EATON CORP
Form PRE 14A
February 25, 2011

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SCHEDULE 14A
(Rule 14a)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

x Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

EATON CORPORATION
(Name of Registrant as Specified in its Charter)

XXXXXXXXXXXXXXXX
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies: – –

(2) Aggregate number of securities to which transaction applies: – –

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined): – –

(4) Proposed maximum aggregate value of transaction: – –

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid: – –

(2) Form, Schedule or Registration Statement No.: – –

(3) Filing Party: – –

(4) Date Filed: – –

(5) Definitive Proxy Statement will be filed on March 18, 2011.

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NOTICE OF MEETING

The 2011 annual meeting of Eaton Corporation shareholders will be held Wednesday, April 27, 2011, at 10:30 a.m. local time at Eaton Center, 1111 Superior Avenue, Cleveland, Ohio 44114, for the purpose of:

1. Electing the four director nominees named in the proxy statement;

2. Approving amendments to the Amended Regulations to provide for the annual election of all directors;

3. Approving amendments to the Amended and Restated Articles of Incorporation and the Amended Regulations to eliminate cumulative voting for directors;

4. Ratifying the appointment of Ernst & Young LLP as independent auditor for 2011;

5. Approving, by non-binding vote, executive compensation;

6. Recommending, by non-binding vote, the frequency of executive compensation votes; and

7. Other business properly brought before the meeting.

These matters are more fully described in the following pages.

The record date for the meeting has been fixed by the Board of Directors as the close of business on February 28, 2011. Shareholders of record at that time are entitled to vote at the meeting.

By order of the Board of Directors

Thomas E. Moran
Senior Vice President and Secretary

March 18, 2011

Your Vote Is Important

You may vote your shares by using a toll-free telephone number or electronically on the Internet, as described on the proxy form. We encourage you to file your proxy using either of these options if they are available to you. Alternatively, you may mark, sign, date and mail your proxy form in the postage-paid envelope provided. The method by which you vote will not limit your right to vote in person at the annual meeting. Because of a change in New York Stock Exchange rules, if you do not vote your shares with respect to the election of directors, your broker will *NOT* be able to vote them for you, unless you have provided directions to your broker before the date of the shareholder meeting. If you have not provided directions to your broker, your shares will remain unvoted. We strongly encourage you to vote.

Eaton Shareholders can now sign up for electronic delivery of the Proxy Statement and Annual Report to Shareholders, as well as online proxy voting. Use this link to register for online delivery of your future proxy materials: http://enroll.icsdelivery.com/etn

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on April 27, 2011: This proxy statement and the Company s 2010 Annual Report to Shareholders are available on Eaton s website at www.eaton.com/proxy and www.eaton.com/annualreport, respectively.

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PROXY STATEMENT

Eaton Corporation
1111 Superior Avenue
Cleveland, Ohio 44114-2584
216-523-5000

This proxy statement, the accompanying proxy form and Eaton s annual report for the year ended December 31, 2010 are scheduled to be sent to shareholders on or about March 18, 2011.

Proxy Solicitation

Eaton s Board of Directors solicits your proxy, in the form enclosed, for use at the 2011 annual meeting of shareholders and any adjournments thereof. The individuals named in the enclosed form of proxy have advised the Board of their intention to vote at the meeting in compliance with instructions on all forms of proxy tendered by shareholders and, where no contrary instruction is indicated on the proxy form, for the election of the individuals nominated to serve as directors, for Proposals 2, 3 and 5 in this proxy statement, and for ratification of the appointment of Ernst & Young LLP as independent auditor for 2011.

Any shareholder giving a proxy may revoke it by giving Eaton notice in writing or by fax, email or other verifiable communication before the meeting or by revoking it at the meeting. All properly executed or transmitted proxies not revoked will be voted at the meeting.

In addition to soliciting proxies through the mail, certain persons may solicit proxies in person or by telephone or fax. Eaton has retained The Proxy Advisory Group, LLC, 18 East 41st Street, Suite 2000, New York, New York 10017, to assist in the solicitation of proxies, primarily from brokers, banks and other nominees, for a fee of $12,500, plus reasonable out-of-pocket expenses. Brokerage firms, nominees, custodians and fiduciaries may be asked to forward proxy soliciting material to the beneficial shareholders. All reasonable soliciting costs will be borne by Eaton.

Voting at the Meeting

Each Eaton shareholder of record at the close of business on February 28, 2011 is entitled to one vote for each share then held. On February 28, Eaton common shares (par value, 50¢ each) were outstanding and entitled to vote.

At the 2011 annual meeting, the inspector of election appointed by the Board of Directors for the meeting will determine the presence of a quorum and tabulate the results of shareholder voting. As provided by Ohio law and Eaton s Amended Regulations, Eaton shareholders present in person or by proxy at the meeting will constitute a quorum. The inspector of election intends to treat as present for these purposes shareholders who have submitted properly executed or transmitted proxies that are marked abstain. The inspector will also treat as present shares held in street name by brokers that are voted on at least one proposal to come before the meeting.

