes due 2012	\$ 300	\$ 300
7.58% notes due 2012	12	12
4.90% notes due 2013 (\$200 converted to floating rate by interest rate swap)	300	300
5.80% notes due 2013	7	7
5.95% notes due 2014 (\$100 converted to floating rate by interest rate swap)	250	250
12.50% United Kingdom pound sterling debentures due 2014	9	9
4.65% notes due 2015	100	100
5.30% notes due 2017	250	250
6.875% to 7.09% notes due 2018	36	36
5.60% notes due 2018 (\$115 converted to floating rate by interest rate swap)	450	450
4.215% Japanese Yen notes due 2018	123	108
6.95% notes due 2019	300	300
8.875% debentures due 2019 (\$25 converted to floating rate by interest rate swap)	38	38
8.10% debentures due 2022	100	100
7.625% debentures due 2024 (\$25 converted to floating rate by interest rate swap)	66	66
6.50% debentures due 2025	145	145
7.875% debentures due 2026	72	72
7.65% debentures due 2029 (\$50 converted to floating rate by interest rate swap)	200	200
5.45% debentures due 2034 (\$25 converted to floating rate by interest rate swap)	140	140
5.25% notes due 2035	42	42
5.80% notes due 2037	240	240
Other	206	189
Total long-term debt	<u>3,386</u>	<u>3,354</u>
Less current portion of long-term debt	<u>(4)</u>	<u>(5)</u>
Long-term debt less current portion	<u><u>\$ 3,382</u></u>	<u><u>\$ 3,349</u></u>

Eaton's United States long-term revolving credit facilities total \$1.5 billion, of which \$500 expires in each year from 2011 through 2013. These facilities support Eaton's commercial paper borrowings. There were no borrowings outstanding under these revolving credit facilities at December 31, 2010 or 2009. Eaton is in compliance with each of its debt covenants as of December 31, 2010 and for all periods presented.

Mandatory maturities of long-term debt for each of the next five years follow:

2011	\$ 4
2012	317
2013	310
2014	262
2015	104

Interest paid on debt follows:

2008	\$206
2009	180
2010	170

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Note 6. RETIREMENT BENEFITS PLANS

Eaton has defined benefits pension plans and other postretirement benefits plans.

Obligations and Funded Status

	United States pension liabilities		Non-United States pension liabilities		Other postretirement liabilities	
	2010	2009	2010	2009	2010	2009
Funded status						
Fair value of plan assets	\$ 1,572	\$ 1,210	\$ 937	\$ 832	\$ —	\$ —
Benefit obligations	(2,458)	(2,244)	(1,460)	(1,366)	(826)	(830)
Funded status	<u>\$ (886)</u>	<u>\$(1,034)</u>	<u>\$ (523)</u>	<u>\$ (534)</u>	<u>\$ (826)</u>	<u>\$ (830)</u>

Amounts recognized in the Consolidated Balance Sheets

Non-current assets	\$ —	\$ —	\$ 52	\$ 50	\$ —	\$ —
Current liabilities	(9)	(8)	(23)	(24)	(83)	(76)
Non-current liabilities	(877)	(1,026)	(552)	(560)	(743)	(754)
Total	<u>\$ (886)</u>	<u>\$(1,034)</u>	<u>\$ (523)</u>	<u>\$ (534)</u>	<u>\$ (826)</u>	<u>\$ (830)</u>

Amounts recognized in Accumulated other comprehensive loss (pretax)

Net actuarial loss	\$ 1,142	\$ 1,107	\$ 311	\$ 256	\$ 232	\$ 228
Prior service cost (credit)	—	—	8	7	(11)	(12)
Total	<u>\$ 1,142</u>	<u>\$ 1,107</u>	<u>\$ 319</u>	<u>\$ 263</u>	<u>\$ 221</u>	<u>\$ 216</u>

Change in Benefit Obligations

	United States pension liabilities		Non-United States pension liabilities		Other postretirement liabilities	
	2010	2009	2010	2009	2010	2009
Balance at January 1	\$ 2,244	\$ 2,145	\$ 1,366	\$ 1,143	\$ 830	\$ 779
Service cost	80	76	39	34	16	15
Interest cost	131	133	69	70	46	49
Actuarial loss	133	98	94	100	15	70
Gross benefits paid	(122)	(229)	(76)	(89)	(88)	(96)
Foreign currency translation	—	—	(53)	98	1	3
Other	(8)	21	21	10	6	10
Balance at December 31	<u>\$ 2,458</u>	<u>\$ 2,244</u>	<u>\$ 1,460</u>	<u>\$ 1,366</u>	<u>\$ 826</u>	<u>\$ 830</u>
Accumulated benefit obligation	<u>\$ 2,366</u>	<u>\$ 2,143</u>	<u>\$ 1,330</u>	<u>\$ 1,261</u>		

Change in Plan Assets

	United States pension liabilities		Non-United States pension liabilities		Other postretirement liabilities	
	2010	2009	2010	2009	2010	2009
Balance at January 1	\$ 1,210	\$ 994	\$ 832	\$ 680	\$ —	\$ —
Actual return on plan assets	182	253	96	77	—	—
Employer contributions	313	192	90	79	88	96
Gross benefits paid	(122)	(229)	(76)	(89)	(88)	(96)
Foreign currency translation	—	—	(21)	79	—	—
Other	(11)	—	16	6	—	—
Balance at December 31	<u>\$ 1,572</u>	<u>\$ 1,210</u>	<u>\$ 937</u>	<u>\$ 832</u>	<u>\$ —</u>	<u>\$ —</u>

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The components of pension plans with an accumulated benefit obligation in excess of plan assets at December 31 follow:

	United States pension liabilities		Non-United States pension liabilities	
	2010	2009	2010	2009
Projected benefit obligation	\$2,458	\$2,244	\$1,114	\$1,146
Accumulated benefit obligation	2,366	2,143	1,026	1,074
Fair value of plan assets	1,572	1,210	554	582

Changes in pension and other postretirement benefit liabilities recognized in Accumulated other comprehensive loss follow:

	United States pension liabilities		Non-United States pension liabilities		Other postretirement liabilities	
	2010	2009	2010	2009	2010	2009
Balance at January 1	\$ 1,107	\$ 1,244	\$ 263	\$ 169	\$ 216	\$ 146
Prior service cost arising during the year	1	4	1	1	—	—
Net loss (gain) arising during the year	107	(24)	60	83	15	70
Foreign currency translation	—	—	(5)	21	—	1
Less amounts included in expense during the year	(69)	(117)	(8)	(11)	(10)	(1)
Other	(4)	—	8	—	—	—
Net change for the year	35	(137)	56	94	5	70
Balance at December 31	<u>\$ 1,142</u>	<u>\$ 1,107</u>	<u>\$ 319</u>	<u>\$ 263</u>	<u>\$ 221</u>	<u>\$ 216</u>

Benefits Expense

	United States pension benefit expense			Non-United States pension benefit expense			Other postretirement benefits expense		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Service cost	\$ 80	\$ 76	\$ 94	\$ 39	\$ 34	\$ 43	\$ 16	\$ 15	\$ 15
Interest cost	131	133	122	69	70	68	46	49	49
Expected return on plan assets	(156)	(131)	(138)	(62)	(58)	(60)	—	—	—
Amortization	53	34	42	8	4	7	10	1	11
	<u>108</u>	<u>112</u>	<u>120</u>	<u>54</u>	<u>50</u>	<u>58</u>	<u>72</u>	<u>65</u>	<u>75</u>
Curtailment loss	1	17	—	—	5	1	—	1	—
Settlement loss	16	83	33	—	3	2	—	—	—
Total expense	<u>\$ 125</u>	<u>\$ 212</u>	<u>\$ 153</u>	<u>\$ 54</u>	<u>\$ 58</u>	<u>\$ 61</u>	<u>\$ 72</u>	<u>\$ 66</u>	<u>\$ 75</u>

In 2009, due to limitations imposed by the Pension Protection Act on pension lump-sum distributions, Eaton's United States Qualified Pension Plan (the Plan) became restricted from making 100% lump-sum payments. As a result, the Plan experienced a significant increase in lump-sum payments in 2009 prior to the limitation going into effect. Pension settlement expense was \$86 for 2009, of which \$83 was attributable to the United States pension plans. A portion of the increase in lump-sum payments was attributable to the workforce reduction in 2009. Additionally, as a result of the workforce reduction in 2009, Eaton incurred curtailment expense related to pension plans. The curtailment expense included recognition of the change in the projected benefit obligation, as well as recognition of a portion of the unrecognized prior service cost. Curtailment expense was \$22 for 2009. These charges were primarily included in Cost of products sold or Selling and administrative expense, as appropriate. In Business Segment Information, the charges were included in Pension and other postretirement benefits expense. See Note 14 for additional information regarding business segments.

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The estimated pretax net amounts that will be recognized from Accumulated other comprehensive loss into net periodic benefit cost in 2011 follow:

	United States pension liabilities	Non-United States pension liabilities	Other postretirement liabilities
Actuarial loss	\$ 93	\$ 15	\$ 13
Prior service cost (credit)	—	2	(2)
Total	\$ 93	\$ 17	\$ 11

Retirement Benefits Plans Assumptions

Pension Plans

	United States pension plans			Non-United States pension plans		
	2010	2009	2008	2010	2009	2008
Assumptions used to determine benefit obligation at year-end						
Discount rate	5.50%	6.00%	6.30%	5.40%	5.59%	6.26%
Rate of compensation increase	3.61%	3.62%	3.64%	3.63%	3.58%	3.56%
Assumptions used to determine expense						
Discount rate	6.00%	6.30%	6.00%	5.59%	6.26%	5.93%
Expected long-term return on plan assets	8.95%	8.94%	8.94%	7.20%	7.06%	7.39%
Rate of compensation increase	3.62%	3.64%	3.64%	3.58%	3.56%	3.60%

The expected long-term rate of return on pension assets was determined for each country and reflects long-term historical data taking into account each plan's target asset allocation. The discount rate was determined using appropriate bond data for each country.

Other Postretirement Benefits Plans

Substantially all of the obligation for other postretirement benefits plans relates to United States plans. Assumptions used to determine other postretirement benefits obligations and expense follow:

	Other postretirement benefits plans		
	2010	2009	2008
Assumptions used to determine benefit obligation at year-end			
Discount rate	5.20%	5.70%	6.30%
Health care cost trend rate assumed for next year	8.10%	8.30%	8.25%
Ultimate health care cost trend rate	4.50%	4.75%	4.75%
Year ultimate health care cost trend rate is achieved	2020	2017	2017
Assumptions used to determine expense			
Discount rate	5.70%	6.30%	6.00%
Initial health care cost trend rate	8.30%	8.25%	8.30%
Ultimate health care cost trend rate	4.75%	4.75%	4.75%
Year ultimate health care cost trend rate is achieved	2017	2017	2015

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A 1-percentage point change in the assumed health care cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total service and interest cost	\$—	\$—
Effect on other postretirement liabilities	17	(15)

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Employer Contributions to Pension Plans

Contributions to pension plans that Eaton expects to make in 2011, and made in 2010, 2009 and 2008, follow:

	2011	2010	2009	2008
United States plans	\$ 259	\$ 313	\$ 192	\$ 124
Non-United States plans	94	90	79	86
Total contributions	<u>\$ 353</u>	<u>\$ 403</u>	<u>\$ 271</u>	<u>\$ 210</u>

The following table provides the estimated pension and other postretirement benefit payments for each of the next five years, and the five years thereafter in the aggregate. For other postretirement benefits liabilities, the expected subsidy receipts relate to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which would reduce the gross payments listed below.

	Estimated United States pension payments	Estimated non-United States pension payments	Estimated other postretirement benefit payments	
			Gross	Medicare prescription drug subsidy
2011	\$ 130	\$ 69	\$ 93	\$ (8)
2012	134	71	91	(8)
2013	283	72	88	(8)
2014	181	74	85	(8)
2015	188	77	84	(7)
2016 - 2020	1,090	424	347	(24)

Pension lump-sum payments in 2011 and 2012 are restricted to 50% due to limitations imposed by the Pension Protection Act.

Pension Plan Assets

Investment policies and strategies are developed on a country specific basis. The United States plans, representing 63% of worldwide pension assets, and the United Kingdom plans representing 29% of worldwide pension assets, are invested primarily for growth, as they are open plans with active participants and ongoing accruals. In general, the plans have their primary allocation to diversified, global equities, primarily through index funds in the form of common collective trusts. The United States plan's target allocation is 35% United States equities, 35% non-United States equities, 5% real estate (primarily equity of real estate investment trusts) and 25% debt securities and other, including cash equivalents. The United Kingdom plans' target asset allocations are 69% equities and the remainder in debt securities. The equity risk for the plans is managed through broad geographical diversification and diversification across industries and levels of market capitalization. The majority of debt allocations for these plans are longer duration government (including inflation protected securities) and corporate debt. The United States pension plan is authorized to use derivatives to achieve more economically desired market exposures and to use futures, swaps and options to gain or hedge exposures.

Pension Plan Assets Fair Value Measurements

Financial instruments included in pension plan assets are categorized into a fair value hierarchy of three levels, based on the degree of subjectivity inherent in the valuation methodology as follows:

- Level 1 — Quoted prices (unadjusted) for identical assets in active markets.
- Level 2 — Quoted prices for similar assets in active markets, and inputs that are observable for the asset, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — Unobservable prices or inputs.

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A summary of the fair value of pension plan assets at December 31, 2010 and 2009, and the fair value measurement used, follows:

	Total	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
2010				
Common collective trusts				
Non-United States equity and global equities	\$ 965	\$ —	\$ 965	\$ —
United States equity	577	—	577	—
Fixed income	241	—	241	—
Long duration funds	91	—	91	—
Fixed income securities	230	—	230	—
United States treasuries	101	101	—	—
Real estate	81	81	—	—
Equity securities	78	78	—	—
Cash equivalents	77	10	67	—
Registered investment companies	32	32	—	—
Other	36	2	—	34
Total pension plan assets	\$2,509	\$ 304	\$ 2,171	\$ 34
2009				
Common collective trusts				
Non-United States equity and global equities	\$ 839	\$ —	\$ 839	\$ —
United States equity	646	—	646	—
Fixed income	296	—	296	—
Long duration funds	84	—	84	—
Cash equivalents	27	—	27	—
United States treasuries	37	37	—	—
Registered investment companies	25	25	—	—
Cash equivalents	28	1	27	—
Other fixed income	21	—	21	—
Other	39	7	3	29
Total pension plan assets	\$2,042	\$ 70	\$ 1,943	\$ 29

Following is a description of the valuation methodologies used for pension plan assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009.

- *Common collective trusts* — Valued at the net unit value of units held by the trust at year end. The unit value is determined by the total value of fund assets divided by the total number of units of the fund owned. The equity investments in collective trusts are predominantly in index funds for which the underlying securities are actively traded in public markets based upon readily measurable prices.
- *Fixed income securities* — These securities consist of publicly traded United States and non-United States fixed interest obligations (principally corporate and government bonds and debentures). The fair value of corporate and government debt securities is determined through models that consider various assumptions, including time value, yield curves, credit ratings and current market prices.
- *United States treasuries* — Valued at the closing price of each security.
- *Real estate and equity securities* — These securities consist of direct investments in the stock of publicly traded companies. Such investments are valued based on the closing price reported in an active market on which the individual securities are traded. As such, the direct investments are classified as Level 1.
- *Cash equivalents* — Primarily certificates of deposit, commercial paper and repurchase agreements.
- *Registered investment companies* — Valued at the closing price of the exchange traded fund's shares.

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- *Other fixed income* — Asset backed securities, agencies and variable rate bonds valued based on pricing models which incorporate information from market sources and observed market movements.
- *Other* — Primarily insurance contracts for international plans and also futures contracts and over-the-counter options. These investments are valued based on the closing prices of future contracts or indices as available on the Bloomberg or similar service, and private equity investments.

For additional information regarding fair value measurements, see Note 11.

Defined Contribution Plans

The Company has various defined contribution benefit plans, primarily consisting of the Eaton Savings Plan in the United States. The total contributions related to these plans are charged to expense and were as follows:

2008	\$64
2009	25
2010	33

Note 7. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

In December 2010, a Brazilian court held that a judgment against a Brazilian company sold by Eaton in 2006 could be enforced against Eaton. The Company recognized a pretax provision of 60 Brazilian Reais (\$36 based on current exchange rates) related to this legal matter as a corporate charge classified in Other (income) expense-net. Eaton is appealing this decision in the Brazilian court system.

On October 5, 2006, ZF Meritor LLC and Meritor Transmission Corporation (collectively, Meritor) filed an action against Eaton in the United States District Court for Delaware. The action sought damages, which would be trebled under United States antitrust laws, as well as injunctive relief and costs. The suit alleged that Eaton engaged in anti-competitive conduct against Meritor in the sale of heavy-duty truck transmissions in North America. Following a four week trial on liability only, on October 8, 2009, the jury returned a verdict in favor of Meritor. Eaton firmly believes that it competes fairly and honestly for business in the marketplace, and that at no time did it act in an anti-competitive manner. During an earlier stage in the case, the judge concluded that damage estimates contained in a report filed by Meritor were not based on reliable data and the report was specifically excluded from the case. On November 3, 2009, Eaton filed a motion for judgment as a matter of law and to set aside the verdict. That motion is currently pending. Accordingly, an estimate of any potential loss related to this action cannot be made at this time.

Eaton is subject to a broad range of claims, administrative and legal proceedings, such as lawsuits that relate to contractual allegations, tax audits, patent infringement, personal injuries (including asbestos claims), antitrust matters and employment-related matters. Although it is not possible to predict with certainty the outcome or cost of these matters, the Company believes they will not have a material adverse effect on the consolidated financial statements.

Environmental Contingencies

Eaton has established policies to ensure that its operations are conducted in keeping with good corporate citizenship and with a positive commitment to the protection of the natural and workplace environments. The Company's manufacturing facilities are required to be certified to ISO 14001, an international standard for environmental management systems. The Company routinely reviews EHS performance at each of its facilities and continuously strives to improve pollution prevention.

Eaton is involved in remedial response and voluntary environmental remediation at a number of sites, including certain of its currently-owned or formerly-owned plants. The Company has also been named a potentially responsible party under the federal Superfund law at a number of disposal sites. The Company became involved in these sites through the Company's voluntary decision, in connection with business acquisitions, or as a result of government action. At the end of 2010, the Company was involved with a total of 80 sites world-wide, including the Superfund sites mentioned above, with none of these sites being individually significant to the Company.

Remediation activities, generally involving soil and/or groundwater contamination, include pre-cleanup activities such as fact finding and investigation, risk assessment, feasibility study, design and action planning, performance (where actions may range from monitoring, to removal of contaminants, to installation of longer-term remediation systems), and operation and maintenance of a remediation system. The extent of expected remediation activities and costs varies by site. A number of factors affect the cost of environmental remediation, including the number of parties involved at a particular site, the determination of the extent of contamination, the length of time the remediation may require, the

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complexity of environmental regulations, and the continuing advancement of remediation technology. Taking these factors into account, Eaton has estimated the costs of remediation, which will be paid over a period of years. The Company accrues an amount on an undiscounted basis, consistent with the estimates of these costs when it is probable that a liability has been incurred. Actual results may differ from these estimates. At December 31, 2010 and 2009, the Company had an accrual totaling \$71 and \$80, respectively, for these costs.

Warranty Accruals

A summary of the current and long-term warranty accruals follows:

	2010	2009	2008
Balance at January 1	\$ 147	\$ 165	\$ 167
Provision	99	77	95
Settled	(91)	(98)	(108)
Business acquisitions	—	—	13
Other	(2)	3	(2)
Balance at December 31	<u>\$ 153</u>	<u>\$ 147</u>	<u>\$ 165</u>

Lease Commitments

Eaton leases certain real properties and equipment. A summary of minimum rental commitments at December 31, 2010 under noncancelable operating leases, which expire at various dates and in most cases contain renewal options, for each of the next five years and thereafter in the aggregate, follow:

2011	\$ 145
2012	106
2013	78
2014	49
2015	39
Thereafter	59
Total noncancelable lease commitments	<u>\$ 476</u>

A summary of rental expense follows:

2008	\$173
2009	177
2010	172

Note 8. INCOME TAXES

Income from continuing operations before income taxes and income tax expense is summarized below based on the geographic location of the operation to which such earnings and income taxes are attributable. Certain foreign operations are branches of Eaton and are, therefore, subject to United States as well as foreign income tax regulations. As a result, income before tax by location and the components of income tax expense by taxing jurisdiction are not directly related. For purposes of this note, non-United States operations include Puerto Rico.

	Income (loss) from continuing operations before income taxes		
	2010	2009	2008
United States	\$ 114	\$ (298)	\$ 123
Non-United States	922	601	1,017
Total income before income taxes	<u>\$ 1,036</u>	<u>\$ 303</u>	<u>\$ 1,140</u>

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	Income tax expense (benefit) from continuing operations		
	2010	2009	2008
Current			
United States			
Federal	\$ (2)	\$ 40	\$ 36
State and local	1	5	4
Non-United States	107	69	219
Total current income tax expense	<u>106</u>	<u>114</u>	<u>259</u>

Deferred			
United States			
Federal	95	(174)	(17)
State and local	(15)	(4)	(42)
Non-United States	(87)	(18)	(127)
Total deferred income tax expense (benefit)	<u>(7)</u>	<u>(196)</u>	<u>(186)</u>
Total income tax expense (benefit)	<u>\$ 99</u>	<u>\$ (82)</u>	<u>\$ 73</u>

Reconciliations of income taxes from the United States federal statutory rate of 35% to the consolidated effective income tax rate for continuing operations follow:

	2010	2009	2008
Income taxes at the United States federal statutory rate	35.0%	35.0%	35.0%
United States operations			
State and local income taxes	(0.1)%	0.4%	0.3%
Deductible dividends	(0.6)%	(2.1)%	(0.5)%
Deductible interest	(0.8)%	(2.3)%	(0.6)%
Credit for increasing research activities	(1.4)%	(3.9)%	(1.2)%
Write-off deferred income tax asset due to impact of Health Care Reform and Education Reconciliation Act on taxation associated with Medicare Part D	2.2%	0.0%	0.0%
Other-net	1.4%	5.0%	4.8%
Non-United States operations			
Foreign tax credit	(6.4)%	(2.5)%	(3.0)%
Non-United States operations (earnings taxed at other than the United States tax rate)	(13.9)%	(52.6)%	(18.9)%
Worldwide operations			
Adjustments to tax liabilities	(1.2)%	(11.9)%	(3.6)%
Adjustments to valuation allowances	(4.7)%	7.7%	(5.9)%
Effective income tax expense (benefit) rate	<u>9.5%</u>	<u>(27.2)%</u>	<u>6.4%</u>

During 2010, income tax expense of \$99 was recognized (an effective tax rate of 9.5%) compared to an income tax benefit of \$82 for 2009 (a tax benefit rate of 27.2%). The increased tax rate is primarily attributable to higher United States income at the higher relative United States tax rate, a one-time, non-cash charge of \$22 to reflect the impact of the Health Care Reform and Education Reconciliation Act on taxation associated with Medicare Part D, and adjustments of \$22 to tax liabilities related to an income tax audit of transfer pricing for 2005 to 2009, partially offset by successful resolution of international tax issues, the recognition of state and local income tax attributes involving tax loss carryforwards, tax credits and other temporary differences, and enhanced realization of international deferred tax assets. Earnings taxed at other than the United States tax rate includes the impact of tax holidays in certain jurisdictions.

With limited exceptions, no provision has been made for income taxes on undistributed earnings of non-United States subsidiaries of \$6 billion at December 31, 2010, since it is the Company's intention to indefinitely reinvest undistributed earnings of its foreign subsidiaries. It is not practicable to estimate the additional income taxes and applicable foreign withholding taxes that would be payable on the remittance of such undistributed earnings.

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Worldwide income tax payments follow:

2008	\$185
2009	124
2010	141

Deferred Income Tax Assets and Liabilities

Components of current and long-term deferred income taxes follow:

	2010		2009	
	Current assets	Long-term assets and liabilities	Current assets	Long-term assets and liabilities
Accruals and other adjustments				
Employee benefits	\$ 94	\$ 681	\$ 78	\$ 773
Depreciation and amortization	(1)	(567)	3	(642)
Other accruals and adjustments	224	90	293	103
Other items	—	(6)	—	(5)
United States federal income tax loss carryforwards ⁽¹⁾	—	5	13	38
United States federal income tax credit carryforwards	—	253	—	165
United States state and local tax loss carryforwards and tax credit carryforwards	—	74	—	72
Non-United States tax loss carryforwards	—	360	—	291
Non-United States income tax credit carryforwards	—	72	—	66
Valuation allowance for income tax loss and income tax credit carryforwards	—	(421)	—	(360)
Other valuation allowances	(14)	(27)	(10)	(78)
Total deferred income taxes	\$ 303	\$ 514	\$ 377	\$ 423

(1) United States deferred income tax assets of \$37 for income tax loss carryforwards were reduced by \$32 for the excess income tax benefit related to the exercise of stock options. A tax benefit and a credit to Capital in excess of par value for the excess benefit will not be recognized until the deduction reduces income taxes payable. The net income tax loss carryforward of \$37 in the table below reflects the \$32 related to the excess income tax benefit.

At the end of 2010, United States federal income tax loss carryforwards and income tax credit carryforwards were available to reduce future federal income tax liabilities. A summary of these carryforwards and their expiration dates are summarized below:

	2011 through 2015	2016 through 2020	2021 through 2025	2026 through 2030	Not subject to expiration	Valuation allowance
United States federal income tax loss carryforwards	\$ 2	\$ —	\$13	\$92	\$—	\$ —
United States federal deferred income tax assets for income tax loss carryforwards ⁽¹⁾	1	—	4	32	—	(6)
United States federal income tax credit carryforwards	—	109	10	83	51	(18)

United States state and local tax loss carryforwards and tax credit carryforwards with a future tax benefit are also available at the end of 2010. A summary of these carryforwards and their expiration are summarized below:

	2011 through 2015	2016 through 2020	2021 through 2025	2026 through 2030	Not subject to expiration	Valuation allowance
United States state and local income tax loss carryforwards - net of federal tax effect	\$ 5	\$ 6	\$15	\$10	\$3	\$(10)
United States state and local income tax credit carryforwards - net of federal tax effect	10	10	6	4	5	(20)

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At December 31, 2010, certain non-United States subsidiaries had tax loss carryforwards and income tax credit carryforwards that are available to offset future taxable income. A summary of these carryforwards and their expiration is provided below:

	2011 through 2015	2016 through 2020	2021 through 2025	2026 through 2030	Not subject to expiration	Valuation allowance
Non-United States income tax loss carryforwards	\$161	\$155	\$46	\$ 4	\$947	\$ —
Non-United States deferred income tax assets for income tax loss carryforwards	41	42	14	1	262	(331)
Non-United States income tax credit carryforwards	5	60	1	—	6	(11)

Recoverability of Deferred Income Tax Assets

Eaton is subject to the income tax laws in the jurisdictions in which it operates. In order to determine its income tax provision for financial statement purposes, Eaton must make significant estimates and judgments about its business operations in these jurisdictions. These estimates and judgments are also used in determining the deferred income tax assets and liabilities that have been recognized for differences between the financial statement and income tax basis of assets and liabilities, and income tax loss carryforwards and income tax credit carryforwards.

Management evaluates the realizability of deferred income tax assets for each of the jurisdictions in which it operates. If the Company experiences cumulative pretax income in a particular jurisdiction in the three-year period including the current and prior two years, management normally concludes that the deferred income tax assets will more likely than not be realizable and no valuation allowance is recognized, unless known or planned operating developments would lead management to conclude otherwise. However, if the Company experiences cumulative pretax losses in a particular jurisdiction in the three-year period including the current and prior two years, management then considers a series of significant factors in the determination of whether the deferred income tax assets can be realized. The significant factors include historical operating results, known or planned operating developments, the period of time over which certain temporary differences will reverse, consideration of the utilization of certain deferred income tax liabilities, tax law carryback capability in the particular country, prudent and feasible tax planning strategies, and estimates of future earnings and taxable income using the same assumptions as the Company's goodwill and other impairment testing. After evaluation of these factors, if the deferred income tax assets are expected to be realized within the tax carryforward period allowed for that specific country, management would conclude that no valuation allowance would be required. To the extent that the deferred income tax assets exceed the amount that is expected to be realized within the tax carryforward period for a particular jurisdiction, management would conclude that a valuation allowance is required.

As of December 31, 2010, United States federal deferred income tax assets were \$1.3 billion. The largest component of the deferred income tax assets is due to timing differences between revenue and expense recognition for income tax versus financial statement purposes. In addition, the Company had a tax net operating loss in the United States in 2010 and possesses certain income tax credit carryforwards that comprise the remainder of the balance. Over the 20 year carryforward period available for net operating losses and general business credits, taxable income of approximately \$3.7 billion would need to be realized to utilize all deferred income tax assets. As of December 31, 2010, management believes that, with a couple of very limited exceptions totaling \$24, it is more likely than not that the entire United States federal deferred income tax assets will be realized.

Applying the above methodology, valuation allowances have been established for certain United States federal, state and local income, as well as certain non-United States, deferred income tax assets to the extent they are not expected to be realized within the particular tax carryforward period.

Unrecognized Income Tax Benefits

Eaton's historical policy has been to enter into tax planning strategies only if it is more likely than not that the benefit would be sustained upon audit. For example, the Company does not enter into any of the Internal Revenue Service (IRS) Listed Transactions as set forth in Treasury Regulation 1.6011-4.

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A summary of gross unrecognized income tax benefits follows:

	2010	2009	2008
Balance at January 1	\$ 197	\$ 139	\$ 96
Increases and decreases as a result of positions taken during prior years			
Transfers to valuation allowances	(2)	(1)	(2)
Other increases	7	37	11
Other decreases, including foreign currency translation	(31)	(4)	(18)
Balances related to acquired businesses	34	5	30
Increases as a result of positions taken during the current year	23	28	35
Decreases relating to settlements with tax authorities	—	(4)	—
Decreases as a result of a lapse of the applicable statute of limitations	(4)	(3)	(13)
Balance at December 31	<u>\$ 224</u>	<u>\$ 197</u>	<u>\$ 139</u>

If all unrecognized tax benefits were recognized, the net impact on the effective income tax rate would be \$177.

As of December 31, 2010 and 2009, Eaton had accrued approximately \$36 and \$43, respectively, for the payment of worldwide interest and penalties. Eaton recognizes interest and penalties related to unrecognized income tax benefits in the provision for income tax expense. The Company has accrued penalties in jurisdictions where they are automatically applied to any deficiency, regardless of the merit of the position.

During 2010, Eaton received a significant tax assessment in an international jurisdiction. The Company had previously filed and received a tax ruling on the key aspects of the transaction not specifically covered by the plain meaning of the local tax statutes. The ruling request fully disclosed all steps of the transaction. Multiple outside advisors have stated that the foreign government is raising the issue for most clients with similar facts and that the matter is expected to require at least 10 years to resolve. Management believes that final resolution of the assessment will not have a material impact on the consolidated financial statements.

The resolution of the majority of Eaton's unrecognized income tax benefits is dependent upon uncontrollable factors such as law changes; the prospect of retroactive regulations; new case law; the willingness of the income tax authority to settle the issue, including the timing thereof; and other factors. Therefore, for the majority of unrecognized income tax benefits, it is not reasonably possible to estimate the increase or decrease in the next 12 months. For each of the unrecognized income tax benefits where it is possible to estimate the increase or decrease in the balance within the next 12 months, the Company does not anticipate any significant change.

Eaton or its subsidiaries file income tax returns in the United States and foreign jurisdictions. The United States Internal Revenue Service (IRS) has continued their examination of the Company's United States income tax returns for 2005 and 2006, which is expected to conclude at the end of 2011. Although the formal examination has not begun, the Company has recently extended the statute of limitations for the IRS to examine its United States income tax returns for 2007 until December 31, 2012. Eaton is also under examination for the income tax filings in various state and foreign jurisdictions. With only a few exceptions, the Company is no longer subject to state and local income tax examinations for years before 2007, or foreign examinations for years before 2005. Eaton does not anticipate any material adjustments to the consolidated financial statements.

Note 9. EATON SHAREHOLDERS' EQUITY

There are 500 million common shares authorized (\$.50 par value per share), 339.9 million of which were issued and outstanding at the end of 2010. At December 31, 2010, there were 8,113 holders of record of common shares. Additionally, 17,463 current and former employees were shareholders through participation in the Eaton Savings Plan (ESP), Eaton Personal Investment Plan (EPIP) and Eaton Electrical de Puerto Rico Inc. Retirement Savings Plan.

In 2008, Eaton sold 37.4 million of its common shares in a public offering, resulting in net cash proceeds of \$1.5 billion. The cash proceeds from the sale of the common shares were used to repay borrowings incurred to fund the acquisitions of Moeller and Phoenixtec.

Eaton has a common share repurchase plan that authorizes the repurchase of 10 million common shares. The shares are expected to be repurchased over time, depending on market conditions, the market price of the Company's common shares, the Company's capital levels and other considerations. In 2008, 2.8 common shares were repurchased in the open market at a total cost of \$100. No common shares were repurchased in the open market in 2010 or 2009.

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Eaton has deferral plans that permit certain employees and directors to defer a portion of their compensation. A trust contains \$9 and \$22 of common shares and marketable securities, as valued at December 31, 2010 and 2009, respectively, to fund a portion of these liabilities. The marketable securities were included in Other assets and the common shares were included in Shareholders' equity at historical cost.

Accumulated Other Comprehensive Loss

The components of Accumulated other comprehensive loss as reported in the Consolidated Balance Sheets follow:

	2010	2009
Foreign currency translation and related hedging instruments (net of income tax benefit of \$32 in 2010 and 2009)	\$ (261)	\$ (183)
Pensions (net of income tax benefit of \$489 in 2010 and \$459 in 2009)	(972)	(911)
Other postretirement benefits (net of income tax benefit of \$99 in 2010 and \$95 in 2009)	(122)	(121)
Cash flow hedges (net of income taxes of \$4 in 2010 and 2009)	7	7
Total Accumulated other comprehensive loss	<u><u>\$ (1,348)</u></u>	<u><u>\$(1,208)</u></u>

Net Income per Common Share

A summary of the calculation of net income per common share attributable to common shareholders is as follows:

(Shares in millions)	2010	2009	2008
Income from continuing operations	\$ 929	\$ 383	\$ 1,055
Income from discontinued operations	—	—	3
Net income attributable to common shareholders	<u><u>\$ 929</u></u>	<u><u>\$ 383</u></u>	<u><u>\$ 1,058</u></u>
Weighted-average number of common shares outstanding — diluted	339.5	335.8	324.6
Less dilutive effect of stock options and restricted stock awards	4.0	3.1	4.2
Weighted-average number of common shares outstanding — basic	<u>335.5</u>	<u>332.7</u>	<u>320.4</u>
Net income per common share — diluted			
Continuing operations	\$ 2.73	\$ 1.14	\$ 3.25
Discontinued operations	—	—	.01
Total	<u><u>\$ 2.73</u></u>	<u><u>\$ 1.14</u></u>	<u><u>\$ 3.26</u></u>
Net income per common share — basic			
Continuing operations	\$ 2.76	\$ 1.16	\$ 3.29
Discontinued operations	—	—	.01
Total	<u><u>\$ 2.76</u></u>	<u><u>\$ 1.16</u></u>	<u><u>\$ 3.30</u></u>

In 2010 all stock options were dilutive in the calculation of diluted net income per common share. In 2009 and 2008, 13.2 million and 17.0 million stock options, respectively, were excluded from the calculation of diluted net income per common share because the exercise price of the options exceeded the average market price of the common shares during the period and their effect, accordingly, would have been antidilutive.

Note 10. STOCK OPTIONS AND RESTRICTED STOCK UNITS

Stock Options

Under various plans, stock options have been granted to certain employees and directors to purchase common shares at prices equal to fair market value on the date of grant. Substantially all of these options vest ratably during the three-year period following the date of grant and expire 10 years from the date of grant. Compensation expense is recognized for stock options based on the fair value of the options at the date of grant and amortized on a straight-line basis over the period the employee or director is required to provide service.

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The Company uses a Black-Scholes option pricing model to estimate the fair value of stock options. The principal assumptions utilized in valuing stock options include the expected stock price volatility (based on the most recent historical period equal to the expected life of the option); the expected option life (an estimate based on historical experience); the expected dividend yield; and the risk-free interest rate (an estimate based on the yield of United States Treasury zero coupon with a maturity equal to the expected life of the option). A summary of the assumptions used in determining the fair value of stock options follows:

	2010	2009	2008
Expected volatility	31%	30%	27% to 22%
Expected option life in years	5.5	5.5	5.5
Expected dividend yield	2.0%	2.0%	2.0%
Risk-free interest rate	2.4% to 1.3%	2.2% to 1.7%	3.6% to 1.7%
Weighted-average fair value of stock options granted	\$ 8.98	\$ 5.14	\$ 8.30

A summary of stock option activity follows:

(Options in millions)	Weighted-average price per option	Options	Weighted-average remaining contractual life in years	Aggregate intrinsic value
Outstanding at January 1, 2010	\$32.19	21.1		
Granted	34.90	0.1		
Exercised	26.16	(6.1)		
Forfeited and canceled	37.43	(0.2)		
Outstanding at December 31, 2010	\$34.62	14.9	5.1	\$241
Exercisable at December 31, 2010	\$34.10	13.6	4.8	\$227
Reserved for future grants at December 31, 2010		10.8		

The aggregate intrinsic value in the table above represents the total excess of the \$50.76 closing price of Eaton common shares on the last trading day of 2010 over the exercise price of the stock option, multiplied by the related number of options outstanding and exercisable. The aggregate intrinsic value is not recognized for financial accounting purposes and the value changes based on the daily changes in the fair market value of the Company's common shares.

Information related to stock options follows:

	2010	2009	2008
Pretax expense for stock options	\$ 11	\$ 28	\$ 29
After-tax expense for stock options	8	19	20
Proceeds from stock options exercised	157	27	47
Income tax benefit related to stock options exercised			
Classified in operating activities in the Consolidated Statements of Cash Flows	—	2	4
Classified in financing activities in the Consolidated Statements of Cash Flows	—	4	13
Intrinsic value of stock options exercised	98	19	52
Total fair value of stock options vesting	\$ 11	\$ 22	\$ 31
Stock options exercised, in millions of options	6.096	1.688	2.480

As of December 31, 2010, total compensation expense not yet recognized related to non-vested stock options was \$3, and the weighted-average period in which the expense is expected to be recognized is 1.2 years.

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Restricted Stock Units

Restricted stock units and awards (RSUs) have been issued to certain employees at fair market value at the date of grant. These awards entitle the holder to receive one common share for each RSU upon vesting, generally over four years. A summary of the RSU activity for 2010 follows:

(Restricted stock units in millions)	Number of restricted stock units	Weighted-average fair value per award
Non-vested at January 1, 2010	4.2	\$ 24.30
Granted	1.8	33.28
Vested	(0.8)	31.36
Forfeited	—	25.11
Non-vested at December 31, 2010	<u>5.2</u>	<u>\$ 26.48</u>

Information related to RSUs follows:

	2010	2009	2008
Pretax expense for RSUs	\$39	\$25	\$15
After-tax expense for RSUs	25	17	10

As of December 31, 2010, total compensation expense not yet recognized related to non-vested RSUs was \$85, and the weighted-average period in which the expense is expected to be recognized is 2.7 years.

Note 11. FAIR VALUE MEASUREMENTS

Fair value is measured based on an exit price, representing the amount that would be received to sell an asset or paid to satisfy a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a fair value hierarchy is established, which categorizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A summary of financial instruments recognized at fair value, and the fair value measurement used, at December 31, 2010 and 2009 follows:

	Total	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
2010				
Cash	\$ 333	\$ 333	\$ —	\$ —
Short-term investments	838	838	—	—
Net derivative contracts	69	—	69	—
Long-term debt converted to floating interest rates by interest rate swaps	42	—	42	—
2009				
Cash	\$ 340	\$ 340	\$ —	\$ —
Short-term investments	433	433	—	—
Net derivative contracts	25	—	25	—
Long-term debt converted to floating interest rates by interest rate swaps	29	—	29	—

Eaton values its financial instruments using an industry standard market approach, in which prices and other relevant information is generated by market transactions involving identical or comparable assets or liabilities. No financial instruments were recognized using unobservable inputs.

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Long-term debt and the current portion of long-term debt had a carrying value of \$3,386 and fair value of \$3,787 at December 31, 2010 compared to \$3,354 and \$3,601, respectively, at December 31, 2009.

Short-Term Investments

Eaton invests excess cash generated from operations in short-term marketable investments. For those investments classified as "available-for-sale", Eaton marks these investments to fair value with the offset recognized in Accumulated other comprehensive loss. A summary of the carrying value of short-term investments follows:

	2010	2009
Time deposits and certificate of deposits with banks	\$ 592	\$ 300
Money market investments	246	125
Other	—	8
Total short-term investments	<u>\$ 838</u>	<u>\$ 433</u>

Note 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

In the normal course of business, Eaton is exposed to certain risks related to fluctuations in interest rates, foreign currency exchange rates and commodity prices. The Company uses various derivative and non-derivative financial instruments, primarily interest rate swaps, foreign currency forward exchange contracts, foreign currency swaps and, to a lesser extent, commodity contracts, to manage risks from these market fluctuations. The instruments used by Eaton are straightforward, non-leveraged instruments. The counterparties to these instruments are financial institutions with strong credit ratings. Eaton maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit rating of these institutions. Such instruments are not purchased and sold for trading purposes.

Derivative financial instruments are accounted for at fair value and recognized as assets or liabilities in the Consolidated Balance Sheets. Accounting for the gain or loss resulting from the change in the fair value of the derivative financial instrument depends on whether it has been designated, and is effective, as part of a hedging relationship and, if so, as to the nature of the hedging activity. Eaton formally documents all relationships between derivative financial instruments accounted for as hedges and the hedged item, as well as its risk-management objective and strategy for undertaking the hedge transaction. This process includes linking all derivative financial instruments to a recognized asset or liability, specific firm commitment, forecasted transaction, or net investment in a foreign operation. These financial instruments can be designated as:

- Hedges of the change in the fair value of a recognized fixed-rate asset or liability, or the firm commitment to acquire such an asset or liability (a fair value hedge); for these hedges, the gain or loss from the derivative financial instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in income during the period of change in fair value.
- Hedges of the variable cash flows of a recognized variable-rate asset or liability, or the forecasted acquisition of such an asset or liability (a cash flow hedge); for these hedges, the effective portion of the gain or loss from the derivative financial instrument is recognized in Accumulated other comprehensive loss and reclassified to income in the same period when the gain or loss on the hedged item is included in income.
- Hedges of the foreign currency exposure related to a net investment in a foreign operation (a net investment hedge); for these hedges, the effective portion of the gain or loss from the derivative financial instrument is recognized in Accumulated other comprehensive loss and reclassified to income in the same period when the gain or loss related to the net investment in the foreign operation is included in income.

The gain or loss from a derivative financial instrument designated as a hedge that is effective is classified in the same line of the Consolidated Statements of Income as the offsetting loss or gain on the hedged item. The change in fair value of a derivative financial instrument that is not effective as a hedge is immediately recognized in income.

For derivatives that are not designated as a hedge, any gain or loss is immediately recognized in income. The majority of derivatives used in this manner relate to risks resulting from assets or liabilities denominated in a foreign currency and certain commodity contracts that arise in the normal course of business.

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Interest Rate Risk

Eaton has entered into fixed-to-floating interest rate swaps to manage interest rate risk. These interest rate swaps are accounted for as fair value hedges of certain long-term debt. The maturity of the swap corresponds with the maturity of the debt instrument as noted in the table of long-term debt in Note 5.

A summary of interest rate swaps outstanding at December 31, 2010, follows:

Notional amount	Fixed interest rate received	Floating interest rate paid	Basis for contracted floating interest rate paid
\$200	4.90%	2.59%	6 month LIBOR + 2.15%
100	5.95%	3.07%	6 month LIBOR + 2.60%
115	5.60%	1.66%	6 month LIBOR + 1.22%
25	8.875%	4.30%	6 month LIBOR + 3.84%
25	7.625%	2.94%	6 month LIBOR + 2.48%
50	7.65%	3.01%	6 month LIBOR + 2.57%
25	5.45%	0.73%	6 month LIBOR + 0.28%

Derivative Financial Statement Impacts

The fair value of derivative financial instruments recognized in the Consolidated Balance Sheets follows:

	Notional amount	Other current assets	Other long-term assets	Other current liabilities	Type of hedge	Term
2010						
Derivatives designated as hedges						
Fixed-to-floating interest rate swaps	\$ 540	\$ —	\$ 42	\$ —	Fair value	2 to 23 years
Foreign currency exchange contracts	227	4	—	5	Cash flow	12 to 36 months
Commodity contracts	39	8	—	—	Cash flow	12 months
Cross currency swaps	75	2	—	—	Net investment	12 months
Total	\$ 14	\$ 42	\$ 5			
Derivatives not designated as hedges						
Foreign currency exchange contracts	\$2,777	\$ 20		\$ 19		12 months
Commodity contracts	102	17	—	—		12 months
Total	\$ 37			\$ 19		
2009						
Derivatives designated as hedges						
Fixed-to-floating interest rate swaps	\$ 700	\$ —	\$ 29	\$ —	Fair value	3 to 24 years
Foreign currency exchange contracts	159	6	—	4	Cash flow	12 to 36 months
Commodity contracts	20	5	—	—	Cash flow	12 months
Total	\$ 11	\$ 29		\$ 4		
Derivatives not designated as hedges						
Foreign currency exchange contracts	\$3,602	\$ 17		\$ 31		12 months
Commodity contracts	30	3	—	—		12 months
Total	\$ 20			\$ 31		

The foreign currency exchange contracts shown in the table above as derivatives not designated as hedges are primarily contracts entered into to manage foreign currency volatility or exposure on intercompany sales and loans. While Eaton does not elect hedge accounting treatment for these derivatives, Eaton targets managing 100% of the intercompany balance sheet exposure to minimize the effect of currency volatility related to the movement of goods and services in the normal course of its operations. This activity represents the great majority of these foreign currency exchange contracts.



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Amounts recognized in Accumulated other comprehensive loss follow:

	2010	2009		2010	2009	
	Gain (loss) recognized in Accumulated other comprehensive loss	Gain (loss) reclassified from Accumulated other comprehensive loss		Gain (loss) recognized in Accumulated other comprehensive loss	Gain (loss) reclassified from Accumulated other comprehensive loss	
Derivatives designated as cash flow hedges						
Foreign currency exchange contracts	\$ (2)	\$ 1		\$ (1)	\$ (8)	
Commodity contracts	8	5		22	(14)	
Derivatives designated as net investment hedges						
Cross currency swaps	(8)	—		—	—	
Total	<u>\$ (2)</u>	<u>\$ 6</u>		<u>\$ 21</u>	<u>\$ (22)</u>	

Gains and losses reclassified from Accumulated other comprehensive loss to the Consolidated Statements of Income were recognized in Cost of products sold.

Amounts recognized in net income follow:

	Gain (loss) recognized in net income	
	2010	2009
Derivatives designated as fair value hedges		
Fixed-to-floating interest rate swaps	\$ 33	\$ (47)
Related long-term debt converted to floating interest rates by interest rate swaps	<u>(33)</u>	<u>47</u>
	<u>\$ —</u>	<u>\$ —</u>

Gains and losses described above were recognized in Interest expense.

Cash received from the early termination of interest rate swaps totaled \$22, \$15 and \$85 for the years ended December 31, 2010, 2009 and 2008, respectively.

Note 13. ACCOUNTS RECEIVABLE AND INVENTORY

Accounts Receivable

Eaton performs ongoing credit evaluation of its customers and maintains sufficient allowances for potential credit losses. The Company evaluates the collectability of its accounts receivable based on the length of time the receivable is past due and any anticipated future write-off based on historic experience. Accounts receivable balances are written off against an allowance for doubtful accounts after a final determination of uncollectability has been made. Accounts receivable are net of an allowance for doubtful accounts of \$51 and \$67 at December 31, 2010 and 2009, respectively.

Inventory

Inventory is carried at lower of cost or market. Inventory in the United States is generally accounted for using the last-in, first-out (LIFO) method. Remaining United States and non-United States inventory is accounted for using the first-in, first-out (FIFO) method. Cost components include raw materials, purchased components, direct labor, indirect labor, utilities, depreciation, inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, and costs of the distribution network.

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The components of inventory follow:

	2010	2009
Raw materials	\$ 651	\$ 608
Work-in-process	229	222
Finished goods	800	601
Inventory at FIFO	1,680	1,431
Excess of FIFO over LIFO cost	(116)	(105)
Total inventory	<u>\$ 1,564</u>	<u>\$ 1,326</u>

Inventory at FIFO accounted for using the LIFO method was 40% and 46% at the end of 2010 and 2009, respectively. The increase in inventory is a result of returning to normal operating levels in 2010 as compared to depressed levels in 2009.