Director nominees receiving more for votes than against votes will be elected directors. Abstentions have no effect in determining whether the required affirmative majority votes have been obtained. Adoption of all other proposals to come before the meeting, other than Proposal 6 in this proxy statement, will require the affirmative vote of the holders of a majority of the outstanding Eaton common shares, consistent with the general vote requirement in Eaton s Amended Articles of Incorporation. The practical effect of this vote requirement will be that abstentions and shares held in street name by brokers that are not voted in respect of those proposals will be treated the same as votes cast against those proposals. Proposal 6, on the frequency of future advisory votes on executive compensation, will be determined by a plurality vote.

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As provided by Ohio law and our Amended Regulations, each shareholder is entitled to cumulative voting rights in the election of directors if any shareholder gives written notice to the President, a Vice President or the Secretary of Eaton at least 48 hours before the time fixed for the meeting, requesting cumulative voting, and if an announcement of that notice is made at the beginning of the meeting by the Chairman or Secretary, or by or on behalf of the shareholder who gave the notice. If cumulative voting is in effect with respect to the election of directors, each shareholder has the right to cumulate his or her voting power by giving one nominee that number of votes which equals the number of directors to be elected multiplied by the number of the shareholder s shares, or by distributing his or her votes on the same principle among two or more nominees, as the shareholder sees fit. If cumulative voting is in effect with respect to the election of directors, and if the shareholder has not given contrary voting instructions, the individuals named in the proxy will vote the shares cumulatively for those nominees that they may determine in their discretion. Please note that we are proposing that our Amended and Restated Articles of Incorporation and Amended Regulations be modified to eliminate cumulative voting.

Majority Voting in Director Elections

Under Eaton s Amended Articles of Incorporation, an affirmative majority of the total number of votes cast is required with respect to the election of a director nominee in uncontested elections. Abstentions have no effect in determining whether the required affirmative majority votes have been obtained. For contested elections, plurality voting, under which nominees receiving the greatest number of votes are elected, applies.

The Board of Directors has adopted a policy requiring holdover directors to submit a written offer to resign from the Board promptly after the voting results are certified. A holdover director is one who fails to receive an affirmative majority of votes cast in an election, and his or her successor has not yet been elected and qualified. With advice from the Governance Committee, the Board will decide, within 90 days after the voting results are certified, whether to accept the resignation offer, and we will promptly disclose the Board s decision in a press release. If the Board decides to reject the resignation offer, the press release will indicate the reasons for that decision.

1. ELECTION OF DIRECTORS

Our Board of Directors is presently composed of eleven members. The terms of three directors will expire in April 2011 and those directors have been nominated for re-election. Two of those nominees were elected at the 2008 annual meeting and one was elected at the 2010 annual meeting. Ernie Green, a director since 1995, having attained normal retirement age, will resign as a director at the conclusion of the 2011 annual shareholders meeting on April 27. George S. Barrett, who was recommended to the Governance Committee by its third-party executive search firm, and is known to several Eaton directors, has been nominated by the Board to fill this vacancy. Following the annual meeting, the Board of Directors will consist of eleven members.

If any of the nominees become unable or decline to serve, the individuals named as proxies in the enclosed proxy form will have the authority to vote for any substitutes who may be nominated. However, we have no reason to believe that this will occur.

Biographical information for each nominee and the other directors, as well as information on their experience, qualifications and skills that support their service as a director of the Company, is set forth below.

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Nominees for election to terms ending in April 2014 or when a successor is elected and has qualified:

George S. Barrett, 55, is Chairman and Chief Executive Officer of Cardinal Health, a health care services company dedicated to improving the cost effectiveness of health care. Mr. Barrett served as Vice Chairman of Cardinal Health and Chief Executive Officer Healthcare Supply Chain Services from January 2008 to August 2009, when he assumed his current position. Prior to joining Cardinal Health, Mr. Barrett held a number of executive positions with Teva Pharmaceuticals Industries, Inc., a pharmaceutical company, including President and Chief Executive Officer of Teva North America, Corporate Executive Vice President Global Pharmaceutical Markets and a member of the Office of the Chief Executive Officer, and President of Teva Pharmaceuticals USA, from 1999 to 2007. Mr. Barrett serves on the board of directors of Nationwide Children s Hospital and the President s Leadership Council of Brown University. He also serves on the board of trustees of the Healthcare Leadership Council and The Conference Board, and is a member of the Business Roundtable and Ohio Business Roundtable.

Director Qualifications: Mr. Barrett has extensive experience in areas of importance to Eaton, such as manufacturing, regulatory compliance, finance, strategic planning and supply chain management. His service as chairman and chief executive officer of a publicly-traded company, and his work with The Business Council and the Business Roundtable, have given him a deep understanding of corporate governance matters that will benefit our Board and its committees. His prior work as a senior leader of a global corporation will benefit our Board and senior management as the Company pursues business opportunities around the world.
Nominee

Todd M. Bluedorn, 47, is Chief Executive Officer and a director of Lennox International Inc., a global provider of climate control solutions for heating, air conditioning and refrigeration markets. Prior to Lennox International, Mr. Bluedorn served in numerous senior management positions for United Technologies since 1995, including President, Americas Otis Elevator Company; President, North America Commercial Heating, Ventilation and Air Conditioning for Carrier Corporation; and President, Hamilton Sundstrand Industrial.

Director Qualifications: Mr. Bluedorn has deep experience in original equipment and aftermarket business and distributor/dealer-based commercial channels. He also has senior leadership experience with two major U.S. corporations. All of these attributes are of great benefit to Eaton as a global manufacturing company with product distribution through numerous commercial channels.
Director since 2010

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Ned C. Lautenbach, 67, is a retired Partner of Clayton, Dubilier & Rice, Inc., a private equity investment firm specializing in management buyouts. Before joining the firm in 1998, Mr. Lautenbach was associated with IBM from 1968 until his retirement in 1998. While at IBM, he held a number of executive positions including a member of the IBM Corporate Executive Committee. He was also Senior Vice President and Group Executive of Worldwide Sales and Services. Mr. Lautenbach is currently chairman of the Independent Trustees of the Equity and High Income Funds of Fidelity Investments. He is also a member of the Board of Directors of the Philharmonic Center for the Arts in Naples, Florida and the Board of Trustees of Fairfield University, as well as a member of the Council on Foreign Relations. In the past five years, Mr. Lautenbach served as a director of Sony Corporation.

Director Qualifications: Mr. Lautenbach has attained extensive experience in executive and operational roles during his career. He has expertise in general management, corporate finance, sales and marketing, and corporate restructurings. All of these attributes are valuable to the Eaton Board of Directors in its role with management oversight. In addition, his role as chairman of independent trustees of prominent investment funds provides him with a unique perspective on governance issues of concern to shareholders. His expertise enables him to serve with distinction as Eaton s Lead Director and Chair of the Governance Committee.
Director since 1997

Gregory R. Page, 59, is Chairman and Chief Executive Officer of Cargill, Incorporated, an international marketer, processor and distributor of agricultural, food, financial and industrial products and services. He was named Corporate Vice President & Sector President, Financial Markets and Red Meat Group of Cargill in 1998, Corporate Executive Vice President, Financial Markets and Red Meat Group in 1999, President and Chief Operating Officer in 2000 and became Chairman and Chief Executive Officer in 2007. Mr. Page is a director of Cargill, Incorporated and Carlson Companies and non-executive Chair of the Board of Big Brothers Big Sisters of America.

Director Qualifications: As Chairman and Chief Executive Officer of one of the largest global corporations, Mr. Page brings extensive leadership and global business experience, in-depth knowledge of commodity markets, and a thorough familiarity with all the major operating processes of a major corporation, including talent development and succession management. Mr. Page s experience and expertise provide him valuable insight on financial, operational and strategic matters reviewed by our Board.**Director since 2003**

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Directors whose present terms continue until April 2012:

Alexander M. Cutler, 59, is Chairman, Chief Executive Officer and President of Eaton Corporation. Mr. Cutler joined Cutler-Hammer, Inc. in 1975, which was subsequently acquired by Eaton, and became President of Eaton s Industrial Group in 1986 and President of the Controls Group in 1989. He advanced to Executive Vice President Operations in 1991, was elected Executive Vice President and Chief Operating Officer Controls in 1993, President and Chief Operating Officer in 1995, and assumed his present position in 2000. Mr. Cutler is a director of E. I. du Pont de Nemours and Company and KeyCorp. He is also a member of the Business Council and the Business Roundtable where he chairs the Leadership Initiative responsible for corporate governance and disaster relief.

Director Qualifications: Mr. Cutler s long tenure with Eaton and his experience in a wide range of management roles provides him important perspective on the Company to the benefit of the Board of Directors. Mr. Cutler has a detailed knowledge of Eaton s businesses, customers, end markets, sales and marketing, technology innovation and new product development, supply chains, manufacturing operations, talent development, policies and internal functions. He possesses significant corporate governance knowledge developed by current and past service on the boards of other publicly-traded companies, as well as by serving as Chair of the Business Roundtable s Corporate Leadership Initiative.
Director since 1993

Arthur E. Johnson, 64, is the retired Senior Vice President, Corporate Strategic Development of Lockheed Martin Corporation, a manufacturer of advanced technology systems, products and services. Mr. Johnson was elected a Vice President of Lockheed Martin Corporation and named President of Lockheed Martin Federal Systems in 1996. He was named President and Chief Operating Officer of Lockheed Martin s Information and Services Sector in 1997 and Senior Vice President, Corporate Strategic Development in 1999. In the past five years, Mr. Johnson was a director of IKON Office Solutions, Inc. and Delta Air Lines, Inc. He is currently lead director of AGL Resources, Inc. and an independent trustee of Fidelity Investments.

Director Qualifications: Mr. Johnson s role in strategic development with a leading company in the defense industry has given him an understanding of doing business with the U.S. Government and of strategic planning, regulatory, legislative and public policy matters, all of which are valuable to Eaton. His knowledge of the global aerospace and defense industry are of particular benefit to our Board as it considers strategic alternatives. His service as lead director of a New York Stock Exchange listed company, as well as his service on other boards, provides Eaton with valuable corporate governance expertise.
Director since 2009

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Deborah L. McCoy, 56, is an independent aviation safety consultant. She retired from Continental Airlines, Inc. in 2005, where she had served as Senior Vice President, Flight Operations since 1999. During part of 2005, Ms. McCoy also briefly served as the Chief Executive Officer of DJ Air Group, a start-up commercial airline company.