Note 14. BUSINESS SEGMENT AND GEOGRAPHIC REGION INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance. Eaton's segments are as follows:

Electrical Americas and Electrical Rest of World

The Electrical segments are global leaders in electrical components and systems for power quality, distribution and control. Products include circuit breakers, switchgear, UPS systems, power distribution units, panelboards, loadcenters, motor controls, meters, sensors, relays and inverters. The principal markets for the Electrical Americas and Electrical Rest of World segments are industrial, institutional, governmental, utility, commercial, residential and information technology. These products are used wherever there is a demand for electrical power in commercial buildings, data centers, residences, apartment and office buildings, hospitals, factories and utilities. The segments share several common global customers, but a large number of customers are located regionally and sales are made directly to original equipment manufacturers and indirectly through distributors, resellers and manufacturers representatives.

Hydraulics

The Hydraulics segment is a global leader in hydraulics components, systems and services for industrial and mobile equipment. Eaton offers a wide range of power products including pumps, motors and hydraulic power units; a broad range of controls and sensing products including valves, cylinders and electronic controls; a full range of fluid conveyance products including industrial and hydraulic hose, fittings, and assemblies, thermoplastic hose and tubing, couplings, connectors, and assembly equipment; filtration systems solutions; heavy-duty drum and disc brakes; and golf grips. The principal markets for Hydraulics include oil and gas, renewable energy, marine, agriculture, construction, mining, forestry, utility, material handling, truck and bus, machine tools, molding, primary metals and power generation. Key manufacturing customers in these markets and other customers are located globally, and these products are sold and serviced through a variety of channels.

Aerospace

The Aerospace segment is a leading global supplier of aerospace fuel, hydraulics and pneumatic systems for commercial and military use. Products include hydraulic power generation systems for aerospace applications including pumps, motors, hydraulic power units, hose and fittings, electro-hydraulic pumps and power and load management systems; controls and sensing products including valves, cylinders, electronic controls, electromechanical actuators, sensors, displays and panels, aircraft flap and slat systems and nose wheel steering systems; fluid conveyance products, including hose, thermoplastic tubing, fittings, adapters, couplings, sealing and ducting; and fuel systems including fuel pumps, sensors, valves, adapters and regulators. The principal markets for the Aerospace segment are manufacturers of commercial and military aircraft and related after-market customers. These manufacturers and other customers operate globally, and these products are sold and serviced through a variety of channels.

Truck

The Truck segment is a leader in the design, manufacture and marketing of a complete line of drivetrain and powertrain systems and components for performance, fuel economy and safety for commercial vehicles. Products include transmissions, clutches and hybrid electric power systems. The principal markets for the Truck segment are original equipment manufacturers and after-market customers of heavy, medium and light-duty trucks and passenger cars. These manufacturers and other customers are located globally, and most sales of these products are made directly to these customers.

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Automotive

The Automotive segment is a leading supplier of automotive drivetrain and powertrain systems for performance, fuel economy and safety including critical components that reduce emissions and fuel consumption and improve stability, performance, fuel economy and safety of cars, light trucks and commercial vehicles. Products include superchargers, engine valves and valve actuation systems, cylinder heads, locking and limited slip differentials, transmission controls, engine controls, fuel vapor components, compressor control clutches for mobile refrigeration, fluid connectors and hoses for air conditioning and power steering, decorative spoilers, underhood plastic components, fluid conveyance products including, hose, thermoplastic tubing, fittings, adapters, couplings and sealing products to the global automotive industry. The principal markets for the Automotive segment are original equipment manufacturers and aftermarket customers of light-duty trucks, SUVs, CUVs, and passenger cars. These manufacturers and other customers are located globally, and most sales of these products are made directly to these customers.

Other Information

No single customer represented greater than 10% of net sales in 2010, 2009 or 2008, respectively.

The accounting policies of the business segments are generally the same as the policies described in Note 1, except that inventories and related cost of products sold of the segments are accounted for using the FIFO method and operating profit only reflects the service cost component related to pensions and other postretirement benefits. Intersegment sales and transfers are accounted for at the same prices as if the sales and transfers were made to third parties. These intersegment sales are eliminated in consolidation.

For purposes of business segment performance measurement, the Company does not allocate items that are of a non-operating nature, or corporate organizational and functional expenses of a governance nature. Corporate expenses consist of corporate office expenses including compensation, benefits, occupancy, depreciation, and other administrative costs. Identifiable assets of the business segments exclude goodwill, other intangible assets, and general corporate assets, which principally consist of cash, short-term investments, deferred income taxes, certain accounts receivable, certain property, plant and equipment, and certain other assets.

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Business Segment Information

	2010	2009	2008
Net sales			
Electrical Americas	\$ 3,675	\$ 3,410	\$ 4,016
Electrical Rest of World	2,748	2,483	2,904
Hydraulics	2,212	1,692	2,523
Aerospace	1,536	1,602	1,811
Truck	1,997	1,457	2,251
Automotive	1,547	1,229	1,871
Total net sales	<u>\$13,715</u>	<u>\$11,873</u>	<u>\$15,376</u>
Segment operating profit (loss)			
Electrical Americas	\$ 529	\$ 518	\$ 630
Electrical Rest of World	264	107	233
Hydraulics	279	51	285
Aerospace	220	245	283
Truck	245	39	315
Automotive	163	(10)	59
Total segment operating profit	1,700	950	1,805
Corporate			
Amortization of intangible assets	(181)	(170)	(161)
Interest expense-net	(136)	(150)	(157)
Pension and other postretirement benefits expense	(120)	(212)	(141)
Stock option expense	(11)	(28)	(29)
Other corporate expense-net	(216)	(87)	(177)
Income from continuing operations before income taxes	1,036	303	1,140
Income tax expense (benefit)	99	(82)	73
Income from continuing operations	937	385	1,067
Income from discontinued operations	—	—	3
Net income	937	385	1,070
Less net income for noncontrolling interests	(8)	(2)	(12)
Net income attributable to Eaton common shareholders	<u>\$ 929</u>	<u>\$ 383</u>	<u>\$ 1,058</u>

Business segment operating profit was reduced by acquisition integration charges as follows:

Electrical Americas	\$ 2	\$ 4	\$ 4
Electrical Rest of World	33	60	43
Hydraulics	1	3	6
Aerospace	4	12	20
Automotive	—	1	3
Total	<u>\$ 40</u>	<u>\$ 80</u>	<u>\$ 76</u>

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Business Segment Information

	2010	2009	2008
Identifiable assets			
Electrical Americas	\$ 1,272	\$ 1,050	\$ 1,238
Electrical Rest of World	1,630	1,625	1,817
Hydraulics	1,080	939	1,132
Aerospace	726	729	798
Truck	866	797	801
Automotive	904	866	947
Total identifiable assets	6,478	6,006	6,733
Goodwill	5,454	5,435	5,232
Other intangible assets	2,272	2,441	2,518
Corporate	3,048	2,400	2,172
Total assets	\$17,252	\$16,282	\$16,655
Capital expenditures for property, plant and equipment			
Electrical Americas	\$ 59	\$ 30	\$ 85
Electrical Rest of World	49	39	77
Hydraulics	45	21	54
Aerospace	21	16	23
Truck	59	30	69
Automotive	61	24	54
Total	294	160	362
Corporate	100	35	86
Total expenditures for property, plant and equipment	\$ 394	\$ 195	\$ 448
Depreciation of property, plant and equipment			
Electrical Americas	\$ 55	\$ 56	\$ 61
Electrical Rest of World	56	61	49
Hydraulics	52	57	59
Aerospace	25	26	27
Truck	76	83	89
Automotive	77	85	97
Total	341	368	382
Corporate	28	30	27
Total depreciation of property, plant and equipment	\$ 369	\$ 398	\$ 409

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Geographic Region Information

Net sales are measured based on the geographic location of the selling plant. Long-lived assets consist of property, plant and equipment-net.

	<u>Net sales</u>	<u>Long-lived assets</u>
2010		
United States	\$ 7,686	\$ 1,102
Canada	426	25
Latin America	1,453	275
Europe	3,396	664
Asia Pacific	2,156	411
Eliminations	<u>(1,402)</u>	<u>—</u>
Total	<u><u>\$13,715</u></u>	<u><u>\$ 2,477</u></u>
2009		
United States	\$ 6,767	\$ 1,024
Canada	355	23
Latin America	1,061	272
Europe	3,007	748
Asia Pacific	1,642	378
Eliminations	<u>(959)</u>	<u>—</u>
Total	<u><u>\$11,873</u></u>	<u><u>\$ 2,445</u></u>
2008		
United States	\$ 8,775	\$ 1,129
Canada	428	21
Latin America	1,455	250
Europe	4,002	827
Asia Pacific	1,963	412
Eliminations	<u>(1,247)</u>	<u>—</u>
Total	<u><u>\$15,376</u></u>	<u><u>\$ 2,639</u></u>

Eaton generally manufactures and sells within the same geographic region. However, in some cases, production occurs in one region for sales to customers in another region. For 2010, Eaton's sales to customers within the United States were \$6,166 and sales to customers outside of the United States were \$7,549. For 2009, Eaton's sales to customers within the United States were \$5,574 and sales to customers outside of the United States were \$6,299. For 2008, Eaton's sales to customers within the United States were \$7,277 and sales to customers outside of the United States were \$8,099.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Amounts are in millions of dollars or shares unless indicated otherwise (per share data assume dilution).

TWO-FOR-ONE STOCK SPLIT

On January 27, 2011, Eaton's Board of Directors announced a two-for-one split of the Company's common shares effective in the form of a 100% stock dividend. The record date for the stock split was February 7, 2011, and the additional shares will be distributed on February 28, 2011. Accordingly, all share and per share data have been adjusted retroactively to reflect the stock split.

COMPANY OVERVIEW

Eaton Corporation (Eaton or Company) is a diversified power management company with 2010 sales of \$13.7 billion. The Company is a global technology leader in electrical components and systems for power quality, distribution and control; hydraulics components, systems and services for industrial and mobile equipment; aerospace fuel, hydraulics and pneumatic systems for commercial and military use; and truck and automotive drivetrain and powertrain systems for performance, fuel economy and safety. Eaton has approximately 70,000 employees in over 50 countries, and sells products to customers in more than 150 countries.

Eaton's operating segments are Electrical Americas, Electrical Rest of World, Hydraulics, Aerospace, Truck and Automotive. These segments are components of the Company with separate financial information that is evaluated on a regular basis by the chief operating decision maker in determining how to allocate resources. For additional information regarding Eaton's business segments, see Note 14 to the Consolidated Financial Statements.

During 2009 and the latter part of 2008, Eaton experienced significant challenges due to the global recession and instability in the financial and capital markets, which had a significant impact on the demand for Eaton's products. In response to these events, and to remain competitive in the marketplace, substantial changes have been made to the Company's cost structure, including a 17% full-time workforce reduction in 2009, as well as other cost-containment actions. In 2010, the Company experienced a return to growth in end markets, higher demand for products and overall improved operating results due to better economic conditions and the cost-containment actions initiated in 2009.

Eaton acquired certain businesses that affect comparability on a year over year basis. The Consolidated Statements of Income include the results of these businesses from the dates of the transactions. For a complete list of business acquisitions and joint ventures, see Note 2 to the Consolidated Financial Statements.

A summary of Eaton's consolidated net sales, net income attributable to Eaton common shareholders, and net income per common share follows:

	2010	2009	2008
Consolidated net sales	\$13,715	\$11,873	\$15,376
Net income attributable to Eaton common shareholders	929	383	1,058
Net income per common share	\$ 2.73	\$ 1.14	\$ 3.26

RESULTS OF OPERATIONS

The following discussion of Consolidated Financial Results and Business Segment Results of Operations includes certain non-GAAP financial measures. These measures include operating earnings, operating earnings per common share, and operating profit before acquisition integration charges for each business segment, each of which excludes amounts that differ from the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). A reconciliation of each of these financial measures to the most directly comparable GAAP measure is included in the table below and in the discussion of the operating results of each business segment. Management believes that these financial measures are useful to investors because they exclude transactions of an unusual nature, allowing investors to more easily compare Eaton's financial performance period to period. Management uses this information in monitoring and evaluating the on-going performance of Eaton and each business segment.

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Consolidated Financial Results

	2010	Change from 2009	2009	Change from 2008	2008
Continuing operations					
Net sales	\$13,715	16%	\$11,873	(23)%	\$15,376
Gross profit	4,082	32%	3,091	(26)%	4,185
Percent of net sales	29.8%		26.0%		27.2%
Income before income taxes	1,036	242%	303	(73)%	1,140
Income after income taxes	\$ 937	143%	\$ 385	(64)%	\$ 1,067
Income from discontinued operations	—		—		3
Net income	937	143%	385	(64)%	1,070
Less net income for noncontrolling interests	(8)		(2)		(12)
Net income attributable to Eaton common shareholders	929	143%	383	(64)%	1,058
Excluding acquisition integration charges (after-tax)	27		54		51
Operating earnings	\$ 956	119%	\$ 437	(61)%	\$ 1,109
Net income per common share — diluted	\$ 2.73	141%	\$ 1.14	(65)%	\$ 3.25
Excluding per share impact of acquisition integration charges (after-tax)	0.08		0.16		0.17
Operating earnings per common share	\$ 2.81	117%	\$ 1.30	(62)%	\$ 3.42

Net Sales

Net sales in 2010 increased by 16% compared to 2009 due to 14% higher core sales, an increase of 1% from the impact of foreign exchange, and an increase of 1% from acquisitions of businesses. Contributing to higher core sales was increased demand in end markets, which increased sales 12% in 2010 compared to 2009. Higher demand resulted from a rebound from the depressed end market levels of 2009 and growth in revenues from developing countries. Net sales in 2009 declined 23% compared to 2008. A reduction in core sales due to the global economic recession drove 22% of the 23% decline. Additionally, net sales were negatively impacted by 3% from foreign exchange partially offset by a 2% increase from sales of acquired businesses.

Gross Profit

Gross profit increased by 32% in 2010 compared to 2009, and improved to 29.8% as a percentage of net sales, up 3.8 percentage points from 2009. The increase was primarily due to higher sales in 2010, manufacturing efficiencies resulting from higher sales volumes, and the benefits of substantial changes in the Company's cost structure implemented over the past two years, partially offset by higher raw material and commodity costs. The Company's cost structure reflects savings associated with workforce reductions taken in 2009. Additionally, contributing to higher gross profit in 2010 is the absence of charges for severance and pension and other postretirement benefits expense incurred in 2009, as discussed below. Gross profit declined 26% in 2009 compared to 2008, primarily due to the decline in net sales discussed above, operating inefficiencies related to the difficulty in absorbing fixed manufacturing costs resulting from reduced sales, and charges of \$182 in 2009 resulting from actions taken to reduce the workforce including related pension settlement and curtailment expense, a substantial portion of which was recognized in Cost of products sold. These reductions were partially offset by savings associated with workforce reductions, other cost-containment actions and benefits associated with integrating acquired businesses.

Income Taxes

The effective income tax expense rate for 2010 was 9.5% compared to an income tax benefit rate of (27.2)% in 2009 and an income tax expense rate of 6.4% in 2008. The increased tax rate in 2010 compared to 2009 is primarily attributable to higher U.S. income at the higher relative U.S. tax rate, a one-time, non-cash charge of \$22 to reflect the impact of the Health Care Reform and Education Reconciliation Act on taxation associated with Medicare Part D, and adjustments of \$22 related to an income tax audit of transfer pricing for the period 2005 to 2009, partially offset by the successful resolution of international tax audit issues, the recognition of state and local income tax benefits involving tax loss carry-forwards and the recognition of additional international deferred tax assets. The income tax benefit rate for 2009 was favorably impacted by tax benefits of \$104 from United States federal income tax losses. Eaton also recognized income tax benefits of \$13 in 2009, which represented adjustments to certain worldwide tax liabilities and valuation allowances and

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benefits related to the settlement of international income tax audits. The lower income tax rate in 2009 compared to 2008 is primarily attributable to tax benefits from U.S. federal income tax losses in 2009 and the favorable impact of non-U.S. operations tax rate differential being applied to significantly lower worldwide income as compared to 2008. For additional information on income taxes, see Note 8 to the Consolidated Financial Statements.

Net Income

Net income of \$929 in 2010 increased 143% compared to net income of \$383 in 2009 and net income per share of \$2.73 in 2010 increased 141% over net income per share of \$1.14 in 2009. The increases were primarily due to higher sales in 2010 and the factors that affected gross profit, partially offset by higher income tax expense in 2010 as discussed above. Net income in 2010 was unfavorably impacted by a \$36 pretax charge related to a legal judgment in Brazil. See Other Matters for additional information related to this legal judgment. Net income of \$383 in 2009 and net income per common share of \$1.14 declined 64% and 65%, respectively, compared to net income of \$1,058 and net income per share of \$3.25 in 2008. The declines were primarily due to lower net sales in 2009 and the factors that affected gross profit discussed above, partially offset by an income tax benefit rate of 27.2% in 2009 compared to an effective income tax expense rate of 6.4% in 2008. Net income per share was also reduced due to a higher number of average shares outstanding in 2009 compared to 2008, resulting principally from the sale of 37.4 million shares in 2008.

Business Segment Results of Operations

The following is a discussion of net sales, operating profit and operating profit margin by business segment which includes a discussion of operating profit and operating profit margin without acquisition integration charges. For additional information related to integration charges see Note 3 to the Consolidated Financial Statements. For additional information related to acquired businesses see Note 2 to the Consolidated Financial Statements.

Electrical Americas

	2010	Change from 2009	2009	Change from 2008	2008
Net sales	\$3,675	8%	\$3,410	(15)%	\$4,016
Operating profit	529	2%	518	(18)%	630
Operating margin	14.4%		15.2%		15.7%
Acquisition integration charges	\$ 2		\$ 4		\$ 4
Before acquisition integration charges					
Operating profit	\$ 531	2%	\$ 522	(18)%	\$ 634
Operating margin	14.4%		15.3%		15.8%

Net sales increased 8% in 2010 compared to 2009 due to an increase in core sales of 5%, an increase of 1% from the favorable impact of foreign exchange, and an increase of 2% from the acquisitions of businesses. Contributing to stronger sales in 2010 was growth in the power quality and industrial control businesses, rebounding from the depressed end market levels of 2009, as well as sales related to government stimulus programs. This increase in sales was partially offset by a decline in non-residential electrical end markets. Net sales declined 15% in 2009 compared to 2008 due to a 14% decline in core sales and a 1% negative impact of foreign exchange. The decline in core sales was driven primarily by weakness in non-residential and residential construction electrical markets during 2009 due to the global economic recession. The decline in end markets in 2009 reflected lower private non-residential construction spending in the United States, which declined by 23% in 2009.

Operating profit before acquisition integration charges in 2010 increased 2% from 2009 largely due to the increase in sales during 2010, net savings resulting from workforce reductions taken in 2009, and manufacturing efficiencies resulting from higher sales volumes. These increases were partially offset by the cessation of temporary cost-savings measures introduced in 2009, higher raw material costs, and increased support costs as operations returned to normal operating levels compared to the depressed levels in 2009. Operating profit before acquisition integration charges in 2009 decreased 18% from 2008 due to the decline in net sales discussed above, partially offset by net savings resulting from the workforce reductions and other cost-containment actions.

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Electrical Rest of World

	2010	Change from 2009	2009	Change from 2008	2008
Net sales	\$ 2,748	11%	\$ 2,483	(15)%	\$ 2,904
Operating profit	264	147%	107	(54)%	233
Operating margin	9.6%		4.3%		8.0%
Acquisition integration charges	\$ 33		\$ 60		\$ 43
Before acquisition integration charges					
Operating profit	\$ 297	78%	\$ 167	(39)%	\$ 276
Operating margin	10.8%		6.7%		9.5%

Net sales increased 11% in 2010 compared to 2009 due to an increase in core sales of 11% and an increase of 1% from the acquisition of certain businesses, partially offset by a 1% reduction from foreign exchange. The growth in core sales was due to the rebound in European and Asian end markets from the depressed levels of 2009. Net sales declined 15% in 2009 compared to 2008 due to a 19% decline in core sales and a 5% decline from foreign exchange, partially offset by a 9% increase from the acquisition of certain businesses. The decline in core sales was due to softness in European and Asian markets during 2009 due to the global economic recession.

Operating profit before acquisition integration charges in 2010 increased 78% from 2009 largely due to the increase in sales during 2010, net savings resulting from workforce reductions taken in 2009, and manufacturing efficiencies resulting from higher sales volumes. These increases were partially offset by the cessation of temporary cost-savings measures introduced in 2009, and increased support costs as operations returned to normal operating levels compared to the depressed levels in 2009. Operating profit before acquisition integration charges in 2009 decreased 39% from 2008 due to the decline in net sales discussed above, unabsorbed fixed costs resulting from significant sales reductions, and changes in sales mix, partially offset by net savings resulting from the workforce reductions and other cost-containment actions.

Hydraulics

	2010	Change from 2009	2009	Change from 2008	2008
Net sales	\$ 2,212	31%	\$ 1,692	(33)%	\$ 2,523
Operating profit	279	447%	51	(82)%	285
Operating margin	12.6%		3.0%		11.3%
Acquisition integration charges	\$ 1		\$ 3		\$ 6
Before acquisition integration charges					
Operating profit	\$ 280	419%	\$ 54	(81)%	\$ 291
Operating margin	12.7%		3.2%		11.5%

Net sales in 2010 increased 31% compared to 2009 due to higher core sales of 30% and an increase of 1% from the favorable impact of foreign exchange. The increase in core sales was driven by global hydraulics markets, which rebounded from the depressed market conditions of 2009. Net sales declined 33% in 2009 compared to 2008 due to a 32% decline in core sales and a 2% decline from foreign exchange, partially offset by a 1% increase from the acquisition of certain businesses. The decline in core sales resulted from market weakness in all regions beginning in late 2008 and continuing throughout 2009 due to the global economic recession, with the United States seeing the largest decline.

Operating profit before acquisition integration charges in 2010 increased 419% from 2009 primarily due to the increase in sales in 2010, net savings resulting from the workforce reductions taken in 2009, and manufacturing efficiencies resulting from higher sales volumes. These increases were partially offset by the cessation of temporary cost-savings measures introduced in 2009, higher raw material costs, and increased support costs as operations returned to normal operating levels compared to the depressed levels in 2009. Operating profit before acquisition integration charges in 2009 decreased 81% from 2008 primarily due to the decline in sales discussed above and difficulty in absorbing fixed manufacturing costs as a result of reduced sales in 2009. This reduction was offset by net savings resulting from the workforce reductions and other cost-containment actions.

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Aerospace

	2010	Change from 2009	2009	Change from 2008	2008
Net sales	\$1,536	(4)%	\$1,602	(12)%	\$1,811
Operating profit	220	(10)%	245	(13)%	283
Operating margin	14.3%		15.3%		15.6%
Acquisition integration charges	\$ 4		\$ 12		\$ 20
Before acquisition integration charges					
Operating profit	\$ 224	(13)%	\$ 257	(15)%	\$ 303
Operating margin	14.6%		16.0%		16.7%

Net sales in 2010 declined 4% compared to 2009, driven primarily by slow conditions in the commercial aftermarket, reduced production of commercial transports in the U.S., and a small decline in defense aerospace markets. Net sales declined 12% in 2009 compared to 2008 due to a 9% reduction from core sales and a 3% decline from foreign exchange. The decline in core sales was driven by lower sales in civilian aerospace markets in 2009, partially offset by a slight improvement in defense aerospace markets.

Operating profit before acquisition integration charges in 2010 decreased 13% from 2009 primarily due to the decline in sales in 2010. The decline also reflected the cessation of temporary cost-savings measures introduced in 2009 and increased support costs. The decline in operating profit before acquisition integration charges of 15% in 2009 compared to 2008 was primarily due to the decline in sales discussed above, partially offset by net savings resulting from the workforce reductions and other cost-containment actions.

Truck

	2010	Change from 2009	2009	Change from 2008	2008
Net sales	\$1,997	37%	\$1,457	(35)%	\$2,251
Operating profit	245	528%	39	(88)%	315
Operating margin	12.3%		2.7%		14.0%

Net sales increased 37% in 2010 from 2009 due to an increase in core sales of 32% and an increase of 5% from the favorable impact of foreign exchange. The increase in core sales reflects the sharp rebound in global end markets, led by a recovery in NAFTA heavy-duty truck markets and strong markets in Brazil truck and agriculture vehicle production. Net sales declined 35% in 2009 compared to 2008 due to lower core sales of 30% and a 5% negative impact of foreign exchange. The decline in core sales resulted from truck markets being down in all regions in 2009 due to the global economic recession, with the NAFTA Class 8 market at levels not seen since 1991.

Operating profit in 2010 increased 528% from 2009 primarily due to the increase in sales in 2010, net savings resulting from the workforce reductions taken in 2009, and manufacturing efficiencies resulting from higher sales volumes. These increases were partially offset by the cessation of temporary cost-savings measures introduced in 2009, higher raw material costs, and increased support costs as operations returned to normal operating levels compared to the depressed levels in 2009. Operating profit in 2009 decreased 88% from 2008 primarily due to the significant decline in sales in 2009 discussed above and difficulty in absorbing fixed manufacturing costs as a result of reduced sales in 2009. This reduction was offset by net savings resulting from workforce reductions and other cost-containment actions.