Director Qualifications: Ms. McCoy has extensive experience in the commercial aerospace markets, and brings an understanding of aircraft design and performance, airline operations and the strategic issues and direction of the aerospace industry. In addition, Ms. McCoy has had extensive experience in safety initiatives, Federal regulatory compliance, labor relations and talent management. All of these attributes are of benefit to Eaton s Board as it oversees the Company s positioning in the aerospace industry. Ms. McCoy s extensive experience with labor relations, talent development, compensation and management are of particular benefit to Eaton in her role as Chair of the Compensation and Organization Committee.
Director since 2000

Gary L. Tooker, 71, is an independent consultant and former Chairman of the Board, Chief Executive Officer and director of Motorola, Inc., a manufacturer of electronics equipment. Mr. Tooker became Motorola s President in 1990, Vice Chairman and Chief Executive Officer in 1993 and Chairman in 1997. He retired from Motorola in 1999. Mr. Tooker is a director of Avnet, Inc.

Director Qualifications: Mr. Tooker has extensive general management experience in emerging as well as developed global markets, government relations, and advanced product development. As the former Chairman and CEO of a global corporation, Mr. Tooker has extensive leadership experience, knowledge of corporate management processes, and strategic planning involving growth in developing countries. His broad experience brings a strong base of knowledge to draw upon in the formulation of Eaton s strategic direction. Such experience also enabled him to develop corporate governance expertise of particular benefit to the Governance Committee.
Director since 1992

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Directors whose present terms continue until April 2013:

Christopher M. Connor, 54, is Chairman and Chief Executive Officer of The Sherwin-Williams Company, a global manufacturer of paint, architectural coatings, industrial finishes and associated supplies. Mr. Connor has held a number of executive positions at Sherwin-Williams since 1983. He became Chief Executive Officer in 1999 and Chairman and Chief Executive Officer in 2000. In the past five years, Mr. Connor was a director of National City Corporation and Diebold Incorporated. He currently serves on the boards of the Federal Reserve Bank of Cleveland, The Ohio State University Fisher College of Business, United Way, University Hospitals and The Rock and Roll Hall of Fame.

Director Qualifications: As CEO of a Fortune 500 company, Mr. Connor has leadership experience and is thoroughly knowledgeable in marketing, talent development, planning, operational and financial processes. In particular, Mr. Connor has had extensive sales and marketing experience in both direct and distribution channels, and brings extensive knowledge of construction, automotive and industrial markets, all areas of strategic importance to Eaton.
Director since 2006

Michael J. Critelli, 62, is the Chief Executive Officer and President of Dossia Services Corporation, a personal health records company. He has held that position since January, 2011. Mr. Critelli is the retired executive Chairman of Pitney Bowes Inc., a provider of global mailstream solutions. Mr. Critelli served as Pitney Bowes Chairman and Chief Executive Officer from 1997 to 2007 and as Executive Chairman from 2007 to 2008. Mr. Critelli was a director of Wyeth from April 2008 until its acquisition by Pfizer in late 2009. He currently serves as a director of Mollen Immunization Clinics.

Director Qualifications: Mr. Critelli has extensive experience in risk management, industry-wide leadership in mail transportation, logistics and communications issues, state-level leadership on transportation strategy and reform, and innovative approaches to health care, as well as broad business experience gained while leading a global Fortune 500 company. Mr. Critelli possesses a broad knowledge of human resources and succession planning, legal and environmental matters. These attributes and experiences are essential to our Board as it oversees management s efforts to develop and maintain a diverse workforce, assess and evaluate enterprise risk management and navigate the regulatory environment.
Director since 1998

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Charles E. Golden, 64, served as Executive Vice President and Chief Financial Officer and a director of Eli Lilly and Company, an international developer, manufacturer and seller of pharmaceutical products, from 1996 until his retirement in 2006. Prior to joining Eli Lilly, he had been associated with General Motors Corporation since 1970, where he held a number of positions, including Corporate Vice President, Chairman and Managing Director of the Vauxhall Motors subsidiary and Corporate Treasurer. In the past five years, Mr. Golden was a director of Hillenbrand Industries (predecessor of Hill-Rom Holdings). He is currently on the boards of Hill-Rom Holdings and Unilever NV/PLC. He also serves as a director of the Lilly Endowment.

Director Qualifications: Mr. Golden has a comprehensive knowledge of both U.S. and international financial accounting standards. He has extensive experience in financial statement preparation, accounting, corporate finance, risk management and investor relations both in the U.S. and Europe. His broad financial expertise enables him to provide expert guidance and oversight in his role as a member of the Finance Committee and as Chairman of the Audit Committee. Mr. Golden also has significant experience in global vehicle markets.
Director since 2007

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Director Nomination Process The Governance Committee of the Board, comprised entirely of directors who meet the independence standards of the Board of Directors and the New York Stock Exchange, is responsible for overseeing the process of nominating individuals to stand for election as directors. The Governance Committee charter is available on our website at http://www.eaton.com/governance.

Any director candidates recommended by our shareholders are given consideration by the Governance Committee, consistent with the process used for all candidates. Shareholders may submit recommendations in the manner described on this page under the heading Shareholder Recommendations of Director Candidates.

All potential director candidates are reviewed by the Governance Committee in consultation with the Chairman and Chief Executive Officer, typically with the assistance of a professional search firm retained by the Committee. During 2010, the search firm assisted the Committee with the identification and background checks on director candidates. The Committee decides whether to recommend one or more candidates to the Board of Directors for nomination. Candidates who are ultimately nominated by the Board stand for election by the shareholders at the annual meeting. Between annual meetings, nominees may also be elected by the Board itself.

Director Qualifications and Board Diversity In order to be recommended by the Governance Committee, a candidate must have the following minimum qualifications, as described in the Board of Directors Governance Policies: personal ability, integrity, intelligence, relevant business background, independence, expertise in areas of importance to our objectives, and a sensitivity to our corporate responsibilities. In addition, the Governance Committee looks for individuals with specific qualifications so that the Board as a whole has diversity in experience, international perspective, background, expertise, skills, age, gender and ethnicity. These specific qualifications may vary from one year to another, depending upon the composition of the Board at that time. The Governance Committee is responsible for ensuring that minimum director qualifications are met and Board diversity objectives are considered during its review of director candidates. The Governance Committee evaluates the extent to which these goals are satisfied annually as part of its assessment of the skills and experience of each of the current directors using a director skills matrix and a director evaluation process. The director evaluation process includes self evaluation, peer evaluation and input from the chairs of each of the Board committees. Upon completion of the skills matrix and the evaluation process, the Governance Committee identifies areas of director knowledge and experience that may benefit the Board and us in the future, and uses that information as part of the director search and nomination effort.

The Board of Directors Governance Policies are included in this proxy statement as Appendix B and are available on our website at http://www.eaton.com/governance.

Shareholder Recommendations of Director Candidates The Governance Committee will consider individuals for nomination to stand for election as directors who are recommended to it in writing by any Eaton shareholder. Any shareholder wishing to recommend an individual as a nominee for election at the annual meeting of shareholders to be held in 2012 should send a signed letter of recommendation to the following address: Eaton Corporation, 1111 Superior Avenue, Cleveland, Ohio 44114-2584, attention Corporate Secretary. Recommendation letters must be received no later than November 4, 2011, and must state the reasons for the recommendation and contain the full name and address of each proposed nominee as well as a brief biographical history setting forth past and present directorships, employments, occupations and civic activities. Any such recommendation should be accompanied by a written statement from the proposed nominee consenting to be nominated and, if nominated and elected, consenting to serve as a director.

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Director Independence The Board of Directors Governance Policies provide that all of our outside directors should be independent. These Policies are attached as Appendix B to this proxy statement and are available on our website at http://www.eaton.com/governance. The listing standards of the New York Stock Exchange state that no director can qualify as independent unless the Board of Directors affirmatively determines that the director has no material relationship with us. Additional, and more stringent, standards of independence are required of Audit Committee members. Our annual proxy statement discloses the Board s determination as to the independence of the Audit Committee members as well as its determination as to all outside directors.

As permitted by the New York Stock Exchange listing standards, the Board of Directors has determined that certain relationships between an outside director and us will be treated as categorically immaterial for purposes of determining a director s independence. These categorical standards are included in the Board of Directors independence criteria. The independence criteria for outside directors and members of the Audit Committee are available on our website at http://www.eaton.com/governance.

Since directors independence might be influenced by their use of Company aircraft and other Company-paid transportation, the Board has adopted a policy on this subject. This policy is available on our website at http://www.eaton.com/governance.

In their review of director independence, the Board of Directors and its Governance Committee have considered the following circumstances:

1. Directors T. M. Bluedorn, C. M. Connor, M. J. Critelli, A. E. Johnson and G. R. Page are officers, employees, partners or advisors with firms that have had purchases and/or sales of property or services with us within the past three years or have occupied such positions within that three-year period. In all cases, the amounts of the purchases and sales were substantially less than the Board s categorical standard for immateriality, that is, less than the greater of $1 million or 2% of the annual consolidated gross revenues of the director s firm. Mr. Bluedorn is CEO and a director of Lennox International Inc. which purchased approximately $21,000 worth of Eaton products during 2010. Mr. Connor is CEO and a director of The Sherwin-Williams Company, which purchased approximately $20,000 worth of Eaton products and sold approximately $190,000 worth of products to Eaton during 2010. Mr. Critelli is the retired Executive Chairman of Pitney Bowes Inc. which purchased approximately $12,000 worth of Eaton products and sold approximately $276,000 worth of products to Eaton during 2010. Mr. Johnson is the retired Senior Vice President, Corporate Strategic Development of Lockheed Martin Corporation, which purchased approximately $72,713,000 worth of Eaton products during 2010. Mr. Page is Chairman and CEO of Cargill Incorporated which purchased approximately $454,000 worth of Eaton products and sold approximately $8,000 worth of products to Eaton during 2010. George S. Barrett, the director nominee standing for election at the 2011 annual shareholders meeting, is the Chief Executive Officer of Cardinal Health. Cardinal Health purchased $197,000 worth of Eaton products during 2010.