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Automotive

	2010	Change from 2009	2009	Change from 2008	2008
Net sales	\$1,547	26%	\$1,229	(34)%	\$1,871
Operating profit (loss)	163	NM	(10)	NM	59
Operating margin	10.5%		NM		3.2%

Net sales increased 26% in 2010 from 2009 due to higher core sales. The increase reflects a rebound in global automotive markets, with growth in United States markets exceeding growth in non-United States markets. Net sales declined 34% in 2009 compared to 2008 due to lower core sales of 28% and a decline of 6% from foreign exchange. The decline in core sales was primarily attributable to a contraction in global automotive end markets that began in 2008 and worsened in 2009 due to the global economic recession. The automotive market in the United States in 2009 was markedly impacted in the second quarter by the shutdowns at General Motors and Chrysler.

Operating profit in 2010 increased from 2009 primarily due to the increase in sales in 2010, net savings resulting from workforce reductions taken in 2009, and manufacturing efficiencies resulting from higher sales volumes. These increases were partially offset by the cessation of temporary cost-savings measures introduced in 2009 and increased support costs as operations returned to normal operating levels compared to the depressed levels in 2009. Operating losses in 2009 were primarily due to the significant decline in sales discussed above, difficulty in absorbing fixed manufacturing costs resulting from reduced sales in 2009, offset by an action taken in 2008 to close the Massa, Italy, valve actuation plant, which resulted in a charge of \$27 during that year. These items were partially offset by net savings resulting from workforce reductions and other cost-containment actions.

2011 FORWARD-LOOKING PERSPECTIVE

As of late February, Eaton estimates its end markets for all of 2011 will grow 9%, with markets in all six segments registering growth, the first year since 2006 in which the markets for all of its segments have grown. The Company expects to outgrow its end markets in 2011 by approximately \$450 in net sales. The incremental revenues in 2011 from recent acquisitions of businesses are expected to total \$160. In total, Eaton anticipates its revenues in 2011 will grow by 13% compared to 2010.

- End markets for the Electrical Americas segment are expected to grow 6% in 2011.
- End markets for the Electrical Rest of World segment are expected to grow 7% in 2011, with Asian growth outpacing growth in Europe.
- Global hydraulics markets are anticipated to grow 16% in 2011, with United States markets up 19% and non-United States markets up 14%.
- End markets for the Aerospace segment are expected to grow by 4% in 2011, with growth in United States markets of 4% and growth in non-United States markets of 3%.
- End markets for the Truck segment are expected to grow 20% in 2011, with United States markets up 40% and non-United States markets up 7%.
- End markets for the Automotive segment are expected to grow 6% in 2011, with United States Automotive production up 7% and non-United States production up 5%.

LIQUIDITY, CAPITAL RESOURCES AND CHANGES IN FINANCIAL CONDITION

Financial Condition and Liquidity

Eaton's objective is to finance its business through operating cash flow and an appropriate mix of equity and long-term and short-term debt. By diversifying its debt maturity structure, Eaton reduces liquidity risk. The Company maintains access to the commercial paper markets through \$1.5 billion of existing credit facilities, of which \$500 expires each year from 2011 through 2013. These facilities support Eaton's commercial paper borrowings. There were no borrowings outstanding under these revolving credit facilities at December 31, 2010. Eaton's non-United States operations also had available short-term lines of credit of approximately \$975 at December 31, 2010. Over the course of a year, cash, short-term investments and short-term debt may fluctuate in order to manage global liquidity. Eaton believes it has the operating

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flexibility, cash flow, cash and short-term investment balances, and access to capital markets in excess of the liquidity necessary to meet future operating needs of the business.

Eaton's credit facilities and indentures governing certain long-term debt contain various covenants, the violation of which would limit or preclude the use of the credit facilities for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the indentures. At Eaton's present credit rating level, the most restrictive financial covenant provides that the ratio of secured debt (or lease payments due under a sale and leaseback transaction) to adjusted consolidated net worth (or consolidated net tangible assets, in each case as defined in the relevant credit agreement or indenture) may not exceed 10%. In each case the ratio was substantially below the required threshold. In addition, Eaton is in compliance with each of its debt covenants as of December 31, 2010 and for all periods presented.

Sources and Uses of Cash Flow

Operating Cash Flow

Net cash provided by operating activities was \$1,282 in 2010, a decrease of \$126 compared to \$1,408 in 2009. Operating cash flows in 2010 reflected higher net income of \$937 compared to \$385 in 2009. Higher net income in 2010 primarily resulted from increased sales due to the global economic recovery during the year and the positive effect of recent changes in the Company's cost structure. Cash provided by operating activities in 2010 was lowered by increased contributions to pension plans of \$403 compared to \$271 in 2009. Net working capital funding was neutral in 2010 compared to a source of funds of \$745 in 2009.

Net cash provided by operating activities was \$1,408 in 2009, a slight decrease compared to \$1,441 in 2008. Operating cash flows in 2009 reflected lower net income of \$385 compared to \$1,070 in 2008 due to the impact of the global economic recession and the effect of cost containment actions to improve the Company's cost structure. The reduction in operating cash flows in 2009 due to lower net income was more than offset by lower net working capital requirements in 2009 compared to 2008. The reduction in net working capital requirements in 2009, primarily accounts receivable and inventory, was a source of cash in the amount of \$745 and resulted from lower operating levels as a result the global economic recession and internal efforts to reduce the investment in working capital when compared to 2008.

Investing Cash Flow

Net cash used in investing activities was \$1,012 in 2010, an increase of \$787 compared to \$225 in 2009. Investing cash flows in 2010 included \$394 in capital expenditures for property, plant and equipment, an increase of \$199 from the depressed level of spending of \$195 in 2009. Eaton expects \$550 in capital expenditures in 2011. Investing cash flows include \$222 related to the acquisitions of businesses primarily including CopperLogic, Wright Line Holding, Inc., and EMC Engineers. Acquisition expenditures in 2009 were \$10.

Net cash used in investing activities was \$225 in 2009, a decrease of \$2,965 compared to net cash used in investing activities of \$3,190 in 2008. Investing cash flows in 2009 included \$195 in capital expenditures for property, plant and equipment, a decrease of \$253 from 2008 expenditures of \$448. This decrease is primarily related to efforts to conserve cash during 2009. Cash paid for acquisitions decreased to \$10 in 2009 from 2008 acquisition expenditures of \$2,807 which were primarily related to the acquisitions of The Moeller Group and Phoenixtec electrical businesses.

For additional information on business acquisitions see Note 2 to the Consolidated Financial Statements.

Financing Cash Flow

Net cash used in financing activities was \$261 in 2010, a decrease of \$800 compared to \$1,061 in 2009. The decrease was primarily due to the use of cash in 2009 to markedly reduce long-term debt, with over \$887 of debt paid off during the year.

Net cash used in financing activities was \$1,061 in 2009, compared to a source of cash of \$1,815 in 2008. The decrease in 2009 was primarily due to proceeds of \$1,522 from the sale of common shares in 2008. During 2008, Eaton sold 37.4 million shares in a public offering in order to refinance debt associated with the acquisitions of The Moeller Group and Phoenixtec. The decrease was also due to a net reduction of long-term debt of \$753 in 2009 compared to a net increase of \$667 in 2008.

Net-Debt-to-Capital Ratio

The net-debt-to-capital ratio was 23.7% at December 31, 2010 compared to 28.4% at December 31, 2009. The improvement reflected the combined effect during 2010 of the \$9 decrease in total debt, the \$398 increase in cash and short-term investments, and the \$585 increase in Eaton shareholders' equity.

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Credit Ratings

A summary of Eaton's credit rating follow:

Credit Rating Agency	Rating	Outlook
Standard & Poor's (long- /short-term rating)	A-/A-2	Stable outlook
Moody's	A3/P-2	Stable outlook
Fitch	A-/F2	Stable outlook

Defined Benefit Plans

During 2010, the fair value of plan assets in the Company's employee pension plans increased \$467 to \$2,509 at December 31, 2010. The increase in plan assets was primarily due to contributions and actual returns on assets in excess of benefit payments and plan related expenses. At December 31, 2010, the net unfunded position of \$1,409 in pension liabilities consisted of \$778 in the U.S. Pension Plan, \$93 in all other plans that require minimum funding, (\$52) in plans that are overfunded, and \$590 in plans that have no minimum funding requirements.

Funding requirements are a major consideration in making contributions to Eaton's pension plans. With respect to the Company's pension plans worldwide, it intends to contribute annually not less than the minimum required by applicable law and regulations. In 2010, \$403 was contributed to the pension plans. The Company contributed \$250 to the U.S. Pension Plan in early 2011 and anticipates making an additional \$103 of contributions to certain pension plans during 2011. The funded status of the Company's pension plans at the end of 2011, and future contributions, will depend primarily on the actual return on assets during the year and the discount rate used to calculate certain benefits at the end of the year. Depending on these factors, and the resulting funded status of the pension plans, the level of future contributions could be materially higher or lower than in 2010.

In 2009, due to limitations imposed by the Pension Protection Act on pension lump-sum distributions, Eaton's United States Qualified Pension Plan (the Plan) became restricted from making 100% lump-sum payments. As a result, the Plan experienced a significant increase in lump-sum payments in 2009 prior to the limitation going into effect. Pension settlement expense was \$86 for 2009, of which \$83 was attributable to the U.S. pension plans. A portion of the increase in lump-sum payments was attributable to the workforce reduction in 2009. Additionally, as a result of the workforce reduction in 2009, Eaton incurred curtailment expense related to pension plans. The curtailment expense included recognition of the change in the projected benefit obligation, as well as recognition of a portion of the unrecognized prior service cost. Curtailment expense was \$22 for 2009. These charges were primarily included in Cost of products sold or Selling and administrative expense, as appropriate.

Off-Balance Sheet Arrangements

Eaton does not have off-balance sheet arrangements or financings with unconsolidated entities or other persons. In the ordinary course of business, the Company leases certain real properties and equipment, as described in Note 7 to the Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States requires management to make certain estimates and assumptions that may involve the exercise of significant judgment. For any estimate or assumption used, there may be other reasonable estimates or assumptions that may have been used. However, based on facts and circumstances inherent in developing estimates and assumptions, management believes it is unlikely that applying other such estimates and assumptions would have caused materially different amounts to have been reported. Actual results may differ from these estimates.

Revenue Recognition

Sales of products are recognized when a sales agreement is in place, products have been shipped to unaffiliated customers and title has transferred in accordance with shipping terms (FOB shipping point, FOB destination or equivalent International Commercial (INC0) Terms), the selling price is fixed and determinable and collectability is reasonably assured, all significant related acts of performance have been completed, and no other significant uncertainties exist. Shipping and handling costs billed to customers are included in Net sales and the related costs in Cost of products sold. Although the majority of the sales agreements contain standard terms and conditions, there are also agreements that contain multiple elements or non-standard terms and conditions. As a result, judgment is required to determine the appropriate accounting, including whether the deliverables specified in these agreements should be treated as separate units of accounting for sales recognition purposes, and if so, how the sales price should be allocated among the elements and when to recognize sales for each element. For delivered elements, sales are recognized only when the delivered elements have standalone value, fair values of undelivered elements are known, there are no uncertainties regarding

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customer acceptance and there are no customer-negotiated refund or return rights affecting the sales recognized for delivered elements. Sales for service contracts are generally recognized as the services are provided.

Impairment of Goodwill and Other Long-Lived Assets

Goodwill and indefinite life intangible assets are tested annually for impairment as of July 1 using a discounted cash flow model and other valuation techniques. Goodwill is tested for impairment at the reporting unit level, which is equivalent to Eaton's operating segments, and based on the net assets for each segment, including goodwill and intangible assets. Goodwill is assigned to each operating segment as this represents the lowest level that constitutes a business for which discrete financial information is available and at the level in which management regularly reviews the operating results. A discounted cash flow model is used to estimate the fair value of each operating segment, which considers forecasted cash flows discounted at an estimated weighted-average cost of capital. The Company selected the discounted cash flow methodology as it believes that it is comparable to what would be used by other market participants. The forecasted cash flows are based on the Company's long-term operating plan, and a terminal value is used to estimate the operating segment's cash flows beyond the period covered by the operating plan. The weighted-average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt market participants of a business enterprise. These analyses require the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the timing of expected future cash flows. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective operating segment. Sensitivity analyses were performed around these assumptions in order to assess the reasonableness of the assumptions and the resulting estimated fair values.

Indefinite life intangible assets primarily consist of trademarks. The fair value of these assets are determined using a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability.

For 2010, the fair value of Eaton's reporting units and indefinite life intangible assets substantially exceeded the respective carrying values. For additional information about goodwill and other intangible assets, see Note 4 to the Consolidated Financial Statements.

Long-lived assets, goodwill and indefinite life intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Events or circumstances that may result in an impairment review include operations reporting losses, a significant adverse change in the use of an asset, the planned disposal or sale of the asset, a significant adverse change in the business climate or legal factors related to the asset, or a significant decrease in the estimated fair value of an asset. Upon indications of impairment, assets and liabilities are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The asset group would be considered impaired when the estimated future net undiscounted cash flows generated by the asset group are less than its carrying value. In instances where the carrying amount of the asset group exceeded the undiscounted cash flows, the fair value of the asset group would be determined and an impairment loss would be recognized based on the amount by which the carrying value of the asset group exceeds its fair value. Determining asset groups and underlying cash flows requires the use of significant judgment.

Recoverability of Deferred Income Tax Assets

Eaton is subject to the income tax laws in the jurisdictions in which it operates. In order to determine the income tax provision for financial statement purposes, Eaton must make significant estimates and judgments about its business operations in these jurisdictions. These estimates and judgments are also used in determining deferred income tax assets and liabilities that have been recognized for differences between financial accounting and the income tax basis of assets and liabilities, and income tax loss carryforwards and tax credit carryforwards.

Management evaluates the realizability of deferred income tax assets for each jurisdiction in which it operates. If the Company experiences cumulative pretax income in a particular jurisdiction in a three-year period including the current and prior two years, management normally concludes that the deferred income tax assets will more likely than not be realizable and no valuation allowance is recognized, unless known or planned operating developments would lead management to conclude otherwise. However, if the Company experiences cumulative pretax losses in a particular jurisdiction in a three-year period including the current and prior two years, management then considers a series of factors in the determination of whether the deferred income tax assets can be realized. These factors include historical operating results, known or planned operating developments, the period of time over which certain temporary differences will reverse, consideration of the utilization of certain deferred income tax liabilities, tax law carryback capability in a particular country, prudent and feasible tax planning actions, and estimates of future earnings and taxable income using the same assumptions as the Company's goodwill and other impairment testing. After evaluation of these factors, if the deferred income tax assets are expected to be realized within the tax carryforward period allowed for a specific country, management would conclude that no valuation allowance would be required. To the extent that the deferred income tax assets exceed the amount that is expected to be realized within the tax carryforward period for a particular jurisdiction, management would conclude that a

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valuation allowance is required. For additional information about income taxes, see Note 8 to the Consolidated Financial Statements.

Pension and Other Postretirement Benefit Plans

The measurement of liabilities related to pension plans and other postretirement benefits plans is based on assumptions related to future events including interest rates, return on pension plan assets, rate of compensation increases, and health care cost trend rates. Actual pension plan asset performance will either reduce or increase pension losses included in accumulated other comprehensive loss, which ultimately affects net income.

The discount rate for United States plans was determined by constructing a zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, which was designed to match the discounted expected benefit payments. Only bonds rated Aa3 or better by Moody's Investor Services were included. Callable bonds with explicit call schedules were excluded but bonds with "make-whole" call provisions were included. Finally, a subset of bonds was selected by grouping the universe of bonds by duration and retaining 50% of the bonds that had the highest yields.

The discount rates for non-United States plans are appropriate for each region and are based on high quality long-term corporate and government bonds. Consideration has been given to the duration of the liabilities in each plan for selecting the bonds to be used in determining the discount rate.

Key assumptions used to calculate pension and other postretirement benefits expense are adjusted at each year-end. A 1-percentage point change in the assumed rate of return on pension plan assets is estimated to have approximately a \$30 effect on pension expense. Likewise, a 1-percentage point change in the discount rate is estimated to have approximately a \$48 effect on pension expense. A 1-percentage point change in the discount rate is estimated to have approximately a \$3 effect on expense for other postretirement benefits plans. Additional information related to changes in key assumptions used to recognize expense for other postretirement benefits plans is found in Note 6 to the Consolidated Financial Statements.

Environmental Contingencies

As a result of past operations, Eaton is involved in remedial response and voluntary environmental remediation at a number of sites, including certain of its currently-owned or formerly-owned plants. The Company has also been named a potentially responsible party under the federal Superfund law at a number of disposal sites.

A number of factors affect the cost of environmental remediation, including the number of parties involved at a particular site, the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations, and the continuing advancement of remediation technology. Taking these factors into account, Eaton has estimated the costs of remediation, which will be incurred over a period of years. The Company accrues an amount on an undiscounted basis, consistent with the estimates of these costs, when it is probable that a liability has been incurred. At December 31, 2010 and 2009, \$71 and \$80 was accrued for these costs.

MARKET RISK DISCLOSURE

On a regular basis, Eaton monitors third-party depository institutions that hold its cash and short-term investments, primarily for safety of principal and secondarily for maximizing yield on those funds. The Company diversifies its cash and short-term investments among counterparties to minimize exposure to any one of these entities. Eaton also monitors the creditworthiness of its customers and suppliers to mitigate any adverse impact.

Eaton uses derivative instruments to manage exposure to volatility in raw material costs, foreign currency and interest rates on certain debt instruments. Derivative financial instruments used by the Company are straightforward and non-leveraged; the counterparties to these instruments are financial institutions with strong credit ratings. Eaton maintains controls over the size of positions entered into with any one counterparty and regularly monitors the credit rating of these institutions. See Note 12 to the Consolidated Financial Statements for additional information about hedges and derivative financial instruments.

Eaton's ability to access the commercial paper market, and the related cost of these borrowings, is based on the strength of its credit rating and overall market conditions. The Company has not experienced any material limitations in its ability to access these sources of liquidity. At December 31, 2010, Eaton had \$1.5 billion of long-term revolving credit facilities with banks in support of its commercial paper program. It has no direct borrowings outstanding under these credit facilities. Eaton's non-United States operations also had available short-term lines of credit of approximately \$975 at December 31, 2010.

Interest rate risk can be measured by calculating the short-term earnings impact that would result from adverse changes in interest rates. This exposure results from short-term debt, which includes commercial paper at a floating

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interest rate, long-term debt that has been swapped to floating rates, and money market investments that have not been swapped to fixed rates. Based upon the balances of investments and floating rate debt at year end 2010, a 100 basis point increase in short-term interest rates would have reduced the Company's net, pretax interest expense by \$2.5.

Eaton also measures interest rate risk by estimating the net amount by which the fair value of the Company's financial liabilities would change as a result of movements in interest rates. Based on Eaton's best estimate for a hypothetical, 100 basis point decrease in interest rates at December 31, 2010, the market value of the Company's debt and interest rate swap portfolio, in aggregate, would increase by \$224.

Foreign currency risk is the risk of economic losses due to adverse changes in foreign currency exchange rates. The Company mitigates foreign currency risk by funding some investments in foreign markets through local currency financings. Such non-United States dollar debt was \$148 at December 31, 2010. To augment Eaton's non-United States dollar debt portfolio, the Company also enters into forward foreign exchange contracts and foreign currency swaps from time to time to mitigate the risk of economic loss in its foreign investments. At December 31, 2010, the aggregate balance of such contracts was \$331. Eaton also monitors exposure to transactions denominated in currencies other than the functional currency of each country in which the Company operates, and regularly enters into forward contracts to mitigate that exposure. In the aggregate, Eaton's portfolio of forward contracts related to such transactions was not material to its Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS

A summary of contractual obligations as of December 31, 2010 follows:

	2011	2012 to 2013	2014 to 2015	After 2015	Total
Long-term debt	\$ 4	\$ 627	\$ 366	\$ 2,207	\$ 3,204
Interest expense related to long-term debt	191	347	285	1,109	1,932
Reduction of interest expense from interest rate swap agreements related to long-term debt	(34)	(47)	(27)	(70)	(178)
Operating leases	145	184	88	59	476
Purchase obligations	537	128	78	42	785
Other long-term obligations	361	30	30	30	451
Total	\$ 1,204	\$ 1,269	\$ 820	\$ 3,377	\$ 6,670

Interest expense related to long-term debt is based on the fixed interest rate, or other applicable interest rate related to the debt instrument. The reduction of interest expense due to interest rate swap agreements related to long-term debt is based on the difference in the fixed interest rate the Company receives from the swap, compared to the floating interest rate the Company pays on the swap. Purchase obligations are entered into with various vendors in the normal course of business. These amounts include commitments for purchases of raw materials, outstanding non-cancelable purchase orders, releases under blanket purchase orders and commitments under ongoing service arrangements. Other long-term obligations include anticipated contributions of \$353 to pension plans in 2011 and \$90 of deferred compensation earned under various plans for which the participants have elected to receive disbursement at a later date.

The table above does not include future expected pension benefit payments or expected other postretirement benefit payments. Information related to the amounts of these future payments is described in Note 6 to the Consolidated Financial Statements. The table above also excludes the liability for unrecognized income tax benefits, since the Company cannot predict with reasonable certainty the timing of cash settlements with the respective taxing authorities. At December 31, 2010, the gross liability for unrecognized income tax benefits totaled \$260, which includes interest and penalties of \$36.

OTHER MATTERS

In December 2010, a Brazilian court held that a judgment against a Brazilian company sold by Eaton in 2006 could be enforced against Eaton. The Company recognized a pretax provision of 60 Brazilian Reais (\$36 based on current exchange rates) related to this legal matter as a corporate charge classified in Other (income) expense-net. Eaton is appealing this decision in the Brazilian court system.

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On October 5, 2006, ZF Meritor LLC and Meritor Transmission Corporation (collectively, Meritor) filed an action against Eaton in the United States District Court for Delaware. The action sought damages, which would be trebled under United States antitrust laws, as well as injunctive relief and costs. The suit alleged that Eaton engaged in anti-competitive conduct against Meritor in the sale of heavy-duty truck transmissions in North America. Following a four week trial on liability only, on October 8, 2009, the jury returned a verdict in favor of Meritor. Eaton firmly believes that it competes fairly and honestly for business in the marketplace, and that at no time did it act in an anti-competitive manner. During an earlier stage in the case, the judge concluded that damage estimates contained in a report filed by Meritor were not based on reliable data and the report was specifically excluded from the case. On November 3, 2009, Eaton filed a motion for judgment as a matter of law and to set aside the verdict. That motion is currently pending. Accordingly, an estimate of any potential loss related to this action cannot be made at this time.

FORWARD-LOOKING STATEMENTS

This Annual Report to Shareholders contains forward-looking statements concerning Eaton's full year 2011 sales, the performance in 2011 of its worldwide end markets, and Eaton's 2011 growth in relation to end markets. These statements should be used with caution and are subject to various risks and uncertainties, many of which are outside the Company's control. The following factors could cause actual results to differ materially from those in the forward-looking statements: unanticipated changes in the markets for the Company's business segments; unanticipated downturns in business relationships with customers or their purchases from the Company; competitive pressures on sales and pricing; increases in the cost of material and other production costs, or unexpected costs that cannot be recouped in product pricing; the introduction of competing technologies; unexpected technical or marketing difficulties; unexpected claims, charges, litigation or dispute resolutions; the impact of acquisitions and divestitures; unanticipated difficulties integrating acquisitions; new laws and governmental regulations; interest rate changes; changes in currency exchange rates; stock market fluctuations; and unanticipated deterioration of economic and financial conditions in the United States and around the world. Eaton does not assume any obligation to update these forward-looking statements.

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QUARTERLY DATA (unaudited)

(In millions except for per share data)	Quarter ended in 2010				Quarter ended in 2009			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Net sales	\$ 3,663	\$ 3,571	\$ 3,378	\$ 3,103	\$ 3,131	\$ 3,028	\$ 2,901	\$ 2,813
Gross profit	1,098	1,091	991	902	890	850	712	639
Percent of net sales	30.0%	30.6%	29.3%	29.1%	28.4%	28.1%	24.5%	22.7%
Income (loss) before income taxes	293	305	251	187	170	166	30	(63)
Net income (loss)	\$ 283	\$ 269	\$ 229	\$ 156	\$ 212	\$ 194	\$ 31	\$ (52)
Less net (income) loss for noncontrolling interests	(3)	(1)	(3)	(1)	(1)	(1)	(2)	2
Net income (loss) attributable to Eaton common shareholders	\$ 280	\$ 268	\$ 226	\$ 155	\$ 211	\$ 193	\$ 29	\$ (50)
Net income (loss) per common share								
Diluted	\$ 0.82	\$ 0.78	\$ 0.66	\$ 0.46	\$ 0.62	\$ 0.57	\$ 0.09	\$ (0.15)
Basic	\$ 0.83	\$ 0.80	\$ 0.67	\$ 0.46	\$ 0.63	\$ 0.58	\$ 0.09	\$ (0.15)
Cash dividends paid per common share	\$ 0.29	\$ 0.29	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25
Market price per common share								
High	\$ 51.35	\$ 42.17	\$ 40.89	\$ 38.47	\$ 33.53	\$ 30.33	\$ 24.88	\$ 26.67
Low	40.49	31.48	32.66	30.42	26.98	20.14	18.02	15.01

Earnings per common share for the four quarters in a year may not equal full year earnings per share.

Significant non-recurring adjustments included in income before income taxes are as follows:

Acquisition integration charges	\$ (15)	\$ (7)	\$ (9)	\$ (9)	\$ (27)	\$ (19)	\$ (15)	\$ (21)
Workforce reduction charges					(26)	(22)	(69)	(65)

Net income per common share and cash dividends paid per common share have been restated to give effect to the two-for-one stock split. See Note 1 to the Consolidated Financial Statements for additional information.

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TEN-YEAR CONSOLIDATED FINANCIAL SUMMARY (unaudited)

(In millions except for per share data)	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Continuing operations										
Net sales	\$ 13,715	\$ 11,873	\$ 15,376	\$ 13,033	\$ 12,232	\$ 10,874	\$ 9,547	\$ 7,796	\$ 6,983	\$ 7,092
Income before income taxes	1,036	303	1,140	1,055	979	969	756	475	378	257
Income after income taxes	\$ 937	\$ 385	\$ 1,067	\$ 973	\$ 907	\$ 788	\$ 633	\$ 368	\$ 272	\$ 158
Income from discontinued operations	—	—	3	35	53	22	22	30	23	19
Net income	937	385	1,070	1,008	960	810	655	398	295	177
Less net income for noncontrolling interests	(8)	(2)	(12)	(14)	(10)	(5)	(7)	(12)	(14)	(8)
Net income attributable to Eaton common shareholders	\$ 929	\$ 383	\$ 1,058	\$ 994	\$ 950	\$ 805	\$ 648	\$ 386	\$ 281	\$ 169
Net income per common share — diluted										
Continuing operations	\$ 2.73	\$ 1.14	\$ 3.25	\$ 3.19	\$ 2.94	\$ 2.54	\$ 2.00	\$ 1.18	\$ 0.90	\$ 0.54
Discontinued operations	—	—	0.01	0.12	0.17	0.08	0.07	0.10	0.08	0.07
Total	\$ 2.73	\$ 1.14	\$ 3.26	\$ 3.31	\$ 3.11	\$ 2.62	\$ 2.07	\$ 1.28	\$ 0.98	\$ 0.61
Net income per common share — basic										
Continuing operations	\$ 2.76	\$ 1.16	\$ 3.29	\$ 3.26	\$ 2.99	\$ 2.61	\$ 2.05	\$ 1.20	\$ 0.91	\$ 0.54
Discontinued operations	—	—	0.01	0.12	0.17	0.07	0.07	0.11	0.09	0.07
Total	\$ 2.76	\$ 1.16	\$ 3.30	\$ 3.38	\$ 3.16	\$ 2.68	\$ 2.12	\$ 1.31	\$ 1.00	\$ 0.61
Weighted-average number of common shares outstanding										
Diluted	339.5	335.8	324.6	300.6	305.8	308.0	314.2	301.0	286.8	282.0
Basic	335.5	332.7	320.4	294.6	300.4	300.4	306.2	295.8	282.4	277.6
Cash dividends paid per common share	\$ 1.08	\$ 1.00	\$ 1.00	\$ 0.86	\$ 0.74	\$ 0.62	\$ 0.54	\$ 0.46	\$ 0.44	\$ 0.44
Total assets	\$ 17,252	\$ 16,282	\$ 16,655	\$ 13,430	\$ 11,417	\$ 10,218	\$ 9,075	\$ 8,223	\$ 7,138	\$ 7,646
Long-term debt	3,382	3,349	3,190	2,432	1,774	1,830	1,734	1,651	1,887	2,252
Total debt	3,458	3,467	4,271	3,417	2,586	2,464	1,773	1,953	2,088	2,440
Eaton shareholders' equity	7,362	6,777	6,317	5,172	4,106	3,778	3,606	3,117	2,302	2,475
Eaton shareholders' equity per common share	\$ 21.66	\$ 20.39	\$ 19.14	\$ 17.71	\$ 14.04	\$ 12.72	\$ 11.76	\$ 10.19	\$ 8.15	\$ 8.90
Common shares outstanding	339.9	332.3	330.0	292.0	292.6	297.0	306.6	306.0	282.4	278.0

Net income per common share, weighted-average number of common shares outstanding and cash dividends paid per common share have been restated to give effect to the two-for-one stock split. See Note 1 to the Consolidated Financial Statements for additional information.

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Eaton Corporation
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- 3 (i) Amended Articles of Incorporation (amended and restated as of April 24, 2008) — Incorporated by reference to the Form 10-Q Report for the three months ended March 31, 2008
- 3 (ii) Amended Regulations (amended and restated as of February 24, 2010) — Incorporated by reference to the Form 8-K Report dated February 24, 2010
- 4 (a) Pursuant to Regulation S-K Item 601(b) (4), the Company agrees to furnish to the SEC, upon request, a copy of the instruments defining the rights of holders of its other long-term debt
- 10 Material contracts
 - (a) Senior Executive Incentive Compensation Plan (effective January 1, 2008) — Incorporated by reference to the definitive Proxy Statement dated March 14, 2008
 - (b) Executive Incentive Compensation Plan (effective January 1, 2005) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2005
 - (c) 2005 Non-Employee Director Fee Deferral Plan (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
 - (d) Deferred Incentive Compensation Plan II (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
 - (e) Excess Benefits Plan II (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
 - (f) Incentive Compensation Deferral Plan II (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
 - (g) Limited Eaton Service Supplemental Retirement Income Plan II (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
 - (h) Supplemental Benefits Plan II (2008 restatement) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
 - (i) Form of Restricted Share Unit Agreement (2 year vesting) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
 - (j) Form of Restricted Share Unit Agreement (4 year vesting) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
 - (k) Form of Restricted Share Agreement (2 year vesting) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
 - (l) Form of Restricted Share Agreement (4 year vesting) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
 - (m) Form of Restricted Share Agreement (Non-Employee Directors) — Incorporated by reference to the Form 8-K Report filed February 1, 2010
 - (n) Form of Stock Option Agreement for Executives (2008) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
 - (o) Form of Stock Option Agreement for Executives — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2006
 - (p) Form of Stock Option Agreement for Non-Employee Directors (2008) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007

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- (q) 2002 Stock Plan — Incorporated by reference to the definitive Proxy Statement dated March 15, 2002
- (r) 2004 Stock Plan — Incorporated by reference to the definitive Proxy Statement dated March 19, 2004
- (s) 2008 Stock Plan — Incorporated by reference to the definitive Proxy Statement dated March 14, 2008
- (t) 2009 Stock Plan — Incorporated by reference to the definitive Proxy Statement dated March 13, 2009
- (u) Plan for the Deferred Payment of Directors' Fees (originally adopted in 1985 and amended effective September 24, 1996, January 28, 1998, January 23, 2002, February 24, 2004, December 8, 2004 and, in certain respects, January 1, 2005) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (v) 1996 Non-Employee Director Fee Deferral Plan (amended and restated effective January 1, 2005) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2006
- (w) Form of Change of Control Agreement entered into with officers of Eaton Corporation — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2008
- (x) Form of Indemnification Agreement entered into with officers of Eaton Corporation — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (y) Form of Indemnification Agreement entered into with directors of Eaton Corporation — Incorporated by reference to the Form 8-K Report filed January 26, 2007
- (z) Executive Strategic Incentive Plan (amended and restated January 1, 2008) — Incorporated by reference to the definitive Proxy Statement dated March 14, 2008
- (aa) Executive Strategic Incentive Plan II (effective January 1, 2001) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (bb) Supplemental Executive Strategic Incentive Plan (effective as of June 25, 2008) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2008
- (cc) Deferred Incentive Compensation Plan (amended and restated effective November 1, 2007) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2009
- (dd) 1998 Stock Plan — Incorporated by reference to the definitive Proxy Statement dated March 13, 1998
- (ee) Incentive Compensation Deferral Plan (amended and restated October 1, 1997) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2000
- (ff) Trust Agreement — Officers and Employees (dated December 6, 1996) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (gg) Trust Agreement — Non-employee Directors (dated December 6, 1996) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (hh) Group Replacement Insurance Plan (GRIP) (effective June 1, 1992) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 1992
- (ii) 1991 Stock Option Plan — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (jj) Excess Benefits Plan (amended and restated effective January 1, 1989) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002

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- (kk) Supplemental Benefits Plan (amended and restated January 1, 1989) — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (ll) Eaton Corporation Board of Directors Policy on Incentive Compensation, Stock Options and Other Equity Grants upon the Restatement of Financial Results — Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (mm) Amended and Restated Grantor Trust Agreement for Non-Employee Directors' Deferred Fees Plans — effective January 1, 2010 — Filed in conjunction with this Form 10-K report.*
- (nn) Amended and Restated Grantor Trust Agreement for Employees' Deferred Compensation Plans — effective January 1, 2010 — Filed in conjunction with this Form 10-K report.*
- 12 Ratio of Earnings to Fixed Charges — Filed in conjunction with this Form 10-K Report *
- 14 Code of Ethics — Incorporated by reference to the definitive Proxy Statement filed on March 14, 2008
- 21 Subsidiaries of Eaton Corporation — Filed in conjunction with this Form 10-K Report *
- 23 Consent of Independent Registered Public Accounting Firm — Filed in conjunction with this Form 10-K Report *
- 24 Power of Attorney — Filed in conjunction with this Form 10-K Report *
- 31.1 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 302) — Filed in conjunction with this Form 10-K Report *
- 31.2 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 302) — Filed in conjunction with this Form 10-K Report *
- 32.1 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 906) — Filed in conjunction with this Form 10-K Report *
- 32.2 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 906) — Filed in conjunction with this Form 10-K Report *
- 101.INS XBRL Instance Document *
- 101.SCH XBRL Taxonomy Extension Schema Document *
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document *
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document *
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document *
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document *

* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language):

(i) Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008, (ii) Consolidated Balance Sheets at December 31, 2010 and 2009, (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008 (iv) Notes to Consolidated Financial Statements for the year ended December 31, 2010.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

EATON CORPORATION
AMENDED AND RESTATED GRANTOR TRUST AGREEMENT
FOR NON-EMPLOYEE DIRECTORS' DEFERRED FEES PLANS

This Amended and Restated Trust Agreement is made this 1st day of January, 2010 (the "Effective Date"), by and between EATON CORPORATION (hereinafter referred to as the "Company"), an Ohio corporation, and WILMINGTON TRUST RETIREMENT AND INSTITUTIONAL SERVICES COMPANY, a Delaware corporation, as successor trustee (hereinafter referred to as the "Trustee");

WHEREAS, the Company has adopted and maintains nonqualified deferred compensation plans listed in Appendix A that were closed to new contributions effective December 31, 2004 and therefore are not subject to the requirements of Internal Revenue Code Section 409A (hereinafter referred to as the "Plans");

WHEREAS, the Company has incurred or expects to incur liability under the terms of such Plans with respect to the individuals participating in such Plans;

WHEREAS, the Company has established and maintains a trust (hereinafter called "Trust") and has contributed to the Trust assets that are held in accordance with a Trust Agreement between Wachovia Bank of North Carolina, N.A. (the "Former Trustee") and the Company, dated December 6, 1996, to provide itself with a source of funds to assist it in the meeting of its liabilities under the Plans;

WHEREAS, the Trust, as amended, permits the removal of the Former Trustee, the appointment of a successor trustee, and the amendment of the Trust;

WHEREAS, the Company has removed the Former Trustee as the trustee of the Trust and appointed Wilmington Trust Retirement and Institutional Services Company as the successor trustee and Wilmington Trust Retirement and Institutional Services Company accepts such appointment, all as of the Effective Date;

WHEREAS, the Company desires to continue the Trust, as amended and restated herein, which includes certain changes required in order for the Trustee to be willing to accept the appointment as Trustee, and under the terms of which assets transferred from the Former Trustee and new contributions shall be held therein, subject to the claims of the Company's creditors in the event of the Company's Insolvency, as herein defined, until paid to Plan participants or their beneficiaries in such manner and at such times as specified in the Plans;

WHEREAS, it is the intention of the parties that this Trust shall continue to constitute an unfunded arrangement and shall not affect the status of the Plans as unfunded plans maintained for the purpose of providing for the deferral of fees by the non-employee directors of the Company for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended;

WHEREAS, prior to a Change in Control or Failure to Pay the Company may, in its sole discretion, make further contributions to the Trust, to provide itself with a source of funds to assist it in meeting its liabilities under the Plans;

WHEREAS, in conjunction with the removal of the Former Trustee, the Company has appointed a new external recordkeeper for the Plans in order to provide expanded and enhanced services to the participants (the "Recordkeeper"); and

WHEREAS, the Company hereby represents and warrants to Trustee that (i) the amendment and restatement reflected herein does not conflict with the terms of the Plans and the changes to the Trust Agreement do not have an adverse effect upon the participants and their rights hereunder; and (ii) no change in control of the Company, as defined in the Plans and/or the trust agreement with the Former Trustee, has occurred as of the Effective Date;

NOW, THEREFORE, the parties do hereby amend and restate the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1. Establishment of Trust.

(a) The Company has caused the Former Trustee to transfer all assets held in the Trust to the Trustee, which shall become the principal of the Trust to be held, administered and disposed of by Trustee as provided in this Trust Agreement.

(b) Prior to the satisfaction of all Plan liabilities, and except as noted in Sections 3 and 4 below, the Trust continues to be irrevocable.

(c) The Trust is intended to continue to be a grantor trust, of which the Company is the grantor, within the meaning of subpart E, part I subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon, shall be held separate and apart from other funds of the Company and shall be used exclusively for the uses and purposes of participants and their beneficiaries under the Plans and general creditors as herein set forth. Plan participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plans and this Trust Agreement shall be mere unsecured contractual rights of the participants and their beneficiaries against the Company. Any assets held by the Trust will be subject to the claims of the Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) The Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property (including without limitation Company Shares, as hereinafter defined) in trust with Trustee to augment the principal to be held, administered and disposed of by Trustee as provided in this Trust Agreement. Neither Trustee nor any participant or beneficiary under the Plans shall have any right to compel such additional deposits. Notwithstanding the foregoing, the Company shall, no later than the date of a Change in Control or Failure to Pay, as defined in clause (ii) of the definition of that term, and on each of the first and second anniversaries of that date, make a contribution to the Trust in an amount equal to the difference, if any, between (i)

100% of the vested liabilities under the Plans and (ii) the value of the Trust assets. Trustee and the participants and beneficiaries under the Plans shall have the power to enforce the Company's contribution obligation following a Change in Control or Failure to Pay, as defined in clause (ii) of the definition of that term.

Section 2. Payments to Participants and Their Beneficiaries.

(a) The Recordkeeper has the responsibility to maintain a record of the accounts for each participant and his or her beneficiaries under the Plans. The Company or the Recordkeeper shall deliver to Trustee a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each participant under the Plans (and his or her beneficiaries), that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plans), and the time of commencement for payment of such amounts. Except as otherwise provided herein, Trustee shall make payments to the participants and their beneficiaries in accordance with the Payment Schedule. Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plans and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by the Company.

(b) The entitlement of a participant or his or her beneficiaries to benefits under the Plans shall be determined by the Company or such independent fiduciary as it may (before a Change in Control or Failure to Pay) or shall (after a Change in Control or Failure to Pay) designate (the "Fiduciary"), and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plans.

(c) The Company may make payment of benefits directly to participants or their beneficiaries as they become due under the terms of the Plans. The Company shall notify Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to participants or their beneficiaries. In addition, if the principal of the Trust, and any earning thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plans, as indicated to the Trustee on the Payment Schedule, the Company shall make the balance of each such payment as it falls due. The Trustee shall reimburse the Company for any amounts paid to the participants or their beneficiaries if made prior to a Change in Control or Failure to Pay; provided there are sufficient assets in the Trust to pay the reimbursement.

(d) Notwithstanding anything herein to the contrary, upon the occurrence of a Termination and Change in Control, the participants shall be entitled to receive from the Trust the payments provided in Section 2(f); provided there are sufficient Trust assets to make all such payments. If there are not enough assets for full payments to all participants or their beneficiaries, the payments will be made pro rata based on the proportion between the participant or beneficiaries' benefit (as reflected on the then current Payment Schedule) and the total Trust assets. The Trustee shall make such payments in accordance with a Payment Schedule delivered to it by the Company or the Recordkeeper, or at the written direction of the Fiduciary.

(e) Notwithstanding anything herein to the contrary, upon the occurrence of a Failure to Pay, each participant covered by the situation described in clause (i) of the definition of Failure to

Pay, or each of the participants in the event of a situation described in clause (ii) of that definition, as the case may be, shall be entitled to receive from the Trust the payments as provided in Section 2(f); provided there are sufficient assets in the Trust to make all such payments. The Trustee shall make such payments in accordance with a Payment Schedule delivered to it by the Company or the Recordkeeper, or at the written direction of the Fiduciary.

(f) Each participant has selected one of the following payment alternatives with respect to each Plan, and payment shall be made to each such participant in accordance with his or her selected alternative from among the following two options:

1. A lump sum payment of the full amount credited to the participant's accounts under the Plans within 30 days following the Termination and Change in Control or Failure to Pay, as the case may be; or

2. Payment of the full amount credited to the participant's accounts under the Plans in monthly, quarterly, semiannual or annual payments, over a period not to exceed fifteen years, as selected by the participant commencing within 30 days following the Change in Control, which are substantially equal in amount or in the number of share units being valued and paid or in the number of Company Shares being distributed, except that earnings attributable to periods following the Change in Control shall be included with each payment.

Section 3. Trustee Responsibility Regarding Payments to Trust Beneficiaries When the Company is Insolvent.

(a) Trustee shall cease payment of benefits to participants and their beneficiaries if the Company is Insolvent. The Company shall be considered "Insolvent" for purposes of this Trust Agreement if (i) the Company is unable to pay its debts as they become due, or (ii) the Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of the Company under federal and state law as set forth below:

(1) The Chief Executive Officer of the Company shall have the duty to inform Trustee in writing of the Company's Insolvency. If a person claiming to be a creditor of the Company alleges in writing to Trustee that the Company has become Insolvent, Trustee shall determine whether company in Insolvent and, pending such determination, Trustee shall discontinue payment of benefits to Plan participants or their beneficiaries.

(2) Unless Trustee has actual knowledge of the Company's Insolvency, or has received notice from the Company or a person claiming to be a creditor alleging that the Company is Insolvent, Trustee shall have no duty to inquire whether the Company is Insolvent. Trustee may in all events rely on such evidence concerning the Company's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning the Company's solvency.

(3) If at any time Trustee has determined that the Company is Insolvent, Trustee shall discontinue payments to Plan participants or their beneficiaries and shall hold the assets of the Trust for the benefit of the Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Plan participants or their beneficiaries to pursue their rights as general creditors of the Company with respect to benefits due under the Plans or otherwise.

(4) Trustee shall resume the payment of benefits to Plan participants or their beneficiaries in accordance with Section 2 of this Trust Agreement only after Trustee has determined that the Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets in the Trust, if Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Plan participants or their beneficiaries under the terms of the Plans for the period of such discontinuance, less the aggregate amount of any payments made to Plan participants or their beneficiaries by the Company in lieu of the payments provided for hereunder during any such period of discontinuance.

Section 4. Payments to the Company.

Except as provided in Sections 2, 3 and this Section 4, the Company shall have no right or power to direct Trustee to return to the Company or to divert to others any of the Trust assets before all payments of benefits have been made to Plan participants and their beneficiaries pursuant to the terms of the Plans. Notwithstanding the foregoing, upon the Company's request, if the Trustee determines that certain assets will clearly never be required to pay benefits to the Plan participants or their beneficiaries, or to pay Trust expenses, then such assets will be returned to the Company. For purposes of the foregoing, the Trustee is entitled to determine that assets will clearly never be required to pay benefits to the Plan participants or their beneficiaries or to pay Trust expenses to the extent that Trust assets exceed 125% of the present value of liabilities under the Plans (including vested and unvested amounts). The Trustee is entitled to rely on liability data provided by the Plans' recordkeeper in determining the amount available for payment to the Company under this Section 4.

Section 5. Investment Authority.

(a) The Trust may hold assets of any kind, including securities issued by the Company and including shares of any registered investment company, whether or not the Trustee or any of its affiliates is an advisor to, or other service provider to, such investment company and receives compensation from such investment company for the services provided (which compensation shall be in addition to the compensation of the Trustee under this Trust). The Company acknowledges that shares in any such investment company are not obligations of the Trustee or any other bank, are not deposits and are not insured by the Federal Deposit Insurance Corporation (the "FDIC"), the Federal Reserve or any other governmental agency. All rights associated with assets of the Trust shall be exercised by Trustee or the person designated by Trustee, and shall in no event be exercisable by or rest with Plan participants, except that voting and dividend rights with respect to Trust assets will be exercised by the Company.

(b) Prior to a Change in Control or Failure to Pay, as defined in clause (ii) of the definition of that term, the Company shall have the right, at any time and from time to time, in its sole discretion, to direct Trustee as to the investment and reinvestment of all or specified portions of Trust assets and the income therefrom and to appoint an investment manager or investment managers to direct Trustee as to the investment and reinvestment of all or specified portions thereof. For purposes of the preceding sentence, “investment manager” includes a broker/dealer designated or appointed by the Company who shall have the power and authority to supervise, manage and direct the investment of assets that comprise all or a portion of the Trust fund as herein provided. Any such investment manager shall acknowledge to the Company in writing that it accepts such appointment. The Company shall be responsible for ensuring compliance with the foregoing requirement and shall notify Trustee if an investment manager has been duly appointed in accordance with the foregoing requirements. Following a Change in Control or Failure to Pay, as defined in clause (ii) of the definition of that term, Trustee shall be solely responsible for directing the investment and reinvestment of all Trust assets.

(c) In its sole discretion, Trustee may hold that portion of the Trust Fund as is appropriate, for the ordinary administration and for the disbursement of funds in cash, without liability for interest notwithstanding Trustee’s receipt of “float” from such uninvested cash, by depositing the same in any bank (including deposits which bear a reasonable rate of interest in a bank or similar financial institution supervised by the United States or a State, even where a bank or financial institution is the Trustee, or is otherwise a fiduciary of the Plan) subject to the rules and regulations governing such deposits, and without regard to the amount of such deposit.

(d) The Company shall have the right, at anytime, and from time to time in its sole discretion, to substitute assets of equal fair market value for any asset held by the Trust.

(e) Pursuant to the Shareholder Communication Act, Trustee is obligated to provide to issuers of securities identifying information such as the Company’s name(s), address(es), and share positions, unless the Company objects herein or through subsequent notice to Trustee in writing. Unless otherwise directed in writing, Trustee is not authorized to disclose the name, address and share positions of the Company under this Trust and/or any person or organization designated to give instructions under this Trust Agreement to entities over whose securities the Company or such person or organization exercises voting authority or to others upon request by such entities.

Section 6. Disposition of Income.

During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

Section 7. Accounting by Trustee.

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between the Company and Trustee. Within 45 days following the close of each calendar year and within 45 days after the removal or resignation of Trustee, Trustee shall deliver to the Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be. Such account statements shall be mailed to the Company or, if the Company agrees, delivered via e-mail or other electronic means.

Section 8. Responsibility of Trustee.

(a) Trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of any enterprise of a like character and with like aims, provided, however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by the Company or an investment manager which is contemplated by, and in conformity with, the terms of the Plans or this Trust and is given in writing by the Company or such investment manager or, following a Change in Control, the Fiduciary.

(b) If Trustee undertakes or defends any litigation arising in connection with this Trust, the Company agrees to indemnify Trustee against Trustee's costs, expenses and liabilities (including, without limitation, reasonable attorneys' fees and expenses) relating thereto and to be primarily liable for such payments, except to the extent that the Trustee would not be entitled to indemnification for such costs, expenses and liabilities pursuant to Section 9(b) hereof. If the Company does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from the Trust. In no event shall Trustee have any liability or responsibility to undertake, defend or continue any litigation unless payment of related fees and expenses is ensured to the reasonable satisfaction of Trustee.

(c) Trustee, at the expense of the Trust or the Company, may consult with legal counsel (who may also be counsel for the Company generally) with respect to any of its duties or obligations hereunder.

(d) Trustee, at the expense of the Trust or the Company, may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder.