2. A sister of Mr. Connor has been employed by us in a non-officer position since 2000, preceding Mr. Connor s election to the Board in 2006. Her aggregate cash compensation for 2010 was less than $220,000, and she received benefits and participated in programs provided to similarly situated Company employees. Her compensation is comparable to that of her peers.

3. The use of our aircraft and other Company-paid transportation by all outside directors is consistent with the Board policy on that subject.

After reviewing the circumstances described above (which are the only relevant circumstances known to the Board of Directors), the Board has affirmatively determined that none of our outside directors has a material relationship with us other than in their capacities as directors and that each of the following directors or director nominees qualifies as independent under the Board s independence criteria and the New York Stock Exchange standards: G. S. Barrett, T. M. Bluedorn, C. M. Connor, M. J. Critelli, C. E. Golden, E. Green, A. E. Johnson, N. C. Lautenbach, D. L. McCoy, G. R. Page and

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G. L. Tooker. All members of the Audit, Compensation and Organization, Finance and Governance Committees qualify as independent under the standards described above.

The Board has also affirmatively determined that each member of the Audit Committee, that is, M. J. Critelli, C. E. Golden, E. Green, A. E. Johnson and G. R. Page, meets the special standards of independence required of them under the criteria of the New York Stock Exchange, the Sarbanes-Oxley Act of 2002 and rules adopted thereunder by the Securities and Exchange Commission, and our Board of Directors.

Review of Related Person Transactions Our Board of Directors has adopted a written policy to identify and evaluate related person transactions, that is, transactions between us and any of our executive officers, directors, director nominees, 5%-plus security-holders or members of their immediate families, or organizations where they or their family members serve as officers or employees. The Board policy calls for the disinterested members of the Board s Governance Committee to conduct an annual review of all such transactions. At the Committee s direction, a survey is made annually of all transactions involving related persons, and the results are reviewed by the Committee in January of each year. As to any such transaction, the Committee is responsible to determine whether (i) it poses a significant risk of impairing, or appearing to impair, the judgment or objectivity of the individuals involved; (ii) it poses a significant risk of impairing, or appearing to impair, the independence of an outside director or director nominee; or (iii) its terms are less favorable to us than those generally available in the marketplace. Depending upon the Committee s assessment of these risks, the Committee will respond appropriately. In addition, as required by the rules of the Securities and Exchange Commission, any transactions that are determined to be material to us or a related person are disclosed in our proxy statement.

In January 2011, the Governance Committee conducted an annual survey and found that since the beginning of 2010 the only related person transactions were those described in paragraphs numbered 1 and 2 under the heading Director Independence beginning on page 12 and that none of our executive officers engaged in any such transactions. The Committee also concluded that none of the related person transactions posed risks to us in any of the areas described in items (i), (ii) or (iii) above.

Board Committees The Board of Directors has the following standing committees: Audit, Compensation and Organization, Executive, Finance and Governance.

Audit Committee. The functions of the Audit Committee include assisting the Board in overseeing the integrity of our financial statements and its systems of internal accounting and financial controls; the independence, qualifications and performance of our independent auditor; the performance of our internal auditors; and our compliance with legal and regulatory requirements. The Audit Committee exercises sole authority to appoint, compensate and terminate the independent auditor and pre-approves all auditing services and permitted non-audit services to be performed for us by the independent auditor. Among its other responsibilities, the Committee meets regularly with our independent auditor, Vice Chairman and Chief Financial and Planning Officer, Senior Vice President-Internal Audit, Executive Vice President and General Counsel, and Vice President-Global Ethics and Compliance in separate executive sessions; approves the Committee s report to be included in our annual proxy statement; assures that performance evaluations of the Audit Committee are conducted annually; and establishes procedures for the proper handling of complaints concerning accounting or auditing matters. Each Committee member meets the independence requirements, and all Committee members collectively meet the other requirements, of the New York Stock Exchange, the Sarbanes-Oxley Act of 2002 and the rules of the Securities and Exchange Commission. Further, Committee members are prohibited from serving on more than two other public company audit committees. The Board of Directors has determined that each member of the Audit Committee is financially literate, that C. E. Golden qualifies as an audit committee financial expert (as defined in Securities and Exchange Commission rules) and that all members of the Audit Committee have accounting or related financial management expertise. The Audit Committee held eight meetings in 2010. Present members are Messrs. Golden (Chair), Critelli, Green, Johnson and Page.

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Compensation and Organization Committee. The functions of the Compensation and Organization Committee include reviewing proposed organization or responsibility changes at the senior officer level; evaluating the performance of the Chief Executive Officer with input from all outside directors; reviewing the performance evaluations of the other senior officers; reviewing succession planning for key officer positions including the position of Chairman and Chief Executive Officer; and reviewing our practices for the recruitment and development of a diverse talent pool. The Committee is also responsible for annually determining the salary and short- and long-term incentive opportunities for each of our senior officers; establishing performance objectives under our short- and long-term incentive compensation plans and determining the attainment of such performance objectives; annually determining the aggregate amount of awards to be made under our short-term incentive compensation plans and adjusting those amounts as the Committee deems appropriate within the terms of those plans; annually determining the awards to be made to our senior officers under our short- and long-term incentive compensation plans; administering stock plans; reviewing compensation practices as they relate to key employees to confirm that those plans remain equitable and competitive; reviewing significant new employee benefit plans or significant changes in such plans or changes with a disproportionate effect on our officers or primarily benefiting key employees; and preparing an annual report for our proxy statement regarding executive compensation. Additional information on the Committee s processes and procedures is contained in the Compensation Discussion and Analysis portion of this proxy statement beginning on page 20. The Compensation and Organization Committee held seven meetings in 2010. Present members are Ms. McCoy (Chair) and Messrs. Bluedorn, Connor, Lautenbach and Tooker.