(e) Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(f) However, notwithstanding the provisions of Section 8(e) above, prior to a Change in Control affecting the Company, Trustee may loan to the Company the proceeds of any borrowing against an insurance policy held as an asset of the Trust. Upon a Change in Control, such a loan may be made with the consent of the majority of Plan participants, whether or not employed by the Company.

(g) Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

(h) Trustee shall have no responsibility or liability respect to: (i) the truth or accuracy of any representation or warranty made in any application or related document provided to the insurer in connection with the issuance or renewal of any insurance policies or insurance contracts, including any representation that the person on whose life an application is being made is eligible to have a contract issued on his or her life; (ii) the selection or monitoring (ongoing or periodic) of any insurance policies or insurance contracts held in the Trust or the insurers issuing such policies or contracts; (iii) the payment of premiums with respect to such policies or contracts; or (iv) the exercise of any rights relating to any such policies or contracts except as directed in writing by the Company.

(i) Upon the expiration of ninety (90) days from the date of Trustee's annual, quarterly or any other account, the Trustee shall be forever released and discharged from all liability and further accountability to the Company or any other person with respect to the accuracy of such accounting and all acts and failures to act of Trustee reflected in such account, except to the extent that the Company shall, within such 90-day period, file with Trustee specific written objections to the account. Neither the Company, nor any participant or beneficiary under the Plans or any other person shall be entitled to any additional or different accounting by Trustee and Trustee shall not be compelled to file in any court any additional or different accounting. For purposes of regulations promulgated by the FDIC, Trustee's account statements shall be sufficient information concerning securities transactions effected for the Trust, provided that the Company, upon written request, shall have the right to receive at no additional cost written confirmations of such securities transactions, which shall be mailed or otherwise furnished by the Trustee within the timeframe required by applicable regulations.

(j) Trustee shall have no duty or responsibility not expressly set forth in this Trust Agreement. By way of example, but without limiting the matters subject to the foregoing sentence, Trustee shall have no responsibility with respect to the administration or interpretation of the Plan, payment of Plan benefits other than from the assets of the Trust, the calculation of tax to be withheld, reported and/or paid to taxing authorities and (if applicable pursuant to the fee schedule) withholding, remitting, or reporting to taxing authorities of taxes other than from payments made with Trust assets to Plan participants and other than as directed by the Company, or maintaining participant records with respect to the Plan.

Section 9. Compensation and Expenses of Trustee.

(a) The Company shall pay all reasonable administrative and Trustee's fees and expenses, as the parties may agree, on a monthly basis. If not so paid, the Trustee shall be entitled to deduct such fees and expenses from the Trust.

(b) The Company shall indemnify and hold Trustee harmless from and against any and all losses, costs, damages and expenses (including reasonable attorney's fees and disbursements) of any kind or nature (collectively, "Losses") imposed on or incurred by Trustee by reason of its service pursuant to this Trust Agreement, including any Losses arising out of any threatened, pending or completed claim, action, suit or proceeding, except to the extent such Losses are caused by the gross negligence, willful misconduct or bad faith of Trustee. To the extent not paid by the Company, Trustee shall be entitled to deduct such amounts from the Trust.

(c) The provisions of this Section 9 shall survive termination of this Trust Agreement.

Section 10. Resignation and Removal of Trustee.

(a) Trustee may resign at any time by written notice to the Company, which shall be effective ninety (90) days after receipt of such notice unless the Company and Trustee agree otherwise.

(b) Trustee may be removed by the Company on thirty (30) days' notice or upon shorter notice accepted by Trustee. Upon a Change in Control, and for three years following such Change in Control, the Company may remove Trustee with the consent of the majority of Plan participants, whether or not employed by the Company, and if a participant is dead, his or her beneficiary(ies) (who collectively shall have one vote among them and shall vote in place of such deceased participant).

(c) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. To the extent possible, the transfer shall be completed within thirty (30) days after receipt of notice of resignation, removal or transfer, unless the Company extends the time limit.

(d) If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of resignation or removal under paragraphs (a) or (b) of this section. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Section 11. Appointment of Successor.

(a) If Trustee resigns or is removed in accordance with Section 10(a) or (b) hereof, the Company may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of

the former Trustee, including ownership rights in the Trust assets. Notwithstanding the foregoing, if Trustee's resignation or removal occurs within three years following a Change in Control, the appointment of a successor will be effective no earlier than the date the Company receives written consent of a majority of Plan participants whether or not employed by the Company, and if a participant is dead, his or her beneficiary(ies) (who collectively shall have one vote among them and shall vote in place of such deceased participant). The former Trustee shall execute any instrument necessary or reasonably requested by the Company or the successor Trustee to evidence the transfer.

(b) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 7 and 8 hereof. The successor Trustee shall not be responsible for and the Company shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

Section 12. Amendment or Termination.

(a) This Trust Agreement may be amended by a written instrument executed by Trustee and the Company only if such amendment does not have an adverse effect upon the participants and their rights hereunder or if the amendment is approved in writing by 90 percent of all participants. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plans or shall make the Trust revocable.

(b) The Trust shall not terminate until the date on which Plan participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plans. Upon termination of the Trust any assets remaining in the Trust shall be returned to the Company.

(c) Upon written approval of participants or beneficiaries entitled to payment of benefits pursuant to the terms of the Plans, the Company may terminate this Trust prior to the time all benefit payments under the Plans have been made. All assets in the Trust at termination shall be returned to the Company.

Section 13. Miscellaneous.

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to Plan participants and their beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

(d) Trustee represents that it qualifies for FDIC prorata worth pass-through insurance coverage in accordance with the standards set forth in applicable federal law and FDIC insurance regulations. If Trustee fails at any time in the future to so qualify for prorata worth pass-through insurance coverage, it will promptly notify the Company.

(e) In no event will Trustee have any obligation to provide, and in no event will Trustee provide, any legal, tax, accounting, audit or other advice to the Company with respect to the Plans or this Trust. the Company acknowledges that it will rely exclusively on the advice of its accountants and/or attorneys with respect to all legal, tax, accounting, audit and other advice required or desired by the Company with respect to the Plans or this Trust. the Company acknowledges that Trustee has not made any representations of any kind, and will not make any representations of any kind, concerning the legal, tax, accounting, audit or other treatment of the Plans or this Trust.

(f) The Company acknowledges that Trustee is not an advisor concerning or a promoter with respect to the Plans or this Trust, but merely is a service provider offering the Trust services expressly set forth in this Agreement. In particular, the Company acknowledges that Trustee is not a joint venture or partner with the Company's accountants, auditors, consultants or with any other party, with respect to the Plans or this Trust, and that Trustee and the Company's accountants, auditors and consultants at all times remain independent parties dealing at arm's length, and independently, with each other and with the Company.

(g) Company represents and warrants that the Plans and the administration thereof and the establishment of this Trust comply in all material respects with applicable law and shall continue to be in material compliance therewith.

(h) Trustee shall have no liability for any losses arising out of delays in performing the services which it renders under this Trust Agreement which result from events beyond its control, including without limitation, interruption of the business of Trustee due to acts of God, acts of governmental authority, acts of war, riots, civil commotions, insurrections, labor difficulties (including, but not limited to, strikes and other work slippages due to slow-downs), or any action of any courier or utility, mechanical or other malfunction, or electronic interruption.

(i) For purposes of this Trust, Change in Control shall have the meaning given under any of the Plans.

(j) The Board of Directors of the Company as constituted immediately prior to the consummation of a Change in Control and the Chief Executive Officer of the Company shall have the duty to inform Trustee in writing of the occurrence of a Change in Control. Trustee may rely exclusively on this writing and shall have no duty to inquire whether a Change in Control has taken place or to make any determination as to whether a Change in Control has occurred.

Section 14. Company Shares Provisions.

(a) Applicability : As long as Company Shares (as defined below) are held in the Trust, the provisions of this Section 14 shall apply to such investment.

(b) Definition : As used in this Trust agreement "Company Shares" shall mean Common Shares (\$.50 per value) of the Company, together with any other rights, warrants, options, shares or other securities, whether of the Company, any successor thereto or any other issuer, that are from time to time issued as a dividend or distribution on or in respect of such Common Shares,

or for or into which any of such Common Shares or such other securities may be exchanged, changed or converted, by operation of law or otherwise.

(c) Retention, No Duty to Diversify : The Trustee is specifically authorized to retain any Company Shares deposited with the Trustee or acquired by the Trustee, and notwithstanding anything otherwise contained in this Trust Agreement or with respect to any duty implied by law or otherwise, the Trustee has no duty to diversify the Trust Fund.

(d) Voting : With respect to Company Shares held in the Trust, Trustee shall have the responsibility to vote proxies, respond to tender offers or take other similar action only to the extent timely directed to do so by a duly appointed Investment Manager.

(e) Dividends : Dividends shall be invested pursuant to the provisions of this Trust Agreement for the investment of otherwise uninvested cash.

(f) Valuation : Trustee shall periodically determine the market value of the assets of the Trust Fund or, in the absence of readily ascertainable market values, at such values as Trustee shall determine in accordance with methods consistently followed and uniformly applied. With respect to assets without readily ascertainable market values, Trustee may rely for all purposes of this Trust Agreement on the latest valuation and transaction information submitted to it by the person responsible for the investment. The Company shall cause such person to provide the Trustee with all information needed by the Trustee to discharge its obligations to value such assets and to account under this Trust Agreement. In the event that any Company Shares held by the Trust are not registered with the Securities and Exchange Commission ("SEC") and publicly traded, or if not actively traded, the Company shall engage the services of a reputable, independent third party to perform valuations (the "Valuation Firm") not less frequently than annually, and the Trustee may rely for all purposes of this Trust Agreement on the latest annual valuation provided by the Valuation Firm. The Company represents and warrants to the Trustee that all information provided to such party performing valuations by or on behalf of the Company shall be complete, true and accurate in all material respects and sufficient to enable the Valuation Firm to perform its valuation services and Trustee to provide an accurate account under Section 7.

(g) Sales/Distributions/Compliance with Rule 144/etc. : The provisions of this Section 14 shall control all matters concerning the acquisition, disposition and holding of Company Shares. The Company hereby represents, warrants and covenants that the Company is and shall be the sole legal and beneficial owner of all Company Shares that are transferred to or acquired by the Trustee from time to time, and the Company has and shall have all requisite power and authority to issue, transfer and deliver any such Company Shares to the Trustee. All Company Shares delivered to the Trustee shall be validly issued, fully paid and non-assessable and free and clear of any liens, security interests or other interests by any other person or entity other than Trustee, the Company and the creditors of the Company as provided pursuant to the terms of this Trust Agreement. The Company hereby represents, warrants and covenants that: (i) the Company shall at all times comply in all material respects with all applicable laws, regulations, restrictions and reporting requirements relating to or affecting Company Shares from time to time, including, without

limitation, federal and state securities laws, and the rules of any applicable exchange; and (ii) each sale or distribution of the Trust Fund's Company Shares shall be directed by the Company in accordance with all applicable federal and state securities laws, including without limitation, Rule 144 of the 1933 Act for sales by affiliates of the issuer ("Rule 144") or any successor SEC rule, and the rules of any applicable exchange. The Company shall cause its counsel to prepare a Notice of Proposed Sale of Securities Pursuant to Rule 144 as specified in Rule 144 ("Form 144") on behalf of the Trust and submit the Form 144 to the Trustee for review not less than 5 days prior to the initial sale of Company Shares that the Company plans to direct or as otherwise provided for by Section 14(g) of this Trust Agreement (and not less than 3 days prior to any subsequent sale of Company Shares requiring a new or amended Form 144). The Company and its counsel shall be solely responsible for identifying and communicating to the Trustee in writing: (i) any other sales of Company Shares that must be aggregated with the sales or distributions by the Trust Fund, (ii) all applicable "black out" periods, if any, (iii) the applicable holding periods, if any, for Company Shares held by the Trustee, and (iv) information regarding the appropriate tax reporting by the Trustee with respect to any sales or distributions of Company Shares (or the proceeds thereof) to any participant or beneficiary. As applicable, the Company may direct the brokers or dealers through which Company Shares is to be sold and the Trustee shall have no responsibility or liability with respect to any broker or dealer designated by the Company. If not so designated by the Company, the Trustee may select such brokers or dealers. The Trustee shall be responsible for signing and filing the agreed upon Form 144. The Company shall confirm to the Trustee if Company Shares are to be sold pursuant to Section 14(c) of this Trust Agreement, and as applicable the Company shall not direct any sale of Company Shares without confirming, that there is an accurate and effective Form 144 in place with respect to such sale. The Company further covenants and agrees to furnish or cause to be furnished to the Trustee, from time to time, such certifications, legal opinions and additional information as the Trustee may reasonably request in connection with Company Shares or any sale or distribution thereof.

(h) Regulatory Reports : In the event the number of Company Shares held by the Trust, if any, meets or exceeds any applicable reporting threshold for the Trust or the Trustee, the Company agrees to provide written notice to the Trustee that the Trust has reached or exceeds the reporting threshold; to prepare and file such reports unless the Trustee provides notice that it shall prepare and file such reports or unless the Trustee shall be required to prepare and file such reports due to the Company's failure to timely do so; to timely provide copies of the same to the Trustee for its review prior to filing; and to reimburse the Trustee for its out-of-pocket costs and expenses associated with reviewing, preparing and/or filing any regulatory report required to be filed by the Trustee, such as, by way of example, Forms 3, 4, 5 or Form 13G filed with the SEC. To the extent not paid by the Company, such costs and expenses may be deducted by the Trustee from the Trust.

Section 15. Additional Definitions.

"Failure to Pay" shall mean that the circumstances described in either (i) or (ii) have occurred:

- (i) Any participant shall have notified the Company and the Recordkeeper in writing that the Company has failed to pay to the participant, when due, either directly or by direction to the Trustee in accordance with the terms hereof, at least 75% of any and all amounts which the participant was entitled to receive at any time in accordance with the terms of any of the Plans, the Payment Schedule or this Trust Agreement, and that such amount remains unpaid. Such notice must set forth the amount, if any, which was paid to the participant, and the amount which the participant believes he

or she was entitled to receive under the Plans, the Payment Schedule and this Trust Agreement; or

(ii) More than two Plan participants shall have notified the Company and the Recordkeeper in writing, either individually or jointly, that they have not been paid, when due, amounts to which they are entitled under the Plans, the Payment Schedule or this Trust Agreement, and that such amount remains unpaid. Each such notice must set forth the amount, if any, which was paid to the participant, and the amount which the participant believes he or she was entitled to receive under the Plans, the Payment Schedule and this Trust agreement. Within 15 days after receipt of each such notice, the Company or Fiduciary shall determine, on a preliminary basis, whether any failure to pay such participants has resulted in a failure to pay when due, directly or by direction, at least 75% of the aggregate amount due to all participants under the Plans, the Payment Schedule and this Trust Agreement in any two-year period, and that such amount remains unpaid. If the Company or the Fiduciary determines that such a failure has occurred, then it shall so notify the participants in writing within the same 15-day period. Within a period of 20 days after receipt of such notice from the Trustee, the Company shall have failed to prove by clear and convincing evidence, in the sole and absolute discretion of the Trustee, that such amount was paid or was not due and payable. The Company shall have the responsibility to notify the Trustee of the occurrence of a Failure to Pay. If the Trustee receives notification from the Recordkeeper or the Fiduciary of a Failure to Pay, it may rely upon such notification as if it were a notification from the Company until such time, if any, as the party delivering such notification shall revoke it.

“Termination and Change in Control” shall mean the termination of the employment by the Company of a participant for any reason whatsoever, either at the initiative of the Company or the participant, prior to a Change in Control if there is a subsequent Change in Control, or the termination of employment of a participant for any reason whatsoever, either at the initiative of the Company or the participant, during the three-year period following a Change in Control. The Company shall have the responsibility to notify the Trustee of the occurrence of a Termination and Change in Control. If the Trustee receives notification from the Recordkeeper or the Fiduciary of a Termination and Change in Control, it may rely upon such notification as if it were a notification from the Company until such time, if any, as the party delivering such notification shall revoke it.

Section 16. Effective Date.

The effective date of this Trust Agreement shall be the Effective Date set forth above.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company and the Trustee have caused this Trust Agreement to be executed and their corporate seals to be attested by their respective duly authorized officers, all as of the day and year first above written.

[Corporate Seal]

Attest: /s/ David M. O'Loughlin

Assistant Secretary

EATON CORPORATION

By: /s/ Kurt B. McMaken

Name: Kurt B. McMaken

Title: Senior Vice President

Corporate Development and Treasury

By: /s/ Thomas E. Moran

Name: Thomas E. Moran

Title: Senior Vice President and Secretary

Address: 1111 Superior Avenue,
Cleveland, OH 44114

Telephone: (216) 523-5000

Telecopier: (216) 523-4907

[Corporate Seal]

**WILMINGTON TRUST RETIREMENT AND
INSTITUTIONAL SERVICES COMPANY,
AS TRUSTEE**

Attest: _____

Assistant Secretary

By: _____

Name: _____

Vice President

Address: P.O. Box 52129
Phoenix, AZ 85072
Attn.: Vice President, Client Services

2800 North Central Avenue, Suite 900
Phoenix, AZ 85004

Telecopier: (602) 955-9564
Telephone: _____

**APPENDIX A
LIST OF PLANS**

Plan for the Deferred Payment of Directors' Fees

1996 Non-Employee Director Fee Deferral Plan

**CERTIFICATE OF AUTHORIZED SIGNERS
CORPORATE**

I, _____, _____, do hereby certify that with respect to the _____ (the "Trust"):

- 1) each of the undersigned have been duly appointed to their position by the Company or authorized officials of the Trust,
- 2) each of the undersigned individuals have the authority* to act on behalf of the Trust,
- 3) the Title and Signature next to his or her name is such person's Title and Signature, and
- 4) this Certificate supersedes all previous Incumbency Certificates on file with Wilmington Trust Retirement and Institutional Services Company with respect to the Trust.

<u>NAME</u>	<u>TITLE</u>	<u>SIGNATURE</u>
Kurt B. McMaken	Senior Vice President Corporate Development And Treasury	_____
Thomas E. Moran	Senior Vice President and Secretary	_____
David M. O'Loughlin	Assistant Secretary	_____
(SEAL)	(Assistant) Secretary	_____

IN WITNESS WHEREOF, I have caused this certificate to be executed and the seal of the Company to be hereunder affixed as of the _____ day of _____, 20____.

* If one or more of the individuals have special or limited authority regarding the Trust, please provide such limitation or special information here or on a separate sheet of paper. Otherwise, all persons listed on this Certificate have the authority to direct any action under the Agreement with Wilmington Trust Retirement and Institutional Services Company. Unless otherwise indicated, only one signature is needed.

EATON CORPORATION
AMENDED AND RESTATED GRANTOR TRUST AGREEMENT
FOR EMPLOYEES' DEFERRED COMPENSATION PLANS

This Amended and Restated Trust Agreement is made this 1st day of January, 2010 (the "Effective Date"), by and between EATON CORPORATION (hereinafter referred to as the "Company"), an Ohio corporation, and WILMINGTON TRUST RETIREMENT AND INSTITUTIONAL SERVICES COMPANY, a Delaware corporation, as successor trustee (hereinafter referred to as the "Trustee");

WHEREAS, the Company has adopted and maintains nonqualified deferred compensation plans listed in Appendix A that were closed to new contributions effective December 31, 2004 and therefore are not subject to the requirements of Internal Revenue Code Section 409A (hereinafter referred to as the "Plans");

WHEREAS, the Company has incurred or expects to incur liability under the terms of such Plans with respect to the individuals participating in such Plans;

WHEREAS, the Company has established and maintains a trust (hereinafter called "Trust") and has contributed to the Trust assets that are held in accordance with a Trust Agreement between Wachovia Bank of North Carolina, N.A. (the "Former Trustee") and the Company, dated December 6, 1996, to provide itself with a source of funds to assist it in the meeting of its liabilities under the Plans;

WHEREAS, the Trust, as amended, permits the removal of the Former Trustee, the appointment of a successor trustee, and the amendment of the Trust;

WHEREAS, the Company has removed the Former Trustee as the trustee of the Trust and appointed Wilmington Trust Retirement and Institutional Services Company as the successor trustee and Wilmington Trust Retirement and Institutional Services Company accepts such appointment, all as of the Effective Date;

WHEREAS, the Company desires to continue the Trust, as amended and restated herein, which includes certain changes required in order for the Trustee to be willing to accept the appointment as Trustee, and under the terms of which assets transferred from the Former Trustee and new contributions shall be held therein, subject to the claims of the Company's creditors in the event of the Company's Insolvency, as herein defined, until paid to Plan participants or their beneficiaries in such manner and at such times as specified in the Plans;

WHEREAS, it is the intention of the parties that this Trust shall continue to constitute an unfunded arrangement and shall not affect the status of the Plans as unfunded plans maintained for the purpose of providing for the deferral of fees by the employee directors of the Company for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended;

WHEREAS, prior to a Change in Control or Failure to Pay the Company may, in its sole discretion, make further contributions to the Trust, to provide itself with a source of funds to assist it in meeting its liabilities under the Plans;

WHEREAS, in conjunction with the removal of the Former Trustee, the Company has appointed a new external recordkeeper for the Plans in order to provide expanded and enhanced services to the participants (the "Recordkeeper"); and

WHEREAS, the Company hereby represents and warrants to Trustee that (i) the amendment and restatement reflected herein does not conflict with the terms of the Plans and the changes to the Trust Agreement do not have an adverse effect upon the participants and their rights hereunder; and (ii) no change in control of the Company, as defined in the Plans and/or the trust agreement with the Former Trustee, has occurred as of the Effective Date;

NOW, THEREFORE, the parties do hereby amend and restate the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1. Establishment of Trust.

(a) The Company has caused the Former Trustee to transfer all assets held in the Trust to the Trustee, which shall become the principal of the Trust to be held, administered and disposed of by Trustee as provided in this Trust Agreement.

(b) Prior to the satisfaction of all Plan liabilities, and except as noted in Sections 3 and 4 below, the Trust continues to be irrevocable.

(c) The Trust is intended to continue to be a grantor trust, of which the Company is the grantor, within the meaning of subpart E, part I subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon, shall be held separate and apart from other funds of the Company and shall be used exclusively for the uses and purposes of participants and their beneficiaries under the Plans and general creditors as herein set forth. Plan participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plans and this Trust Agreement shall be mere unsecured contractual rights of the participants and their beneficiaries against the Company. Any assets held by the Trust will be subject to the claims of the Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) The Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property (including without limitation Company Shares, as hereinafter defined) in trust with Trustee to augment the principal to be held, administered and disposed of by Trustee as provided in this Trust Agreement. Neither Trustee nor any participant or beneficiary under the Plans shall have any right to compel such additional deposits. Notwithstanding the foregoing, the Company shall, no later than the date of a Change in Control or Failure to Pay, as defined in clause (ii) of the definition of that term, and on each of the first and second anniversaries of that date, make a contribution to the Trust in an amount equal to the difference, if any, between (i) 100% of the vested liabilities under the Plans and (ii) the value of the Trust assets. Trustee and the

participants and beneficiaries under the Plans shall have the power to enforce the Company's contribution obligation following a Change in Control or Failure to Pay, as defined in clause (ii) of the definition of that term.

Section 2. Payments to Participants and Their Beneficiaries.

(a) The Recordkeeper has the responsibility to maintain a record of the accounts for each participant and his or her beneficiaries under the Plans. The Company or the Recordkeeper shall deliver to Trustee a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each participant under the Plans (and his or her beneficiaries), that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plans), and the time of commencement for payment of such amounts. Except as otherwise provided herein, Trustee shall make payments to the participants and their beneficiaries in accordance with the Payment Schedule. Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plans and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by the Company.

(b) The entitlement of a participant or his or her beneficiaries to benefits under the Plans shall be determined by the Company or such independent fiduciary as it may (before a Change in Control or Failure to Pay) or shall (after a Change in Control or Failure to Pay) designate (the "Fiduciary"), and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plans.

(c) The Company may make payment of benefits directly to participants or their beneficiaries as they become due under the terms of the Plans. The Company shall notify Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to participants or their beneficiaries. In addition, if the principal of the Trust, and any earning thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plans, as indicated to the Trustee on the Payment Schedule, the Company shall make the balance of each such payment as it falls due. The Trustee shall reimburse the Company for any amounts paid to the participants or their beneficiaries if made prior to a Change in Control or Failure to Pay; provided there are sufficient assets in the Trust to pay the reimbursement.

(d) Notwithstanding anything herein to the contrary, upon the occurrence of a Termination and Change in Control, the participants shall be entitled to receive from the Trust the payments provided in Section 2(f); provided there are sufficient Trust assets to make all such payments. If there are not enough assets for full payments to all participants or their beneficiaries, the payments will be made pro rata based on the proportion between the participant or beneficiaries' benefit (as reflected on the then current Payment Schedule) and the total Trust assets. The Trustee shall make such payments in accordance with a Payment Schedule delivered to it by the Company or the Recordkeeper, or at the written direction of the Fiduciary.

(e) Notwithstanding anything herein to the contrary, upon the occurrence of a Failure to Pay, each participant covered by the situation described in clause (i) of the definition of Failure to Pay, or each of the participants in the event of a situation described in clause (ii) of that definition, as

the case may be, shall be entitled to receive from the Trust the payments as provided in Section 2(f); provided there are sufficient assets in the Trust to make all such payments. The Trustee shall make such payments in accordance with a Payment Schedule delivered to it by the Company or the Recordkeeper, or at the written direction of the Fiduciary.

(f) Each participant has selected one of the following payment alternatives with respect to each Plan, and payment shall be made to each such participant in accordance with his or her selected alternative from among the following two options:

1. A lump sum payment of the full amount credited to the participant's accounts under the Plans within 30 days following the Termination and Change in Control or Failure to Pay, as the case may be; or
2. Payment of the full amount credited to the participant's accounts under the Plans in monthly, quarterly, semiannual or annual payments, over a period not to exceed fifteen years, as selected by the participant commencing within 30 days following the Change in Control, which are substantially equal in amount or in the number of share units being valued and paid or in the number of Company Shares being distributed, except that earnings attributable to periods following the Change in Control shall be included with each payment.

Section 3. Trustee Responsibility Regarding Payments to Trust Beneficiaries When the Company is Insolvent.

(a) Trustee shall cease payment of benefits to participants and their beneficiaries if the Company is Insolvent. The Company shall be considered "Insolvent" for purposes of this Trust Agreement if (i) the Company is unable to pay its debts as they become due, or (ii) the Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of the Company under federal and state law as set forth below:

(1) The Chief Executive Officer of the Company shall have the duty to inform Trustee in writing of the Company's Insolvency. If a person claiming to be a creditor of the Company alleges in writing to Trustee that the Company has become Insolvent, Trustee shall determine whether company in Insolvent and, pending such determination, Trustee shall discontinue payment of benefits to Plan participants or their beneficiaries.

(2) Unless Trustee has actual knowledge of the Company's Insolvency, or has received notice from the Company or a person claiming to be a creditor alleging that the Company is Insolvent, Trustee shall have no duty to inquire whether the Company is Insolvent. Trustee may in all events rely on such evidence concerning the Company's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning the Company's solvency.

(3) If at any time Trustee has determined that the Company is Insolvent, Trustee shall discontinue payments to Plan participants or their beneficiaries and shall hold the assets of the Trust for the benefit of the Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Plan participants or their beneficiaries to pursue their rights as general creditors of the Company with respect to benefits due under the Plans or otherwise.

(4) Trustee shall resume the payment of benefits to Plan participants or their beneficiaries in accordance with Section 2 of this Trust Agreement only after Trustee has determined that the Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets in the Trust, if Trustee discontinues the payment of benefits from the Trust pursuant to Section 3 (b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Plan participants or their beneficiaries under the terms of the Plans for the period of such discontinuance, less the aggregate amount of any payments made to Plan participants or their beneficiaries by the Company in lieu of the payments provided for hereunder during any such period of discontinuance.

Section 4. Payments to the Company.

Except as provided in Sections 2, 3 and this Section 4, the Company shall have no right or power to direct Trustee to return to the Company or to divert to others any of the Trust assets before all payments of benefits have been made to Plan participants and their beneficiaries pursuant to the terms of the Plans. Notwithstanding the foregoing, upon the Company's request, if the Trustee determines that certain assets will clearly never be required to pay benefits to the Plan participants or their beneficiaries, or to pay Trust expenses, then such assets will be returned to the Company. For purposes of the foregoing, the Trustee is entitled to determine that assets will clearly never be required to pay benefits to the Plan participants or their beneficiaries or to pay Trust expenses to the extent that Trust assets exceed 125% of the present value of liabilities under the Plans (including vested and unvested amounts). The Trustee is entitled to rely on liability data provided by the Plans' recordkeeper in determining the amount available for payment to the Company under this Section 4.

Section 5. Investment Authority.

(a) The Trust may hold assets of any kind, including securities issued by the Company and including shares of any registered investment company, whether or not the Trustee or any of its affiliates is an advisor to, or other service provider to, such investment company and receives compensation from such investment company for the services provided (which compensation shall be in addition to the compensation of the Trustee under this Trust). The Company acknowledges that shares in any such investment company are not obligations of the Trustee or any other bank, are not deposits and are not insured by the Federal Deposit Insurance Corporation (the "FDIC"), the Federal Reserve or any other governmental agency. All rights associated with assets of the Trust shall be exercised by Trustee or the person designated by Trustee, and shall in no event be exercisable by or rest with Plan participants, except that voting and dividend rights with respect to Trust assets will be exercised by the Company.

(b) Prior to a Change in Control or Failure to Pay, as defined in clause (ii) of the definition of that term, the Company shall have the right, at any time and from time to time, in its sole discretion, to direct Trustee as to the investment and reinvestment of all or specified portions of Trust assets and the income therefrom and to appoint an investment manager or investment managers to direct Trustee as to the investment and reinvestment of all or specified portions thereof. For purposes of the preceding sentence, “investment manager” includes a broker/dealer designated or appointed by the Company who shall have the power and authority to supervise, manage and direct the investment of assets that comprise all or a portion of the Trust fund as herein provided. Any such investment manager shall acknowledge to the Company in writing that it accepts such appointment. The Company shall be responsible for ensuring compliance with the foregoing requirement and shall notify Trustee if an investment manager has been duly appointed in accordance with the foregoing requirements. Following a Change in Control or Failure to Pay, as defined in clause (ii) of the definition of that term, Trustee shall be solely responsible for directing the investment and reinvestment of all Trust assets.

(c) In its sole discretion, Trustee may hold that portion of the Trust Fund as is appropriate, for the ordinary administration and for the disbursement of funds in cash, without liability for interest notwithstanding Trustee’s receipt of “float” from such uninvested cash, by depositing the same in any bank (including deposits which bear a reasonable rate of interest in a bank or similar financial institution supervised by the United States or a State, even where a bank or financial institution is the Trustee, or is otherwise a fiduciary of the Plan) subject to the rules and regulations governing such deposits, and without regard to the amount of such deposit.

(d) The Company shall have the right, at anytime, and from time to time in its sole discretion, to substitute assets of equal fair market value for any asset held by the Trust.

(e) Pursuant to the Shareholder Communication Act, Trustee is obligated to provide to issuers of securities identifying information such as the Company’s name(s), address(es), and share positions, unless the Company objects herein or through subsequent notice to Trustee in writing. Unless otherwise directed in writing, Trustee is not authorized to disclose the name, address and share positions of the Company under this Trust and/or any person or organization designated to give instructions under this Trust Agreement to entities over whose securities the Company or such person or organization exercises voting authority or to others upon request by such entities.

Section 6. Disposition of Income.

During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

Section 7. Accounting by Trustee.

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between the Company and Trustee. Within 45 days following the close of each calendar year and within 45 days after the removal or resignation of Trustee, Trustee shall deliver to the Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be. Such account statements shall be mailed to the Company or, if the Company agrees, delivered via e-mail or other electronic means.

Section 8. Responsibility of Trustee.

(a) Trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of any enterprise of a like character and with like aims, provided, however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by the Company or an investment manager which is contemplated by, and in conformity with, the terms of the Plans or this Trust and is given in writing by the Company or such investment manager or, following a Change in Control, the Fiduciary.

(b) If Trustee undertakes or defends any litigation arising in connection with this Trust, the Company agrees to indemnify Trustee against Trustee's costs, expenses and liabilities (including, without limitation, reasonable attorneys' fees and expenses) relating thereto and to be primarily liable for such payments, except to the extent that the Trustee would not be entitled to indemnification for such costs, expenses and liabilities pursuant to Section 9(b) hereof. If the Company does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from the Trust. In no event shall Trustee have any liability or responsibility to undertake, defend or continue any litigation unless payment of related fees and expenses is ensured to the reasonable satisfaction of Trustee.

(c) Trustee, at the expense of the Trust or the Company, may consult with legal counsel (who may also be counsel for the Company generally) with respect to any of its duties or obligations hereunder.

(d) Trustee, at the expense of the Trust or the Company, may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder.

(e) Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(f) However, notwithstanding the provisions of Section 8(e) above, prior to a Change in Control affecting the Company, Trustee may loan to the Company the proceeds of any borrowing against an insurance policy held as an asset of the Trust. Upon a Change in Control, such a loan may be made with the consent of the majority of Plan participants, whether or not employed by the Company.

(g) Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

(h) Trustee shall have no responsibility or liability respect to: (i) the truth or accuracy of any representation or warranty made in any application or related document provided to the insurer in connection with the issuance or renewal of any insurance policies or insurance contracts, including any representation that the person on whose life an application is being made is eligible to have a contract issued on his or her life; (ii) the selection or monitoring (ongoing or periodic) of any insurance policies or insurance contracts held in the Trust or the insurers issuing such policies or contracts; (iii) the payment of premiums with respect to such policies or contracts; or (iv) the exercise of any rights relating to any such policies or contracts except as directed in writing by the Company.

(i) Upon the expiration of ninety (90) days from the date of Trustee's annual, quarterly or any other account, the Trustee shall be forever released and discharged from all liability and further accountability to the Company or any other person with respect to the accuracy of such accounting and all acts and failures to act of Trustee reflected in such account, except to the extent that the Company shall, within such 90-day period, file with Trustee specific written objections to the account. Neither the Company, nor any participant or beneficiary under the Plans or any other person shall be entitled to any additional or different accounting by Trustee and Trustee shall not be compelled to file in any court any additional or different accounting. For purposes of regulations promulgated by the FDIC, Trustee's account statements shall be sufficient information concerning securities transactions effected for the Trust, provided that the Company, upon written request, shall have the right to receive at no additional cost written confirmations of such securities transactions, which shall be mailed or otherwise furnished by the Trustee within the timeframe required by applicable regulations.

(j) Trustee shall have no duty or responsibility not expressly set forth in this Trust Agreement. By way of example, but without limiting the matters subject to the foregoing sentence, Trustee shall have no responsibility with respect to the administration or interpretation of the Plan, payment of Plan benefits other than from the assets of the Trust, the calculation of tax to be withheld, reported and/or paid to taxing authorities and (if applicable pursuant to the fee schedule) withholding, remitting, or reporting to taxing authorities of taxes other than from payments made with Trust assets to Plan participants and other than as directed by the Company, or maintaining participant records with respect to the Plan.

Section 9. Compensation and Expenses of Trustee.

(a) The Company shall pay all reasonable administrative and Trustee's fees and expenses, as the parties may agree, on a monthly basis. If not so paid, the Trustee shall be entitled to deduct such fees and expenses from the Trust.

(b) The Company shall indemnify and hold Trustee harmless from and against any and all losses, costs, damages and expenses (including reasonable attorney's fees and disbursements) of any kind or nature (collectively, "Losses") imposed on or incurred by Trustee by reason of its service pursuant to this Trust Agreement, including any Losses arising out of any threatened, pending or completed claim, action, suit or proceeding, except to the extent such Losses are caused by the gross negligence, willful misconduct or bad faith of Trustee. To the extent not paid by the Company, Trustee shall be entitled to deduct such amounts from the Trust.

(c) The provisions of this Section 9 shall survive termination of this Trust Agreement.

Section 10. Resignation and Removal of Trustee.

(a) Trustee may resign at any time by written notice to the Company, which shall be effective ninety (90) days after receipt of such notice unless the Company and Trustee agree otherwise.

(b) Trustee may be removed by the Company on thirty (30) days' notice or upon shorter notice accepted by Trustee. Upon a Change in Control, and for three years following such Change in Control, the Company may remove Trustee with the consent of the majority of Plan participants, whether or not employed by the Company, and if a participant is dead, his or her beneficiary(ies) (who collectively shall have one vote among them and shall vote in place of such deceased participant).

(c) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. To the extent possible, the transfer shall be completed within thirty (30) days after receipt of notice of resignation, removal or transfer, unless the Company extends the time limit.

(d) If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of resignation or removal under paragraphs (a) or (b) of this section. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Section 11. Appointment of Successor.

(a) If Trustee resigns or is removed in accordance with Section 10(a) or (b) hereof, the Company may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the

former Trustee, including ownership rights in the Trust assets. Notwithstanding the foregoing, if Trustee's resignation or removal occurs within three years following a Change in Control, the appointment of a successor will be effective no earlier than the date the Company receives written consent of a majority of Plan participants whether or not employed by the Company, and if a participant is dead, his or her beneficiary (ies) (who collectively shall have one vote among them and shall vote in place of such deceased participant). The former Trustee shall execute any instrument necessary or reasonably requested by the Company or the successor Trustee to evidence the transfer.

(b) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 7 and 8 hereof. The successor Trustee shall not be responsible for and the Company shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

Section 12. Amendment or Termination.

(a) This Trust Agreement may be amended by a written instrument executed by Trustee and the Company only if such amendment does not have an adverse effect upon the participants and their rights hereunder or if the amendment is approved in writing by 90 percent of all participants. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plans or shall make the Trust revocable.

(b) The Trust shall not terminate until the date on which Plan participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plans. Upon termination of the Trust any assets remaining in the Trust shall be returned to the Company.

(c) Upon written approval of participants or beneficiaries entitled to payment of benefits pursuant to the terms of the Plans, the Company may terminate this Trust prior to the time all benefit payments under the Plans have been made. All assets in the Trust at termination shall be returned to the Company.

Section 13. Miscellaneous.

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to Plan participants and their beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

(d) Trustee represents that it qualifies for FDIC prorata worth pass-through insurance coverage in accordance with the standards set forth in applicable federal law and FDIC insurance regulations. If Trustee fails at any time in the future to so qualify for prorata worth pass-through insurance coverage, it will promptly notify the Company.

(e) In no event will Trustee have any obligation to provide, and in no event will Trustee provide, any legal, tax, accounting, audit or other advice to the Company with respect to the Plans or this Trust. the Company acknowledges that it will rely exclusively on the advice of its accountants and/or attorneys with respect to all legal, tax, accounting, audit and other advice required or desired by the Company with respect to the Plans or this Trust. the Company acknowledges that Trustee has not made any representations of any kind, and will not make any representations of any kind, concerning the legal, tax, accounting, audit or other treatment of the Plans or this Trust.

(f) The Company acknowledges that Trustee is not an advisor concerning or a promoter with respect to the Plans or this Trust, but merely is a service provider offering the Trust services expressly set forth in this Agreement. In particular, the Company acknowledges that Trustee is not a joint venture or partner with the Company's accountants, auditors, consultants or with any other party, with respect to the Plans or this Trust, and that Trustee and the Company's accountants, auditors and consultants at all times remain independent parties dealing at arm's length, and independently, with each other and with the Company.

(g) Company represents and warrants that the Plans and the administration thereof and the establishment of this Trust comply in all material respects with applicable law and shall continue to be in material compliance therewith.

(h) Trustee shall have no liability for any losses arising out of delays in performing the services which it renders under this Trust Agreement which result from events beyond its control, including without limitation, interruption of the business of Trustee due to acts of God, acts of governmental authority, acts of war, riots, civil commotions, insurrections, labor difficulties (including, but not limited to, strikes and other work slippages due to slow-downs), or any action of any courier or utility, mechanical or other malfunction, or electronic interruption.

(i) For purposes of this Trust, Change in Control shall have the meaning given under any of the Plans.

(j) The Board of Directors of the Company as constituted immediately prior to the consummation of a Change in Control and the Chief Executive Officer of the Company shall have the duty to inform Trustee in writing of the occurrence of a Change in Control. Trustee may rely exclusively on this writing and shall have no duty to inquire whether a Change in Control has taken place or to make any determination as to whether a Change in Control has occurred.

Section 14. Company Shares Provisions.

(a) Applicability : As long as Company Shares (as defined below) are held in the Trust, the provisions of this Section 14 shall apply to such investment.

(b) Definition : As used in this Trust agreement "Company Shares" shall mean Common Shares (\$.50 per value) of the Company, together with any other rights, warrants, options, shares or other securities, whether of the Company, any successor thereto or any other issuer, that are from time to time issued as a dividend or distribution on or in respect of such Common Shares,

or for or into which any of such Common Shares or such other securities may be exchanged, changed or converted, by operation of law or otherwise.

(c) Retention, No Duty to Diversify : The Trustee is specifically authorized to retain any Company Shares deposited with the Trustee or acquired by the Trustee, and notwithstanding anything otherwise contained in this Trust Agreement or with respect to any duty implied by law or otherwise, the Trustee has no duty to diversify the Trust Fund.

(d) Voting : With respect to Company Shares held in the Trust, Trustee shall have the responsibility to vote proxies, respond to tender offers or take other similar action only to the extent timely directed to do so by a duly appointed Investment Manager.

(e) Dividends : Dividends shall be invested pursuant to the provisions of this Trust Agreement for the investment of otherwise uninvested cash.

(f) Valuation : Trustee shall periodically determine the market value of the assets of the Trust Fund or, in the absence of readily ascertainable market values, at such values as Trustee shall determine in accordance with methods consistently followed and uniformly applied. With respect to assets without readily ascertainable market values, Trustee may rely for all purposes of this Trust Agreement on the latest valuation and transaction information submitted to it by the person responsible for the investment. The Company shall cause such person to provide the Trustee with all information needed by the Trustee to discharge its obligations to value such assets and to account under this Trust Agreement. In the event that any Company Shares held by the Trust are not registered with the Securities and Exchange Commission ("SEC") and publicly traded, or if not actively traded, the Company shall engage the services of a reputable, independent third party to perform valuations (the "Valuation Firm") not less frequently than annually, and the Trustee may rely for all purposes of this Trust Agreement on the latest annual valuation provided by the Valuation Firm. The Company represents and warrants to the Trustee that all information provided to such party performing valuations by or on behalf of the Company shall be complete, true and accurate in all material respects and sufficient to enable the Valuation Firm to perform its valuation services and Trustee to provide an accurate account under Section 7.

(g) Sales/Distributions/Compliance with Rule 144/etc. : The provisions of this Section 14 shall control all matters concerning the acquisition, disposition and holding of Company Shares. The Company hereby represents, warrants and covenants that the Company is and shall be the sole legal and beneficial owner of all Company Shares that are transferred to or acquired by the Trustee from time to time, and the Company has and shall have all requisite power and authority to issue, transfer and deliver any such Company Shares to the Trustee. All Company Shares delivered to the Trustee shall be validly issued, fully paid and non-assessable and free and clear of any liens, security interests or other interests by any other person or entity other than Trustee, the Company and the creditors of the Company as provided pursuant to the terms of this Trust Agreement. The Company hereby represents, warrants and covenants that: (i) the Company shall at all times comply in all material respects with all applicable laws, regulations, restrictions and reporting requirements relating to or affecting Company Shares from time to time, including, without limitation, federal and state securities laws, and the rules of any applicable exchange; and (ii) each sale or distribution of the Trust Fund's Company Shares shall be directed by the Company in accordance with all applicable federal and state securities laws, including without

limitation, Rule 144 of the 1933 Act for sales by affiliates of the issuer (“Rule 144”) or any successor SEC rule, and the rules of any applicable exchange. The Company shall cause its counsel to prepare a Notice of Proposed Sale of Securities Pursuant to Rule 144 as specified in Rule 144 (“Form 144”) on behalf of the Trust and submit the Form 144 to the Trustee for review not less than 5 days prior to the initial sale of Company Shares that the Company plans to direct or as otherwise provided for by Section 14(g) of this Trust Agreement (and not less than 3 days prior to any subsequent sale of Company Shares requiring a new or amended Form 144). The Company and its counsel shall be solely responsible for identifying and communicating to the Trustee in writing: (i) any other sales of Company Shares that must be aggregated with the sales or distributions by the Trust Fund, (ii) all applicable “black out” periods, if any, (iii) the applicable holding periods, if any, for Company Shares held by the Trustee, and (iv) information regarding the appropriate tax reporting by the Trustee with respect to any sales or distributions of Company Shares (or the proceeds thereof) to any participant or beneficiary. As applicable, the Company may direct the brokers or dealers through which Company Shares is to be sold and the Trustee shall have no responsibility or liability with respect to any broker or dealer designated by the Company. If not so designated by the Company, the Trustee may select such brokers or dealers. The Trustee shall be responsible for signing and filing the agreed upon Form 144. The Company shall confirm to the Trustee if Company Shares are to be sold pursuant to Section 14(c) of this Trust Agreement, and as applicable the Company shall not direct any sale of Company Shares without confirming, that there is an accurate and effective Form 144 in place with respect to such sale. The Company further covenants and agrees to furnish or cause to be furnished to the Trustee, from time to time, such certifications, legal opinions and additional information as the Trustee may reasonably request in connection with Company Shares or any sale or distribution thereof.

(h) Regulatory Reports : In the event the number of Company Shares held by the Trust, if any, meets or exceeds any applicable reporting threshold for the Trust or the Trustee, the Company agrees to provide written notice to the Trustee that the Trust has reached or exceeds the reporting threshold; to prepare and file such reports unless the Trustee provides notice that it shall prepare and file such reports or unless the Trustee shall be required to prepare and file such reports due to the Company’s failure to timely do so; to timely provide copies of the same to the Trustee for its review prior to filing; and to reimburse the Trustee for its out-of-pocket costs and expenses associated with reviewing, preparing and/or filing any regulatory report required to be filed by the Trustee, such as, by way of example, Forms 3, 4, 5 or Form 13G filed with the SEC. To the extent not paid by the Company, such costs and expenses may be deducted by the Trustee from the Trust.

Section 15. Additional Definitions.

“Failure to Pay” shall mean that the circumstances described in either (i) or (ii) have occurred:

- (i) Any participant shall have notified the Company and the Recordkeeper in writing that the Company has failed to pay to the participant, when due, either directly or by direction to the Trustee in accordance with the terms hereof, at least 75% of any and all amounts which the participant was entitled to receive at any time in accordance with the terms of any of the Plans, the Payment Schedule or this Trust Agreement, and that such amount remains unpaid. Such notice must set forth the amount, if any, which was paid to the participant, and the amount which the participant believes he

or she was entitled to receive under the Plans, the Payment Schedule and this Trust Agreement; or

(ii) More than two Plan participants shall have notified the Company and the Recordkeeper in writing, either individually or jointly, that they have not been paid, when due, amounts to which they are entitled under the Plans, the Payment Schedule or this Trust Agreement, and that such amount remains unpaid. Each such notice must set forth the amount, if any, which was paid to the participant, and the amount which the participant believes he or she was entitled to receive under the Plans, the Payment Schedule and this Trust agreement. Within 15 days after receipt of each such notice, the Company or Fiduciary shall determine, on a preliminary basis, whether any failure to pay such participants has resulted in a failure to pay when due, directly or by direction, at least 75% of the aggregate amount due to all participants under the Plans, the Payment Schedule and this Trust Agreement in any two-year period, and that such amount remains unpaid. If the Company or the Fiduciary determines that such a failure has occurred, then it shall so notify the participants in writing within the same 15-day period. Within a period of 20 days after receipt of such notice from the Trustee, the Company shall have failed to prove by clear and convincing evidence, in the sole and absolute discretion of the Trustee, that such amount was paid or was not due and payable. The Company shall have the responsibility to notify the Trustee of the occurrence of a Failure to Pay. If the Trustee receives notification from the Recordkeeper or the Fiduciary of a Failure to Pay, it may rely upon such notification as if it were a notification from the Company until such time, if any, as the party delivering such notification shall revoke it.

“Termination and Change in Control” shall mean the termination of the employment by the Company of a participant for any reason whatsoever, either at the initiative of the Company or the participant, prior to a Change in Control if there is a subsequent Change in Control, or the termination of employment of a participant for any reason whatsoever, either at the initiative of the Company or the participant, during the three-year period following a Change in Control. The Company shall have the responsibility to notify the Trustee of the occurrence of a Termination and Change in Control. If the Trustee receives notification from the Recordkeeper or the Fiduciary of a Termination and Change in Control, it may rely upon such notification as if it were a notification from the Company until such time, if any, as the party delivering such notification shall revoke it.

Section 16. Effective Date.

The effective date of this Trust Agreement shall be the Effective Date set forth above.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company and the Trustee have caused this Trust Agreement to be executed and their corporate seals to be attested by their respective duly authorized officers, all as of the day and year first above written.