Executive Committee. The functions of the Executive Committee include all of the functions of the Board of Directors other than the filling of vacancies in the Board of Directors or in any of its committees. The Executive Committee acts upon matters requiring Board action during the intervals between Board meetings. The Executive Committee met once during 2010. Mr. Cutler is a member of the Committee for the full twelve-month term and serves as Committee Chair. Each of the non-employee directors serves a four-month term.

Finance Committee. The functions of the Finance Committee include the periodic review of our financial condition and the recommendation of financial policies to the Board; analyzing Company policy regarding its debt-to-equity relationship; reviewing and making recommendations to the Board regarding our dividend policy; reviewing our cash flow, proposals for long-and short-term debt financing and the risk management program; meeting with and reviewing the performance of the management pension committees and any other fiduciaries appointed by the Board for pension and profit-sharing retirement plans; and reviewing the key assumptions used to calculate annual pension expense. The Finance Committee held three meetings in 2010. Present members are Ms. McCoy and Messrs. Critelli, Golden, Green and Page (Chair).

Governance Committee. The responsibilities of the Governance Committee include recommending to the Board improvements in our corporate governance processes and any changes in the Board Governance Policies; advising the Board on changes in the size and composition of the Board; making recommendations to the Board regarding the structure and responsibilities of Board committees; and annually submitting to the Board candidates for members and chairs of each standing Board committee. The Governance Committee, in consultation with the Chief Executive Officer, identifies and recommends to the Board candidates for Board membership, reviews and recommends to the Board the nomination of directors for re-election; oversees the orientation of new directors and the ongoing education of the Board; recommends to the Board compensation of non-employee directors; administers the Board s policy on director retirements and resignations; administers the directors stock ownership guidelines; and establishes guidelines and procedures to be used by the directors to evaluate the Board s performance. The responsibilities of the Governance Committee also include providing oversight regarding significant public policy issues with respect to our relationships with shareholders, employees, customers, competitors, suppliers and the communities in which we operate, including such areas as ethics compliance, environmental, health and safety issues, community relations, government relations,

charitable contributions and shareholder relations. The Governance Committee held five meetings in 2010. Present members are Messrs. Bluedorn, Connor, Johnson, Lautenbach (Chair) and Tooker.

Committee Charters and Policies The Board committee charters are available on our website at http://www.eaton.com/governance.

In addition to the Board of Directors Governance Policies, certain other policies relating to corporate governance matters are adopted from time to time by Board committees, or by the Board itself upon recommendation of the committees.

The Board of Directors held eleven meetings in 2010. Each of the directors attended at least 95.65% of the meetings of the Board and the committees on which he or she served. The average rate of attendance for all directors was 99.2%.

Audit Committee Report The Audit Committee of the Board of Directors is responsible to assist the Board in overseeing (1) the integrity of the Company s consolidated financial statements and its systems of internal accounting and financial controls; (2) the independence, qualifications and performance of the Company s independent auditor; (3) the performance of the Company s internal auditors and (4) the Company s compliance with legal and regulatory requirements. The Committee s specific responsibilities, as described in its charter, include the sole authority to appoint, terminate and compensate the Company s independent auditor, and to pre-approve all audit services and other permitted non-audit services to be provided to the Company by the independent auditor. The Committee is comprised of five directors, all of whom are independent under the Sarbanes-Oxley Act of 2002, the rules of the Securities and Exchange Commission and the Board of Directors own independence criteria.

The Board of Directors amended the Committee s charter most recently on October 26, 2010. A copy of the charter is available on the Company s website at http://www.eaton.com/governance.

In carrying out its responsibilities, the Audit Committee has reviewed, and has discussed with the Company s management and independent auditor, Ernst & Young LLP, the Company s 2010 audited consolidated financial statements and the assessment of the Company s internal control over financial reporting.

The Committee has also discussed with Ernst & Young the matters required to be discussed by applicable auditing standards.

The Committee has received the written disclosures from Ernst & Young regarding their independence from the Company that are required pursuant to Rule 3526 of the Public Company Accounting Oversight Board (Communication with Audit Committees Concerning Independence), has discussed with Ernst & Young their independence and has considered whether their provision of non-audit services to the Company is compatible with their independence.

For 2010 and 2009, Ernst & Young s fees to the Company were as follows:

	2010	**2009**
Audit Fees	$ 15.7 million	$ 15.0 million
Includes Sarbanes-Oxley Section 404 attest services		
Audit-Related Fees	0.3 million	0.3 million

Includes employee benefit plan audits and business acquisitions and divestitures		
Tax Fees	3.4 million	3.1 million
Tax compliance services	1.2 million	1.5 million
Tax advisory services	2.2 million	1.6 million
All Other Fees	0	0

The Audit Committee did not approve any of the services shown in the above three categories through the use of the de minimis exception permitted by Securities and Exchange Commission rules.