[Corporate Seal]

Attest: /s/ David M. O'Loughlin
Assistant Secretary

EATON CORPORATION

By: /s/ Kurt B. McMaken
Name: Kurt B. McMaken
Title: Senior Vice President
Corporate Development and Treasury

By: /s/ Thomas E. Moran
Name: Thomas E. Moran
Title: Senior Vice President and Secretary

Address: 1111 Superior Avenue,
Cleveland, OH 44114

Telephone: (216) 523-5000
Telecopier: (216) 523-4907

[Corporate Seal]

**WILMINGTON TRUST RETIREMENT AND
INSTITUTIONAL SERVICES COMPANY,
AS TRUSTEE**

Attest: _____
Assistant Secretary

By: _____
Name: _____
Vice President

Address: P.O. Box 52129
Phoenix, AZ 85072
Attn.: Vice President, Client Services

2800 North Central Avenue, Suite 900
Phoenix, AZ 85004

Telecopier: (602) 955-9564
Telephone: _____

APPENDIX A

LIST OF PLANS

Deferred Incentive Compensation Plan I (EIC)

Eaton Incentive Compensation Deferral Plan I (ESIP and SOMP)

Strategic Incentive and Option Plan (SIOP)

**CERTIFICATE OF AUTHORIZED SIGNERS
CORPORATE**

I, _____, _____, do hereby certify that with respect to the _____ (the "Trust"):

- 1) each of the undersigned have been duly appointed to their position by the Company or authorized officials of the Trust,
- 2) each of the undersigned individuals have the authority* to act on behalf of the Trust,
- 3) the Title and Signature next to his or her name is such person's Title and Signature, and
- 4) this Certificate supersedes all previous Incumbency Certificates on file with Wilmington Trust Retirement and Institutional Services Company with respect to the Trust.

NAME	TITLE	SIGNATURE
Kurt B. McMaken	Senior Vice President Corporate Development And Treasury	_____
Thomas E. Moran	Senior Vice President and Secretary	_____
David M. O'Loughlin	Assistant Secretary	_____

IN WITNESS WHEREOF, I have caused this certificate to be executed and the seal of the Company to be hereunder affixed as of the _____ day of _____, 20____.

(SEAL) _____ (Assistant) Secretary _____

* If one or more of the individuals have special or limited authority regarding the Trust, please provide such limitation or special information here or on a separate sheet of paper. Otherwise, all persons listed on this Certificate have the authority to direct any action under the Agreement with Wilmington Trust Retirement and Institutional Services Company. Unless otherwise indicated, only one signature is needed.

Eaton Corporation
2010 Annual Report on Form 10-K
Item 15(b)
Exhibit 12
Ratio of Earnings to Fixed Charges

(Millions of dollars)	Year ended December 31				
	2010	2009	2008	2007	2006
Income from continuing operations before income taxes and noncontrolling interests in consolidated subsidiaries	\$ 1,036	\$ 303	\$ 1,140	\$ 1,055	\$ 979
Adjustments					
(Income) losses of equity investees	(14)	(6)	(11)	(6)	1
Distributed income of equity investees	15	9	1	1	1
Interest expensed	162	170	192	193	139
Amortization of debt issue costs	4	5	2	1	1
Estimated portion of rent expense representing interest	57	59	58	44	41
Amortization of capitalized interest	10	13	13	12	12
Adjusted income from continuing operations before income taxes	<u>\$ 1,270</u>	<u>\$ 553</u>	<u>\$ 1,395</u>	<u>\$ 1,300</u>	<u>\$ 1,174</u>
Fixed charges					
Interest expensed	\$ 162	\$ 170	\$ 192	\$ 193	\$ 139
Interest capitalized	8	7	13	14	14
Amortization of debt issue costs	4	5	2	1	1
Estimated portion of rent expense representing interest	57	59	58	44	41
Total fixed charges	<u>\$ 231</u>	<u>\$ 241</u>	<u>\$ 265</u>	<u>\$ 252</u>	<u>\$ 195</u>
Ratio of earnings to fixed charges	5.50	2.29	5.26	5.16	6.02

Eaton Corporation
2010 Annual Report on Form 10-K
Item 15(b)
Exhibit 21
Subsidiaries of Eaton Corporation

Eaton is publicly held and has no parent corporation. Eaton's subsidiaries as of December 31, 2010 and the state or country in which each was organized are as follows:

<u>Consolidated subsidiaries (A)</u>	<u>Where Organized</u>
Durodyne Inc.	Arizona
EMC Engineers, Inc.	Colorado
EMC Engineers Solutions Inc.	Colorado
Aeroquip International Inc.	Delaware
Eaton Asia Investments Corporation	Delaware
Eaton Aerospace LLC	Delaware
Eaton Hydraulics LLC	Delaware
Eaton International Corporation	Delaware
EIC Holding I LLC	Delaware
EIC Holding II LLC	Delaware
EIC Holding III LLC	Delaware
EIC Holding GP I	Delaware
EIC Holding GP II	Delaware
Intelligent Switchgear Organization LLC	Delaware
Vickers International Inc.	Delaware
Wright Line Holding Inc.	Delaware
Wright Line LLC	Delaware
Eaton Ann Arbor LLC	Michigan
Eaton Inoac Company	Michigan
Moeller Electric Corporation	Oklahoma
Eaton Aeroquip LLC	Ohio
Eaton Holding International LLC	Ohio
Eaton Industrial Corporation	Ohio
Eaton Leasing Corporation	Ohio
Eaton Worldwide LLC	Ohio
EIC Holding GP III	Ohio
EIC Holding GP IV	Ohio
EIC Holding IV LLC	Ohio
EIC Holding V LLC	Ohio
EIC Holding VI LLC	Ohio
CopperLogic, Inc.	Texas
Eaton Power Quality S.A.	Argentina
Eaton S.A.	Argentina
Eaton Industries Pty. Ltd.	Australia
Eaton Holding G.m.b.H.	Austria
Eaton Beteligungen G.m.b.H.	Austria
Moeller Gebaudeautomation G.m.b.H.	Austria
Moeller Holding Austria G.m.b.H.	Austria
A-VIC Limited	Barbados
Aeroquip-Vickers Assurance Ltd.	Barbados
Eaton Holding Srl	Barbados
Eaton Holding II SRL	Barbados
Eaton Components N.V.	Belgium
Eaton Electric S.A.	Belgium
Eaton Filtration BVBA	Belgium
Moeller Electric BVBA	Belgium
Aeroquip-Vickers International Inc.	Bermuda
Cambridge International Insurance Company Ltd.	Bermuda
Eaton Services Limited	Bermuda
Saturn Insurance Company Ltd.	Bermuda
Aeroquip do Brasil Ltda.	Brazil
Eaton Ltda.	Brazil
Eaton Power Solutions Ltda.	Brazil
Moeller Electric Ltda.	Brazil
Moeller Industria de Electro-Electronicos do Amazonas Ltda.	Brazil

Consolidated subsidiaries (A)	Where Organized
Gain Source International Limited	British Virgin Islands
Phoenixtec International Corp.	British Virgin Islands
Senyuan International Investments Limited	British Virgin Islands
Teamachieve Investments Limited	British Virgin Islands
Winner Hydraulics Ltd.	British Virgin Islands
Moeller EOOD Electric Bulgaria	Bulgaria
Aeroquip-Vickers Canada, Inc.	Canada
Arrow Hose & Tubing Inc.	Canada
CopperLogic, Ltd.	Canada
Eaton ETN Offshore Company	Canada
Eaton ETN Offshore II Company	Canada
Eaton Power Quality Company	Canada
Eaton Yale Company	Canada
Moeller Canada Ltd.	Canada
Aeroquip Financial Ltd.	Cayman Islands
Cutler-Hammer Electrical Company	Cayman Islands
Cutler-Hammer Industries Ltd.	Cayman Islands
Eaton Holding I Limited	Cayman Islands
Eaton Holding II Limited	Cayman Islands
Eaton Holding III Limited	Cayman Islands
Georgetown Financial Services Ltd.	Cayman Islands
Green Holding Company	Cayman Islands
Senyuan International Holdings Limited	Cayman Islands
Eaton Industries (Chile) S.p.A.	Chile
Changzhou Eaton Senyuan Switch Co. Ltd.	China
Changzhou Touyan Electrical & Equipment Co., Ltd.	China
Chloride Phoenixtec Electronics (Shenzhen) Ltd.	China
Eaton (China) Investments Co., Ltd.	China
Eaton Electrical Ltd.	China
Eaton Electrical (Zhongshan) Co.,Ltd	China
Eaton Filtration (Shanghai) Co. Ltd.	China
Eaton Fluid Conveyance (Luzhou) Co. Ltd.	China
Eaton Fluid Power (Shanghai) Co. Ltd.	China
Eaton Hydraulics Systems (Jining) Co. Ltd.	China
Eaton Industries (Jining) Co., Ltd	China
Eaton Industries (Shanghai) Co. Ltd.	China
Eaton Industries (Wuxi) Co. Ltd.	China
Eaton Industrial Clutches and Brakes (Shanghai) Co., Ltd.	China
Eaton (Ningbo) Fluid Conveyance Co., Ltd.	China
Eaton Power Quality (Shanghai) Co., Ltd.	China
Eaton Senstar Automotive Fluid Connectors (Shanghai) Co. Ltd.	China
Hangzhou Eaton Power Quality Co., Ltd.	China
Lian Zheng Electronics (Shenzhen) Co. Ltd.	China
Moeller Electrical Equipment (Suzhou) Co. Ltd.	China
Moeller Electric Shanghai Co. Ltd.	China
Nanjing Xinyijia Electrical Ltd.	China
Phoenixtec Electronics (Shenzhen) Co. Ltd.	China
Santek Electronics (Shenzhen) Co. Ltd.	China
Shanghai Eaton Engine Components Company, Ltd.	China
UPE Electronics (Shenzen) Co. Ltd.	China
Zhenjiang Daqo Eaton Electrical Systems Company Limited	China
Eaton Electrical S.A.	Costa Rica
Eaton Electric S.r.o.	Czech Republic
Eaton Industries S.r.o.	Czech Republic
Moeller Elektrotechnika S.r.o.	Czech Republic
Eaton Electric ApS	Denmark
Cutler-Hammer, S. A.	Dominican Republic
Eaton Holec, OY	Finland
Eaton Power Quality Oy (Finland)	Finland
Eaton Aviation S.A.S.	France
Eaton Electric S.A.S.	France
Eaton Electric Sales S.A.S.	France
Eaton Filtration S.A.S.	France

Consolidated subsidiaries (A)	Where Organized
Eaton Power Solutions S.A.S.	France
Eaton S.A.S.	France
Eaton Technologies S.A.	France
Eaton Automation G.m.b.H.	Germany
Eaton Automotive G.m.b.H.	Germany
Eaton Filtration G.m.b.H.	Germany
Eaton Filtration Holdings G.m.b.H.	Germany
Eaton Filtration Service G.m.b.H.	Germany
Eaton Fluid Connectors G.m.b.H.	Germany
Eaton Fluid Power G.m.b.H.	Germany
Eaton Holding G.m.b.H.	Germany
Eaton Holding II G.m.b.H. and Co. KG	Germany
Eaton Holding Investments G.m.b.H. & Co. KG	Germany
Eaton Industries G.m.b.H.	Germany
Eaton Industries Holding G.m.b.H.	Germany
Eaton Moeller G.m.b.H. & Co. KG	Germany
Eaton Power Quality G.m.b.H.	Germany
Eaton Production International G.m.b.H.	Germany
Institute for International Product Safety G.m.b.H.	Germany
Integrated Hydraulics G.m.b.H.	Germany
Moeller Eaton Holding G.m.b.H.	Germany
Eaton Electric G.m.b.H.	Germany
Eaton Power Quality Limited	Hong Kong
Riseson International Limited	Hong Kong
Santek Electronics Company Limited	Hong Kong
Scoremax Limited	Hong Kong
Smartwish International Enterprise Limited	Hong Kong
Tai Ah Electrical Ltd.	Hong Kong
Team Billion Investment Limited	Hong Kong
Vickers Systems Limited	Hong Kong
Eaton Industries Kft	Hungary
Eaton Fluid Power Limited	India
Eaton Industrial Systems Private Limited	India
Eaton Industries Private Limited	India
Eaton Power Quality Private Limited	India
Eaton Technologies Private Limited	India
Moeller HPL India Private Ltd.	India
PT. Fluid Sciences Batam	Indonesia
TT (Ireland) Acquisition Limited	Ireland
Tractech Industries (Ireland) Limited	Ireland
Tractech (Ireland) Limited	Ireland
Eaton Electric S.r.l.	Italy
Eaton Fluid Power S.r.l.	Italy
Eaton S.r.l.	Italy
Eaton Filtration Ltd.	Japan
Eaton Fluid Power Ltd.	Japan
Eaton Japan Co., Ltd.	Japan
Moeller Electric Ltd.	Japan
SEH Engineering and Service Co. Ltd.	Japan
Moeller Electric SIA	Latvia
Eaton Holding S.a r.l.	Luxembourg
Eaton Holding II S.a.r.l.	Luxembourg
Eaton Holding III S.a.r.l.	Luxembourg
Eaton Holding IV S.a.r.l.	Luxembourg
Eaton Holding V S.a.r.l.	Luxembourg
Eaton Holding VI S.a.r.l.	Luxembourg
Eaton Holding VIII S.a.r.l.	Luxembourg
Eaton Holding X S.a.r.l.	Luxembourg
Eaton Holding XI S.a.r.l.	Luxembourg
Eaton Moeller S.a.r.l.	Luxembourg
Moeller Electric SA	Luxembourg
Eaton Industries Sdn. Bhd.	Malaysia
ETN Asia International Limited	Mauritius

Consolidated subsidiaries (A)	Where Organized
ETN Holding 3 Limited	Mauritius
Eaton Controls, S. de R.L. de C.V.	Mexico
Eaton Industries, S. de R.L. de C.V.	Mexico
Eaton Technologies, S. de R.L. de C.V.	Mexico
Eaton Trading Company, S. de R.L. de C.V.	Mexico
Eaton Truck Components, S. de R.L. de C.V.	Mexico
Eaton Electric S.a.r.l.	Morocco
Eaton B.V.	Netherlands
Eaton C.V.	Netherlands
Eaton Electric B.V.	Netherlands
Eaton Holding B.V.	Netherlands
Eaton Holding I B.V.	Netherlands
Eaton Holding II B.V.	Netherlands
Eaton Holding III B.V.	Netherlands
Eaton Holding IV B.V.	Netherlands
Eaton Holding V B.V.	Netherlands
Eaton Holding VI B.V.	Netherlands
Eaton Holding VII B.V.	Netherlands
Eaton Holding International II B.V.	Netherlands
Eaton Industries B.V.	Netherlands
Eaton International B.V.	Netherlands
Eaton Moeller B.V.	Netherlands
Moeller Electric B.V.	Netherlands
Eaton Finance N.V.	Netherlands
Eaton Industries Company	Antilles
Moeller Electric AS	New Zealand
Eaton Automotive Components Sp. z.o.o.	Norway
Eaton Automotive Spolka z o.o.	Poland
Eaton Automotive Systems Sp. z o.o.	Poland
Eaton Electric Sp. Z.o.o.	Poland
Eaton Electric Spolka z.o.o.	Poland
Eaton Truck Components Spolka z o.o.	Poland
Eaton Madeira SGPS Lda.	Portugal
Eaton Electro Prodictie SRL	Romania
Moeller Electric SRL	Romania
Eaton LLC	Russia
OOO Moeller Elektrik Produktion	Russia
Eaton LP	Scotland
Eaton II LP	Scotland
Eaton III LP	Scotland
Eaton IV LP	Scotland
Eaton Industries LP	Scotland
Moeller Electric d.o.o. Serbia	Serbia
Eaton Industries Pte. Ltd.	Singapore
Moeller Electric Pte. Ltd.	Singapore
Phoenixtec (Singapore) Co. Pte. Ltd.	Singapore
Eaton Electric Solutions s.r.o.	Slovak Republic
Eaton Electric s.r.o.	Slovak Republic
Eaton Filtration Co. Ltd.	South Africa
Eaton Hydraulics (Proprietary) Limited	South Africa
Eaton Truck Components (Proprietary) Limited	South Africa
Eaton Automotive Controls Limited	South Korea
Eaton Limited	South Korea
Aeroquip Iberica S.L.	Spain
Eaton Electric S.L.U.	Spain
Eaton Power Quality S.L.	Spain
Eaton S.L.	Spain
Productos Eaton Livia S.L.	Spain
Eaton Holec AB	Sweden
Eaton Power Quality AB	Sweden
Ultronics Nordic Sales AB	Sweden
Eaton Industries Manufacturing G.m.b.H.	Switzerland
Eaton Manufacturing G.m.b.H	Switzerland

Consolidated subsidiaries (A)	Where Organized
Micro Innovation Holding AG	Switzerland
Moeller Electric G.m.b.H.	Switzerland
Centralion Industrial Inc.	Taiwan
Eaton Phoenixtec MMPL Co.,Ltd.	Taiwan
Eaton Industries (Thailand) Ltd.	Thailand
Eaton Electric Company Ltd.	Thailand
Moeller Electric Ltd.	Thailand
Eaton Electric Ticaret Ltd. Sirket	Turkey
D.P. Eaton Electric	Ukraine
Aphel Limited	United Kingdom
Aphel Technologies Limited	United Kingdom
Eaton Aerospace Limited	United Kingdom
Eaton Electric Limited	United Kingdom
Eaton Filtration Limited	United Kingdom
Eaton Holding Limited	United Kingdom
Eaton Holding II Limited	United Kingdom
Eaton Industries Limited	United Kingdom
Eaton Limited	United Kingdom
Eaton Power Quality Limited	United Kingdom
Eaton Power Solutions Limited	United Kingdom
Integ Holdings Limited	United Kingdom
Integrated Hydraulics Limited	United Kingdom
Eaton Electric Sales Limited	United Kingdom
Moeller Holding Limited	United Kingdom
Ultronics Limited	United Kingdom
Eaton Electrical, S.A.	Venezuela

(A) Other Eaton subsidiaries, many inactive, are not listed above. If considered in the aggregate, they would not be material.

Eaton Corporation
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Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements of Eaton Corporation and in the related Prospectuses of our reports dated February 25, 2011, with respect to the consolidated financial statements of Eaton Corporation, and the effectiveness of internal control over financial reporting of Eaton Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2010.

Registration Number	Description	Filing Date
333-166331	Eaton Personal Investment Plan — Form S-8 Registration Statement — 300,000 Shares	April 28, 2010
333-166330	Eaton Electrical De Puerto Rico Retirement Savings Plan — Form S-8 Registration Statement — 90,000 Shares	April 28, 2010
333-157597	Eaton Corporation — Shareholder Dividend Reinvestment and Direct Share Purchase Plan —1,000,000 Shares -Prospectus	August 20, 2009
333-161002	Eaton Corporation 2009 Stock Plan — Form S-8 Registration Statement — 9,600,000 Shares	August 4, 2009
333-158822	Eaton Electrical de Puerto Rico Retirement Savings Plan — 90,000 shares	April 27, 2009
333-158821	Eaton Incentive Compensation Deferral Plan II — Form S-8 Registration Statement — 250,000 Shares	April 27, 2009
333-158820	Eaton Savings Plan — Form S-8 Registration Statement — 10,000,000 Shares	April 27, 2009
333-158818	2005 Non-Employee Director Fee Deferral Plan — Form S-8 Registration Statement — 30,000 Shares	April 27, 2009
333-157597	Eaton Corporation — Form S-3 Automatic Shelf Registration Statement	February 27, 2009
333-152763	Eaton Corporation 2008 Stock Plan — Form S-8 Registration Statement — 2,700,000 Shares	August 5, 2008
333-150637	Eaton Personal Investment Plan — 375,000 shares	May 5, 2008
333-136291	Eaton Corporation — Shareholder Dividend Reinvestment and Direct Share Purchase Plan —1,000,000 Shares -Prospectus	August 4, 2006
333-124129	Eaton Corporation Incentive Compensation Deferral Plan II — Form S-8 Registration Statement — 400,000 Shares	April 18, 2005
333-124128	Eaton Corporation Deferred Incentive Compensation Plan II — Form S-8 Registration Statement — 750,000 Shares	April 18, 2005
333-124127	2005 Non-Employee Director Fee Deferral Plan — Form S-8 Registration Statement — 30,000 Shares	April 18, 2005
333-116970	Eaton Corporation 2004 Stock Plan — Form S-8 Registration Statement — 7,000,000 Shares	June 29, 2004
333-104366	1996 Non-Employee Director Fee Deferral Plan — Form S-8 Registration Statement — 30,000 Shares	April 8, 2003

<u>Registration Number</u>	<u>Description</u>	<u>Filing Date</u>
333-97371	Eaton Corporation 2002 Stock Plan — Form S-8 Registration Statement	July 30, 2002
333-86389	Eaton Corporation Executive Strategic Incentive Plan — Form S-8 Registration Statement	September 2, 1999
333-62373	Eaton Holding Limited U.K. Savings — Related Share Option Scheme [1998] — Form S-8 Registration Statement	August 27, 1998

/s/ Ernst & Young LLP

Cleveland, Ohio

February 25, 2011

Eaton Corporation
2010 Annual Report on Form 10-K
Item 15(b)
Exhibit 24
Power of Attorney

KNOW ALL MEN BY THESE PRESENTS: That each person whose name is signed below has made, constituted and appointed, and by this instrument does make, constitute and appoint, Richard H. Fearon, Billie K. Rawot or William J. Nowak his or her true and lawful attorney, for him or her and in his or her name, place and stead to subscribe, as attorney-in-fact, his or her signature as Director or Officer or both, as the case may be, of Eaton Corporation, an Ohio corporation, to its Annual Report on Form 10-K for the year ended December 31, 2010 pursuant to the Securities Exchange Act of 1934, and to any and all amendments to that Annual Report, hereby giving and granting unto each such attorney-in-fact full power and authority to do and perform every act and thing whatsoever necessary to be done in the premises, as fully as he or she might or could do if personally present, hereby ratifying and confirming all that each such attorney-in-fact shall lawfully do or cause to be done by virtue hereof.

This Power of Attorney shall not apply to any Annual Report on Form 10-K or amendment thereto filed after December 31, 2011.

IN WITNESS WHEREOF, this Power of Attorney has been signed at Cleveland, Ohio this 26th day of January, 2011.

/s/ Alexander M. Cutler
Alexander M. Cutler, Chairman
and Chief Executive Officer;
President; Principal Executive
Officer; Director

/s/ Richard H. Fearon
Richard H. Fearon,
Vice Chairman and
Chief Financial and Planning Officer;
Principal Financial Officer

/s/ Billie K. Rawot
Billie K. Rawot,
Senior Vice President and Controller;
Principal Accounting Officer

/s/ Christopher M. Connor
Christopher M. Connor, Director

/s/ Michael J. Critelli
Michael J. Critelli, Director

/s/ Charles E. Golden
Charles E. Golden, Director

/s/ Ernie Green
Ernie Green, Director

/s/ Arthur E. Johnson
Arthur E. Johnson, Director

/s/ Ned C. Lautenbach
Ned C. Lautenbach, Director

/s/ Deborah L. McCoy
Deborah L. McCoy, Director

/s/ Gregory R. Page
Gregory R. Page, Director

/s/ Gary L. Tooker
Gary L. Tooker, Director

Eaton Corporation
2010 Annual Report on Form 10-K
Item 15(b)
Exhibit 31.1
Certification

I, Alexander M. Cutler, certify that:

1. I have reviewed this annual report on Form 10-K of Eaton Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2011

/s/ Alexander M. Cutler

Alexander M. Cutler
Chairman and Chief Executive Officer;
President

Eaton Corporation
2010 Annual Report on Form 10-K
Item 15(b)
Exhibit 31.2
Certification

I, Richard H. Fearon, certify that:

1. I have reviewed this annual report on Form 10-K of Eaton Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2011

/s/ Richard H. Fearon

Richard H. Fearon
Vice Chairman and Chief Financial
and Planning Officer

Eaton Corporation
2010 Annual Report on Form 10-K
Item 15(b)
Exhibit 32.1
Certification

This written statement is submitted in accordance with Section 906 of the Sarbanes-Oxley Act of 2002. It accompanies Eaton Corporation's Annual Report on Form 10-K for the year ended December 31, 2010 ("10-K Report").

I hereby certify that, based on my knowledge, the 10-K Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C 78m), and information contained in the 10-K Report fairly presents, in all material respects, the financial condition and results of operations of Eaton Corporation and its consolidated subsidiaries.

Date: February 25, 2011

/s/ Alexander M. Cutler

Alexander M. Cutler
Chairman and Chief Executive Officer;
President

Eaton Corporation
2010 Annual Report on Form 10-K
Item 15(b)
Exhibit 32.2
Certification

This written statement is submitted in accordance with Section 906 of the Sarbanes-Oxley Act of 2002. It accompanies Eaton Corporation's Annual Report on Form 10-K for the year ended December 31, 2010 ("10-K Report").

I hereby certify that, based on my knowledge, the 10-K Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C 78m), and information contained in the 10-K Report fairly presents, in all material respects, the financial condition and results of operations of Eaton Corporation and its consolidated subsidiaries.

Date: February 25, 2011

/s/ Richard H. Fearon
Richard H. Fearon
Vice Chairman and Chief Financial
and Planning Officer