The Audit Committee has adopted the following procedure for pre-approving audit services and other services to be provided by the Company independent auditor: specific services are preapproved from time to time by the Committee or by the Committee Chair on its behalf. As to any services approved by the Committee Chair, the approval is made in writing and is reported to the Committee at the following meeting of the Committee.

Based upon the Committee s reviews and discussions referred to above, and in reliance upon them, the Committee has recommended to the Board of Directors that the Company s audited consolidated financial statements for 2010 be included in the Company s Annual Report on Form 10-K, and the Board has approved their inclusion.

Respectfully submitted to the Company s shareholders by the Audit Committee of the Board of Directors.

Charles E. Golden, Chair
Michael J. Critelli
Ernie Green
Arthur E. Johnson
Gregory R. Page

Board of Directors Governance Policies The Board revised the Board of Directors Governance Policies most recently in July 2010, as recommended by the Governance Committee of the Board. The revised Governance Policies are included in this proxy statement as Appendix B and are available on our website at http://www.eaton.com/governance.

Executive Sessions of the Non-Employee Directors The policy of the Board of Directors is that the non-employee directors, who qualify as independent under the criteria of the Board of Directors and the New York Stock Exchange, meet in Executive Session at each regular Board meeting, without the Chairman and Chief Executive Officer or other members of management present, to discuss whatever topics they may deem appropriate. At the present time, all non-employee directors meet the independence criteria. As described more fully in the section below entitled Leadership Structure, the Lead Director chairs the Executive Sessions of the Board of Directors.

At each meeting of the Audit, Compensation and Organization, Finance and Governance Committees, an Executive Session is held at which only the Committee members (all of whom qualify as independent) are in attendance, without any members of our management present, to discuss whatever topics they may deem appropriate.

Leadership Structure Our governance structure follows a successful leadership model under which our Chief Executive Officer also serves as Chairman of the Board. Recognizing that different leadership models may work well for other companies at different times depending upon individual circumstances, we believe that our Company has been well-served by the combined Chief Executive Officer and Chairman leadership structure, and that this approach has continued to be highly effective with the addition of a Lead Director. We believe we have greatly benefited from having a single person setting the tone and direction for us and having primary responsibility for managing our operations, while allowing the Board to carry out its oversight responsibilities with the equal involvement of each independent director.

Our Board is comprised exclusively of independent directors, except for our Chairman. Of our ten non-employee directors, five are currently serving or have served as a chief executive officer of a publicly-traded company. The Audit, Compensation and Organization, Finance and Governance Committees are chaired by independent directors. Our Chairman and Chief Executive Officer has benefited from the extensive leadership experience of our Board of

Directors.

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Annually, the Board evaluates the leadership structure and it will continue to do so as circumstances change, including when a new Chief Executive Officer is elected. In its January 2011 annual evaluation, the Board concluded that the current leadership structure under which our Chief Executive Officer serves as Chairman of the Board, our Board committees are chaired by independent directors, and a Lead Director assumes specified responsibilities on behalf of the independent directors remains the optimal board leadership structure for our Company and our shareholders at the present time.

Lead Director Ned C. Lautenbach, who has served on our Board since 1997, was elected Lead Director by our independent directors during 2010. The Lead Director has specific responsibilities, including chairing Executive Sessions of the Board, coordinating the agenda for Board meetings with the Chairman on behalf of the independent directors, ensuring the quality and timeliness of information sent to the Board, and serving as a Board focal point for communications with shareholders and other Company stakeholders. The Lead Director has the authority to call meetings of the independent directors, and to retain outside advisors who report directly to the Board of Directors.

Oversight of Risk Management Management continually monitors the material risks facing the Company, including strategic risk, financial risk, operational risk, and legal and compliance risk. The Board of Directors has chosen to retain overall responsibility for risk assessment and oversight at the Board level in light of the interrelated nature of the elements of risk, rather than delegating this responsibility to a Board committee. The Board has responsibility for overseeing the strategic planning process and reviewing and monitoring management s execution of the corporate and business plan. As described below, the Board receives assistance from certain of its committees for the identification and monitoring of those risks that are related to the committees areas of focus as described in each committee charter. The Board and its committees exercise their risk oversight function by carefully evaluating the reports they receive from management and by making inquiries of management with respect to areas of particular interest to the Board.

The Audit Committee considers risks related to internal controls, disclosure, financial reporting and legal and compliance matters. Among other processes, the Audit Committee meets regularly in closed-door sessions with our internal and external auditors, senior members of the Finance function, the Executive Vice President and General Counsel and the Vice President-Global Ethics and Compliance. As described more fully below in the section entitled Relationship Between Compensation Plans and Risk, the Compensation and Organization Committee reviews risks associated with the Company s compensation programs, to ensure that incentive compensation arrangements for senior executives do not encourage inappropriate risk taking. The Governance Committee considers risks related to corporate governance, such as d